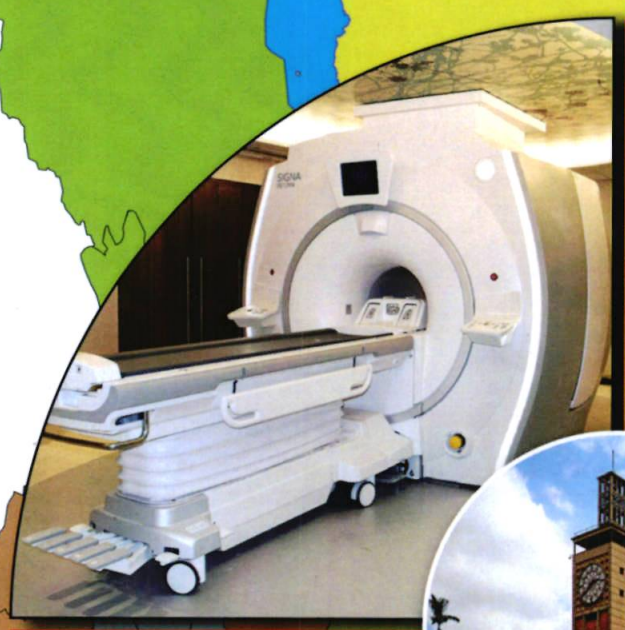
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OFFICE OF THE AUDITOR-GENERAL

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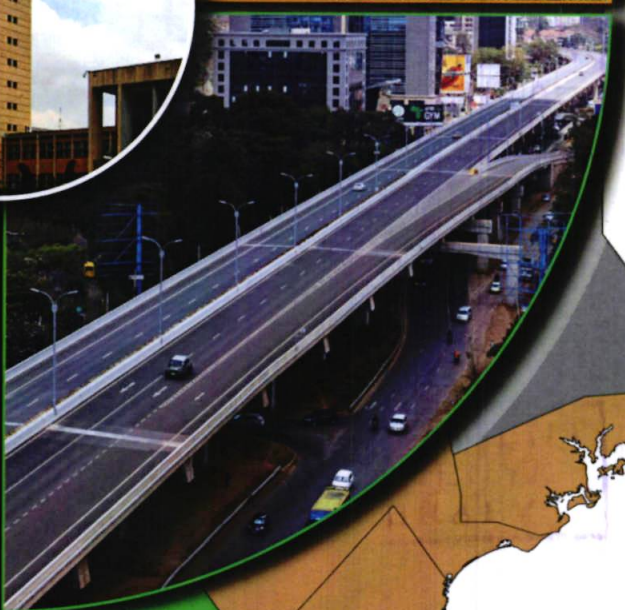
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AUDITOR-GENERAL'S REPORT ON NATIONAL GOVERNMENT 2024/2025



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Making a difference in the lives and livelihoods of the Kenyan people



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REPORT

OF

THE AUDITOR-GENERAL

ON

THE NATIONAL GOVERNMENT

MINISTRIES, DEPARTMENTS AND AGENCIES

FOR

THE FINANCIAL YEAR

2024/2025

Table of Contents

Vote		Page
	Foreword	iv
	Introduction	vii
1071	The National Treasury	1
1072	State Department for Economic Planning	87
1011	Executive Office of the President	93
1012	Office of the Deputy President	97
1013	Office of the Prime Cabinet Secretary	100
1014	State Department for Parliamentary Affairs	101
1015	State Department for Performance and Delivery Management	102
1016	State Department for Cabinet Affairs	104
1017	State House	106
1023	State Department for Correctional Services	108
1024	State Department for Immigration and Citizen Services	122
1025	National Police Service	126
1026	State Department for Internal Security and National Administration	132
1032	State Department for Devolution	138
1036	State Department for the Arid and Semi-Arid Lands and Regional Development	168
1041	Ministry of Defence	175
1053	State Department for Foreign Affairs	180
1054	State Department for Diaspora Affairs	191
1064	State Department for Technical, Vocational Education and Training	193
1065	State Department for Higher Education and Research	214
1066	State Department for Basic Education	232
1082	State Department for Medical Services	251
1083	State Department for Public Health and Professional Standards	294
1091	State Department for Roads	312
1092	State Department for Transport	375
1093	State Department for Shipping and Maritime Affairs	385

1094 State Department for Housing and Urban Development 387
1095 State Department for Public Works 400
1104 State Department for Irrigation 405
1109 State Department for Water and Sanitation 434
1112 State Department for Lands and Physical Planning 497
1122 State Department for ICT and The Digital Economy 502
1123 State Department for Broadcasting and Telecommunications 511
1132 State Department for Sports 514
1134 State Department for Culture, The Arts and Heritage 516
1135 State Department for Youth Affairs and Creative Economy 518
1152 State Department for Energy 525
1162 State Department for Livestock Development 584
1166 State Department for the Blue Economy and Fisheries 607
1169 State Department for Agriculture 615
1173 State Department for Co-Operatives 657
1174 State Department for Trade 659
1175 State Department for Industry 661
1176 State Department for Micro, Small and Medium Enterprises (MSME) Development 664
1177 State Department for Investment Promotion 675
1184 State Department for Labour and Skills Development 678
1185 State Department for Social Protection and Senior Citizen Affairs 687
1192 State Department for Mining 697
1193 State Department for Petroleum 709
1202 State Department for Tourism 712
1203 State Department for Wildlife 716
1212 State Department for Gender and Affirmative Action 724
1213 State Department for Public Service and Human Capital Development 728
1221 State Department for East African Community Affairs 732
1252 State Law Office and Department of Justice 734
1261 The Judiciary 748

1271 Ethics and Anti-Corruption Commission 760
1281 National Intelligence Service 763
1291 Office of the Director of Public Prosecutions 764
1311 Office of the Registrar of Political Parties 767
1321 Witness Protection Agency 770
1331 State Department for Environment and Climate Change 773
1332 State Department for Forestry 808
2011 Kenya National Commission on Human Rights 811
2021 National Land Commission 814
2031 Independent Electoral and Boundaries Commission 820
2041 Parliamentary Service Commission 825
2042 The National Assembly 829
2043 Parliamentary Joint Services 832
2044 The Senate 836
2051 Judicial Service Commission 839
2061 Commission on Revenue Allocation 842
2071 Public Service Commission 846
2081 Salaries and Remuneration Commission 850
2091 Teachers Service Commission 853
2101 National Police Service Commission 866
2121 Office of the Controller of Budget 868
2131 The Commission on Administrative Justice 870
2141 National Gender and Equality Commission 873
2151 Independent Policing Oversight Authority 875
Appendices 877

Foreword

This report, commonly referred as the Blue Book, presents the consolidated audit reports of Ministries, Departments, Agencies, and their respective Donor-Funded Projects for the year ended 30 June, 2025. The separate reports for each entity were submitted to Parliament and the respective entities by 31 December, 2025.

Under Article 229 of the Constitution of Kenya, the Auditor-General is mandated to audit and report on the use of public resources by all entities funded by public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, State Corporations, Commissions, Independent Offices, public debt, publicly funded political parties, and any other publicly financed entity. Article 229(6) further requires the Auditor-General to confirm whether public resources have been applied lawfully and effectively. The Public Audit Act, 2015, provides additional details on the execution of this mandate.

Article 229(7) requires the Auditor-General to submit audit reports to Parliament or the relevant County Assembly within six months after the end of the financial year. There has been a perennial challenge faced by the Office, however, as Section 81(4) of the Public Finance Management Act, 2012, effectively shortens the audit and reporting window to three months, by allowing entities until the end of September to prepare and submit their financial statements. This compression of timelines has adversely affected the audit scope, which affects the efficiency and effectiveness of oversight by Parliament and the County Assemblies.

Circular No. AG.3/88 Vol. VII (41) of 4 December, 2024 by the Cabinet Secretary, The National Treasury and Economic Planning, directed all public entities to submit their annual reports and financial statements for the year ended 30 June, 2025 to the Auditor-General by 31 August, 2025. This accorded my Office an extra month to execute the audit. We take cognizance of this gesture as a culmination of concerted efforts by my Office and other stakeholders such as Parliament and oversight bodies to increase the audit period to four (4) or five (5) months in future. We remain optimistic that the above directive will be entrenched in law through an amendment to the Public Finance Management Act, 2012 and the Public Audit Act, 2015.

In addition, as previously reported, the mechanisms for following up on the implementation of audit recommendations are still not effective. Consequently, many audit queries recur in subsequent years due to the absence of decisive corrective action. Section 204(1)(g) of the Public Finance Management Act, 2012, empowers the Cabinet Secretary responsible for finance to apply sanctions to any national government entity that fails to address issues raised by the Auditor-General to the Auditor-General's satisfaction.

Despite repeated reports highlighting weak accountability and inadequate documentation to support the lawful and effective use of public resources, the continued failure to enforce sanctions has allowed some Accounting Officers to avoid fully accounting for the

resources under their management. Some Accounting Officers continue to breach Section 62 of the Public Audit Act, 2015 by failing to adequately prepare for audit, as evidenced by inaccurate financial statements, missing supporting documents, and in some cases, limited cooperation with auditors. The absence of consequences has contributed to fiscal indiscipline, including misallocations, resource wastage, loss of public funds, and failure to achieve value for money in project implementation. These shortcomings undermine development programmes, hinder economic growth, and threaten the sustainability of quality service delivery to citizens.

For the year ended 30 June, 2025, all entities which were previously preparing financial statements under the International Public Sector Accounting Standards (IPSAS) cash basis presented IPSAS accrual basis financial statements for the first time for audit. This created audit risks around evidencing opening balances and IPSAS cash to IPSAS accrual reconciliations, confirmation of the completeness of liabilities (pending bills) and assessment of receivables and prepayments. Other challenges related to identifying and valuing non-financial assets, addressing estimation uncertainties, lack of accrual comparatives and evaluation of the use of transitional reliefs and disclosure adequacies. The documentation gaps posed heightened fraud risk from extensive manual adjustments.

The Office of the Auditor-General continues to enhance the effectiveness and quality of the audit process to ensure audit results and recommendations are credible, relevant, reliable, and value-adding. These improvements aim to support better decision-making and generate positive impact for citizens and other stakeholders. Delivery of quality and effective audits, while confirming the lawfulness and effectiveness of programmes, requires thorough scrutiny of supporting documents and verification of projects and programmes implemented across the country. Achieving this requires an independent, well-resourced Office of the Auditor-General with assured funding for timely, effective oversight and optimal staffing. The Office is pursuing financial independence and support from Parliament and the Executive to build technical capacity, expand county presence and broaden audit coverage.

We continue to bring audit services closer to citizens by establishing Regional Offices. To date, we have operationalized fifteen (15) Regional Offices and completed constructing own premises in Garissa, Kakamega, Eldoret, and Embu. Plans for construction of a Mombasa Regional Office and the Nairobi Headquarters, which are both at the design stage have been delayed by inadequate funding. We will continue to seek adequate resources from Parliament and The National Treasury to facilitate efficient and closer delivery of our mandate across National and County Governments and all other publicly funded entities.

Rising national budget and establishment of additional entities have expanded my audit mandate. The scope has increased with the expansion of government programmes to support sustainable development and continuous provision of quality services. In addition to Ministries, Departments and Agencies (MDAs), State Owned Enterprises and County Governments entities, nine thousand three hundred and ninety-seven (9,397) public

secondary schools were required to submit financial statements for audit, and some have complied. I am also required to audit and report separately on the financial statements of three hundred and twenty-nine (329) Level 4 hospitals and twenty-five (25) Level 5 hospitals. My mandate further includes thirty-seven (37) Teachers' Training Colleges, two hundred and fifty (250) Technical and Vocational Education and Training (TVET) institutions, and an estimated one thousand and two hundred (1,200) Community Vocational Training Institutions.

The Office has continued to strengthen audit service delivery through partnerships with regional Supreme Audit Institutions (SAIs), global professional bodies, and domestic oversight institutions, including the Ethics and Anti-Corruption Commission (EACC), State Corporations Advisory Committee (SCAC), Salaries and Remuneration Commission (SRC), Commission on Revenue Allocation (CRA), and the Controller of Budget (COB), among others to enhance audit impact through learning, knowledge sharing, innovation, and collaboration.

Entity-specific reports, together with my opinion, are presented in the audited financial statements of the respective MDAs for the year ended 30 June, 2025, which I have submitted to Parliament and to each Accounting Officer. A separate Summary Report of key cross-cutting audit findings across MDAs will be issued.

I extend my sincere appreciation to the staff of the Office of the Auditor-General for their commitment, professionalism, and resilience in delivering these audits despite funding constraints and tight reporting timelines. Special recognition goes to the team that compiled this Consolidated Audit Report.

I also extend my appreciation to our clients (auditees) for their cooperation throughout the audit process.



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 January, 2026

1.0 Introduction

1.1 Constitutional Mandate of the Auditor-General

The Office of the Auditor-General (OAG) is an Independent Office established by Article 229 of the Constitution of Kenya. The Office is charged with the primary oversight role of ensuring accountability in the use of public resources within the three arms of government (the Legislature, the Judiciary and the Executive) at the national and county levels, as well as the Constitutional Commissions and Independent Offices. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

The Constitution requires the Auditor-General to audit and submit audit reports of public entities to Parliament and the relevant County Assemblies by 31 December, every year. In carrying out the mandate, the Auditor-General, is also required, under Article 229 (6) to assess and confirm whether public entities have utilised the public resources entrusted to them lawfully and in an effective way.

Further, the objects and authority of the Auditor-General, as outlined in Article 249 of the Constitution, are: to protect the sovereignty of the people; to secure the observance by all State Organs of democratic values and principles; and, to promote constitutionalism. The Auditor-General has also been given powers by the Constitution, under Article 252, to conduct investigations, conciliations, mediations and negotiations and to issue summons to witnesses for the purpose of investigations.

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), as prescribed by the Public Sector Accounting Standards Board (PSASB), and 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.

Management is also responsible for maintaining an effective internal control environment necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, and for the assessment of the effectiveness of internal controls, risk management and governance.

Further, Management is required to ensure that the activities, financial transactions and information reflected in the financial statements, are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each 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.

1.3 Auditor-General's Responsibility

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and to issue an auditor's report. The audit report includes my opinion as provided by Section 48 of the Public Audit Act, 2015, and the report is submitted to Parliament in compliance with Article 229(7) of the Constitution.

In addition, Article 229(6) of the Constitution requires me to 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 law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' 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.

I am independent in accordance with Article 249(2) of the Constitution of Kenya and 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 public entities in the Republic of Kenya.

1.4 Transition to Accrual Accounting

In March, 2024, the Cabinet approved the transition from IPSAS cash basis to IPSAS accrual basis of accounting across the National Government, County Governments, and their entities effective 1 July, 2024. The reform, which is phased over three years, requires that financial assets and financial liabilities be recognized in year 1, inventories be brought on board in year 2, and all remaining assets and liabilities be recognized in year 3. The financial statements for the year ended 30 June, 2025 were the first transitional IPSAS accrual statements which required, at a minimum, inclusion of all financial assets and liabilities.

Key deliverables for the transition includes complete assets registers, comprehensive liabilities recording, accrual-based general purpose financial statements, an IFMIS upgrade to support accrual modules and strengthened internal controls to reflect

period-end adjustments, asset management and commitment controls. These are to be supported by updated policies and procedures including revised accounting manuals and audit methodologies.

The shift to accrual accounting is designed to improve transparency, accountability and decision-making by providing a complete financial representation that captures assets, liabilities and non-cash transactions, thereby strengthening resource and liability management, improving asset stewardship, enabling clearer performance measurement, and risk identification, thus building public trust. This reform is among Kenya's most significant Public Financial Management (PFM) initiatives in decades, underpinned by strong political support, structured planning and institutional commitment, and is expected to materially strengthen the integrity of public financial reporting and overall governance.

1.5 Reporting Structure

The structure of my report addresses the reporting requirements of Article 229(4) of the Constitution of Kenya, which requires that I audit and report on preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards, as prescribed by the Public Sector Accounting Standards Board. Further, Article 229(6) of the Constitution requires that an audit report shall confirm whether or not public resources have been applied lawfully and in an effective way. In addition, Section 7(1)(a) of the Public Audit Act, 2015 requires that I provide assurance on the effectiveness of internal controls, risk management and overall governance.

Further, I am expected to read the other information provided by Management and report whether the other information is materially inconsistent with the financial statements.

In order to address these requirements, my audit reports contain the following:

i. **Report on Financial Statements**, in which I give an audit opinion on whether the financial statements present fairly, in all material respects the financial position and performance of the entity.

ii. **Report on Lawfulness and Effectiveness in Use of Public Resources**, in which I make a conclusion on whether or not public resources have been applied lawfully and in an effective way.

iii. **Report on Effectiveness of Internal Controls, Risk Management and Governance**, in which I make a conclusion on whether internal controls, risk management and overall governance were effective.

iv. **Report on Other Legal and Regulatory Requirements** is also included, where applicable, particularly for some donor-funded projects and for entities registered under the Companies Act, 2015, or governed by other enabling legislation or authorities that mandate such disclosures.

1.6 Audit Opinions

I have expressed various audit opinions based on the following criteria:

a) Unmodified Opinion

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements present fairly, in all material respects, the operations of the entity. The financial statements with Unmodified Opinion are listed in **Appendix A**.

b) Qualified Opinion

Financial transactions were recorded and are to a large extent in agreement with the underlying records, except for cases where I noted material misstatements or omissions in the financial statements. The issues though material, are not widespread or persistent. The financial statements with Qualified Opinion are listed in **Appendix B**.

c) Adverse Opinion

The financial statements exhibit significant misstatements with the underlying accounting records. There exists significant difference(s) between the financial statements and the underlying books of accounts and/or standards. These misstatements are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with Adverse Opinion are listed in **Appendix C**.

d) Disclaimer of Opinion

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion on the financial operations. The financial statements with Disclaimer of Opinion are listed in **Appendix D**.

The key findings noted during the audit of the financial statements for the year ended 30 June, 2025 are highlighted in the ensuing pages.

THE NATIONAL TREASURY - VOTE 1071

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1. There were no material issues noted during the audit of the financial statements of The National Treasury.

Emphasis of Matter

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.122,176,370,707 and Kshs.113,732,718,491 respectively, resulting in under-funding of Kshs.8,443,652,216. Similarly, The National Treasury spent Kshs.113,693,384,611 against actual receipts of Kshs.113,732,718,491 resulting to an under-utilization of Kshs.39,333,880.

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

3. Pending Accounts Payable

The statement of financial position reflects trade and other payables balance of Kshs.20,811,926,257 as disclosed in Note 19 to the financial statements. The balance includes bills incurred before 01 July, 2024 totalling Kshs.17,637,257,074 or 85% of the total balance which had not been settled as at 30 June, 2025.

Failure to settle bills during the year to which they relate, adversely affects the budgetary provisions for the subsequent period.

My opinion is not modified in respect of these matters.

Other Matter

4. Unresolved Prior Year Matters

In the prior year's audit report, two issues were raised on unsupported prior year adjustment and un-updated fixed assets register under the Report on Financial Statements. Further, three issues were raised on wasteful /avoidable expenditure on court award, irregular reallocation of funds and funding of a partially owned government entity under the Report on Lawfulness and Effectiveness in Use of Public Resources. In addition, one issue was raised on weaknesses in processing of work injury benefits under the Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the issues revealed that they remained unresolved as at 30 June, 2025.

Other Information

5. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

6. Long Outstanding Deposits

The statement of financial position reflects refundable deposits balance of Kshs.3,147,208,776 as disclosed in Note 20 to the financial statements. Included in the balance is Kshs.289,371,528 relating to general deposits. However, review of the aging analysis for the general deposits revealed that balances totalling Kshs.50,745,140 as detailed below had been outstanding for more than five (5) years with some dating back to 2013.

Deposit Category	Balance as per Financial Statements (Kshs.)	Balance Outstanding for Over 5 Years (Kshs.)
Contractors Retention Funds	59,761,590	23,284,239
Deposit on Sale of Boarded Vehicles	773,099	47,000
CBK Receipts (Local Loan Support Fund)	4,045,400	4,045,400
RTGS Deposits	26,874,966	20,146,254
Undefined Items (0004-Sacco)	902,157	902,157
Unremitted Third-Party Balances	2,953,526	2,320,090
Other Deposits	194,060,790	-
Total	**289,371,528**	**50,745,140**

The long outstanding deposits of Kshs.50,745,140 had not been remitted to the Unclaimed Assets Authority. This was contrary to Section 3(b) of the Unclaimed Financial Assets Act, CAP 494 which requires that unless otherwise provided in this Act or by any other law, assets shall be subject to the custody of the Authority as unclaimed assets, if the conditions raising a presumption of abandonment under Sections 4 to 18 are satisfied and if the holder has not previously paid the assets to the apparent owner or other person entitled to the assets.

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

7. Anomalies in Transfers to Other Government Entities

The statement of financial performance reflects expenditure on transfers to other government entities of Kshs.67,618,381,702 as disclosed at Note 13 to the financial statements. The transfers include payments totalling Kshs.2,221,650,207 to various Ministries, Departments and Agencies issued in form of Authority to Incur Expenditure (AIEs).

Review of the expenditure supporting documents revealed the following anomalies;

i. An amount of Kshs.1,884,170,000 was issued for settlement of pending bills in a State Department. However, information provided for audit indicated that the subject State Department had no pending bills declared in the previous year's audited financial statements and no approved list of pending bills that were to be settled by the AIE was provided for audit review. Further, amounts totalling Kshs.212,480,207 were transferred to various State Departments to undertake routine activities in the Departments.

   The above expenditure totalling Kshs.2,096,650,207 had also not been budgeted at The National Treasury or at the respective State Departments. This was contrary to Section 68(1)(a) of the Public Finance Management Act, 2012 that provides that an accounting officer for a national government entity, shall ensure that the resources of the respective entity are used in a way that is lawful and authorized.

ii. Amounts totalling Kshs.125,000,000 were transferred to another State Department to cater for emergency and unforeseen expenses. However, emergencies are supposed to be funded from the Contingencies Fund in line with Section 21(2) of the Public Finance Management Act, 2012 which requires that the Cabinet Secretary may make advances from the Contingencies Fund if, satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority. Management did not explain the reason for not disbursing the funds from the Contingencies Fund.

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

8. Delayed Settlement of Court Award Leading to Increased Interest Costs

The statement of financial performance reflects use of goods and services expenditure of Kshs.36,654,175,238 which includes other operating expenses of Kshs.20,144,345,216 as disclosed in Note 12(a) to the financial statements. The other operating expenses include an expenditure of Kshs.1,000,000,000 in respect of a part payment of the decretal sum of Kshs.4,099,636,848 exclusive of interest and other legal costs awarded to a firm by the High Court on 21 December, 2022 being compensation for idle resources, loss of profits and arbitration costs following a dispute that arose during implementation of Phase III of a project to construct a National Disaster Recovery Site.

The decretal amount was to attract interest at a rate of 12% per annum until payment in full. As at 30 June, 2025, only Kshs.1,882,400,262 had been paid and the outstanding balance as at 30 June, 2025 was Kshs.4,091,619,712 due to accrued interest. At the time of audit, Management had not provided a roadmap or a proposed plan for the settlement of the award.

Failure to provide adequate budgetary provision for the settlement of the award exposes The National Treasury to additional avoidable interest costs.

9. Non-Compliance with the Constitution on Payments to the Equalisation Fund

As previously reported, review of records maintained by the Equalisation Fund Secretariat revealed that only Kshs.15,930,000,000 out of the total entitlement to the Fund of

Kshs.67,807,602,775 from financial year 2011/2012 to 2024/2025 had been transferred to the Equalisation Fund Account leaving a balance of Kshs.51,877,602,775 which had not been remitted to the Fund as at 30 June, 2025. This was contrary to Article 204(1) of the Constitution which requires payment to the Fund of one-half percent of all revenue collected by the National Government each year.

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

10. Additional Funding under Article 223 of the Constitution of Kenya

During the year under review, The National Treasury approved additional budget allocations under Article 223 of the Constitution of Kenya, 2010 amounting to Kshs.86.6 billion out of which Kshs.63.4 billion was released to Ministries, Departments and Agencies (MDAs).

Further, review of the requests for additional budgetary allocations approved revealed some were comprising of routine and contractual expenses and which the respective MDAs should have anticipated and included in their original budgets. No satisfactory explanation was provided on why routine and contractual expenses were excluded from the budget estimates thereby necessitating withdrawals under Article 223 of the Constitution.

In the circumstances, the use of Article 223 of the Constitution of Kenya, 2010 by The National Treasury to fund budgetary allocation on routine and anticipated expenditure diminishes the role of the National Assembly in the budget making process as provided by the law.

11. Irregular Treasury Tax Undertakings

Review of The National Treasury's Recurrent Revenue Statement and correspondences with Kenya Revenue Authority revealed that The National Treasury made treasury undertakings amounting to Kshs.1,353,256,472 in the year under review. Management explained that the undertakings were issued in response to compelling national interests, humanitarian obligations and strategic development needs and that they were not guided by any law. The undertakings were therefore contrary to Article 210(1) of the Constitution of Kenya which provides that no tax or licensing fee may be imposed, waived or varied except as provided by legislation. Further, no budgetary allocation was made for the settlement of the undertakings.

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

12. Direct Procurement of Legal Services

The statement of financial performance reflects use of goods and services expenditure of Kshs.36,654,175,238 as disclosed in Note 12(a) to the financial statements which includes other operating expenses of Kshs.20,144,345,216. Included in the other operating expenses is Kshs.178,500,000 in respect of legal services offered by a local law firm during the bond issuance through private placement under the partnership

framework between the Government of Kenya and Abu Dhabi Fund for Development as well as during issuance of international sovereign bond.

Review of procurement records revealed that the direct procurement method was used and justified on the basis of continuity and standardization with previous Eurobond transactions. However, the subject transactions including the previous Eurobonds were distinct and unrelated, meaning the need for standardization may not have applied. This was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for goods, works and services.

In the circumstances, Management was in breach of the law and value for money in respect to an amount of Kshs.178,500,000 could not be confirmed.

13. Delay in Implementation of the Electronic Government Procurement Contract

The National Treasury awarded a contract to a consortium, for tender for design, development/customization, supply, installation and maintenance of an Electronic Government Procurement (E-GP) System on 25 April, 2022 at a contract price of USD 2,981,289 (Approximately Kshs.344,794,744) for a contract duration of three (3) years effective 25 April, 2022 to 25 April, 2025. As at 14 October, 2025, Management had paid USD 1,352,969 (Approximately Kshs.176,161,377) representing 45% of the contract price.

Review of contract documents and other related records revealed the following unsatisfactory matters;

i. Within twenty-eight (28) days of the notification of contract award, the tenderer was to provide a performance security, denominated in Kenya Shillings or an equivalent freely convertible currency, for an amount equal to 10% of the contract price, from a bank. However, no evidence of the performance security was provided for audit.

ii. The first addendum, extending the contract from 25 April, 2025 to 30 June, 2026 at no additional cost, was signed by the Accounting Officer on 29 April, 2025. This was four (4) days after the contract had expired.

iii. Review of the status report as at 14 October, 2025, revealed that lots 3,5 and 7 under Phase 1 and lots 1,2,3,4 and 5 under Phase 2 of the project had either not been completed or were awaiting implementation. This is despite the initial contract having lapsed on 25 April, 2025.

iv. Review of the Contract Implementation Team minutes for the 14th Meeting held in October 2025, highlighted various challenges affecting the implementation of the system, which included systemic challenges, user challenges, a large number of procurement entities onboarded on the system, and backlog in supplier registration and longer lead times in resolving identified challenges.

In the circumstances, value for money on amount spent on the contract may not be realised.

14. Non-Compliance with the One-Third of Basic Salary Rule

As previously reported, during the year under review, seventy-six (76) employees earned a net salary less than one-third (⅓) of their basic salary. This was contrary to Section 19(3) of Employment Act, 2007 which provides that the total amount of all deductions that may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds (⅔) of such wages.

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

15. Irregularities in the Secondment of Staff

Review of the Human Resource practices within The National Treasury revealed instances of non-compliance with Section B.33 (1) of the Human Resource Policies and Procedures Manual for Public Service, 2016. Key issues include the retention of four (4) officers on secondment from Central Bank of Kenya (CBK) and Kenya Trade Network Agency (KenTrade) and seconding officers to other entities beyond the prescribed two-term limit of three years each.

Further, two (2) officers from CBK and KenTrade who were on secondment to the Government Digital Payments unit were paid and continue to draw monthly extraneous allowances amounting of Kshs.40,000 per person. However, the terms of the secondment for the said officers are that their renumeration is paid from their principal employers and not The National Treasury. The payment of the allowances was therefore irregular.

Further, officers seconded to The National Treasury from various institutions across the public service continued to draw their salaries from their principal employers and The National Treasury was required to reimburse the same to those institutions. However, as at 30 June, 2025, Kshs.88,968,909 had not been reimbursed to these institutions.

In the circumstances, Management was in breach of the Public Service guidelines on secondment of staff.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

16. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL EXCHEQUER ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

17. There were no material issues noted during the audit of the financial statements of the National Exchequer Account.

Emphasis of Matter

18. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.4,206,948,271,528 and Kshs.3,991,960,127,012 respectively, resulting in under-collection of Kshs.214,988,144,516 or 5% of the budget. Further, the statement reflects total Exchequer transfers of Kshs.3,986,698,002,720 against approved budget of Kshs.4,206,948,271,528 resulting in under-performance of Kshs.220,250,268,808 or 5% of the budget.

The under-collection and under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

19. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

20. Late Exchequer Releases

The statement of financial position reflects a balance of Kshs.6,427,596,937 in respect of cash and cash equivalents, as disclosed in Note 19.6 to the financial statements. However, the bank reconciliation statement for the month of June 2025 reflects balances totalling Kshs.113,165,567,885 being payments in cash book not yet recorded in the bank statement (uncleared items), representing amounts disbursed to Ministries, Departments and Agencies, Pensions and Public Debt after the end of the financial year. This was contrary to Article 260 of the Constitution which states that financial year means the period of twelve months ending on the thirtieth day of June or other day prescribed by National legislation and Regulation 97(4) of the Public Finance Management (National Government) Regulations, 2015 which states that an actual cash transaction taking place after the 30 June, shall not be treated as pertaining to the previous financial year.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

21. There were no material issues relating to effectiveness of internal controls, risk management and governance.

CONSOLIDATED FUND SERVICES - PUBLIC DEBT EXPENDITURE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

22. Variance Between Consolidated Fund Services - Public Debt Statements and The Receiver of Revenue – External Resources Statements on Drawdowns for the Year

The summary statement of public debt stock reflects total public and public guaranteed debt of Kshs.11,825,756,993,061 which includes external debt of Kshs.5,445,550,282,204 and as disclosed in Note 19c(ii) to the Consolidated Fund Services - Public Debt. Included in the external debt is an amount of Kshs.553,159,643,618 (Kshs.553,186,865,797 less Kshs.27,222,179 draw down reversal) in respect of borrowings drawn down during the year. However, the statement of financial performance of the Receiver of Revenue - External Resources financial statements reflects non-exchange revenue of Kshs.560,105,995,744 resulting to an unreconciled variance of Kshs.6,946,352,126.

In the circumstances, the accuracy of the external debt amount of Kshs.5,445,550,282,204 could not be confirmed.

Emphasis of Matter

23. Costly Domestic Debt

The summary statement of public debt stock reflects total public and public guaranteed debt of Kshs.11,825,756,993,061 which comprises of domestic debt, external debt and guaranteed debts of Kshs.6,296,966,045,427, Kshs.5,445,550,282,204 and Kshs.83,240,665,430 respectively. Further, the statement of financial performance reflects finance costs of Kshs.1,045,409,176,208 as disclosed in Note 7 to the financial statements which comprises of interest on external borrowing and interest on domestic borrowing of Kshs.183,626,678,494 and Kshs.861,782,497,714 respectively. However, interest on internal debt was 82% while interest on external debt was 18% of the total finance costs respectively. The cost of domestic debt is therefore more than three times the cost of external borrowing even though it forms 53% of the total debt.

In the circumstances, there is need to enhance fiscal discipline through growth of revenues and controlled expenditure to reduce overreliance on expensive internal debt.

My opinion is not modified in respect of this matter.

Other Matter

24. Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance relating to 2023/2024 financial year. However, though the internal audit staff stated that the recommendations were still under review, there was no evidence on deliberations of the issues by the Audit Committee or any action taken by the Management and therefore the issues remained unresolved as at 30 June, 2025 as detailed in the table below:

No.	Audit Issue
1.	Variances Between Prior Year Audited Outstanding Debt Stock and Prior year Audited Balances
2.	Unreconciled Loan Balances Between Commonwealth Secretariat Meridian System Balances and Summary Statement of Public Debt
3.	Costly Domestic Debt
4.	Budgetary Control and Performance
5.	Outstanding Central Bank of Kenya Overdraft
6.	Deviation from Approved 2023 Medium Term Debt Strategy
7.	Unsupported Restructuring of Arror, Kimwarer and Itare Dams Loan Projects
8.	Inadequate Monitoring and Evaluation on the Utilization of Borrowed Funds
9.	Payment of Avoidable Commitment Fees on Undrawn Balances
10.	Abandoned and Stalled Works for Construction of Rehabilitation and Expansion of Kwale Water Supply and Operation improvement Works
11.	Lack of Completion Rate Analysis on Debt Funded Projects
12.	Lack of Support Documents on Public Participation
13.	Variation of Contract Beyond 25% Threshold
14.	Failure to Compensate Project Affected Persons
15.	Failure to Perform Internal Audit on Management of Public Debt
16.	Inadequate Change Management Procedures-Commonwealth Secretariat Meridian System
17.	Inadequate Control on Vendor Access to Live Commonwealth Secretariat Meridian System

Other Information

25. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

26. Deviation from Approved 2024 Medium - Term Debt Strategy and Annual Borrowing Plan

The Medium - Term Debt Strategy (MTDS) for the fiscal year 2024/2025 aims to reduce debt costs and manage risks with a financing mix of 45% from external sources and 55% from domestic sources. However, the actual borrowing as at 30 June 2025, net external sources to domestic borrowing of Kshs.374,011,588,227 and Kshs.886,681,611,541 respectively representing a ratio of 30:70 deviating from the approved strategy.

Further, the Annual Borrowing Plan for financial year 2024/2025 stated that the fiscal deficit of Kshs.768,570,000,000 was to be financed through net external financing of Kshs.355,477,000,000 and net domestic financing Kshs.413,093,000,000. However, as at 30 June, 2025, total net external financing was Kshs.374,011,588,227 while net domestic financing was Kshs.886,681,611,541, resulting to a total financing deficit of Kshs.1,260,693,199,768, and a variance between projected and actual fiscal deficit of Kshs.492,123,199,768 as analysed in the table below:

(A)	Target Borrowing mix as per MTDS (B)	Balance of loans at beginning of year (1 July 2024) as per the Summary Statement of Public Debt (C)	Balance of loans at 30 June, 2025 as per Summary Statement of Public Debt (D)	Actual Net Borrowing (E) =(D)-(C)	Actual Percentage (%) Net Borrowing
External	45%	5,071,538,693,977	5,445,550,282,204	374,011,588,227	30%
Domestic	55%	5,410,284,433,886	6,296,966,045,427	886,681,611,541	70%
Total	**100%**	**10,481,823,127,863**	**11,742,516,327,631**	**1,260,693,199,768**	**100%**

However, there was no approval for the deviation, contrary to the Select Committee on Public Debt and Privatization Report on the 2023 Medium-Term Debt Management Strategy that recommended that any deviation from the approved borrowing strategy required an approval from the National Assembly.

In the circumstances, Management was in breach of medium-term debt strategy and the recommendations of the Public Debt and Privatization Committee.

27. Failure to Ratify the Reviewed National Treasury – Central Bank of Kenya Agency Agreement 2016 on Commission Fees

Review of the Central Bank of Kenya and The National Treasury agency agreement revised in 2022 has not been ratified into a binding agreement and has existed in a draft agreement form.

In the circumstances, the commission fees rates currently in use have not been reviewed for consideration of adjustments to address any changes on the prevailing economic circumstances for nine (9) years since its initiation in 2016 in compliance with Section 7.1 of the TNT – CBK Agency Agreement.

28. Misapplication of Eurobond Proceeds

Review established that the Resource Mobilization Department had written to the Cabinet Secretary, The National Treasury and Economic Planning (CS, NT & EP), through an internal memo Ref: TNT/RMD/014/1071/01/001 'TY' (03), dated 2 January, 2025 requesting approval of a policy decision to issue an International Sovereign Bond for liability management operation. Consequently, there was a successful issuance of USD 1.5 billion at 9.5% rate for amortizing notes due in 2036, with the proceeds intended primarily for the liability management/buyback of the Government of Kenya's USD 900 million Eurobond.

However, review of The National Treasury & Economic Planning internal memo to the Director General, Public Debt Management Office, Ref: AG.3/104 Vol.10(42) dated 6 May, 2025 revealed that out of the Eurobond proceeds raised amounting to Kshs.188,350 million (USD 1,457 million), a total of Kshs.78,317 million was utilized for buyback operations. Out of the remaining Kshs.110,000 million, Kshs.30,000 million was used to cover shortfalls arising from Treasury Bond (domestic debt) proceeds on 7 April, 2025 pending disbursement of external resources.

Further, the legal opinion presented to the Permanent Secretary, National Treasury dated 15 May, 2025, the Offering Circular and the Subscription Agreement (both of which form the contractual basis of the subscription) provides that the primary use of the proceeds from the new issue shall be to purchase the 2027 Notes under the buyback as well as for the refinancing of other external indebtedness. In addition, the opinion provides that any material deviation on the utilization of the proceeds requirements may constitute a breach of contractual obligations and warranties set out in the Subscription Agreement as well as the covenants made to Note holders under the Deed of Covenant and terms and conditions of the Notes.

The utilization of the sovereign bond proceeds to cover for shortfalls arising from The Treasury Bond was a breach of the subscription agreement, which only permits the application of any balances toward repayment of external indebtedness. The audit could also not establish whether the proceeds that were used to cover the Treasury Bond were reimbursed after receipt of the external resources.

In the circumstances, the regularity and effectiveness in the utilization of Kshs.110,000 million proceeds of the Eurobond could not be confirmed.

29. Outstanding Central Bank of Kenya Overdraft

The statement of financial position reflects a balance of Kshs.1,442,947,821,105 under current portion of borrowings which as disclosed in Note 19(a) to the financial statements, includes an overdraft amounting to Kshs.53,397,901,056 as at 30 June, 2025. However,

the overdraft facility had not been paid as at 30 June, 2025 contrary to Regulations 83 (3) of the Public Finance Management (National Government) Regulations, 2015 states that National Government overdraft at the Central Bank of Kenya shall be retired by the end of each financial year.

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

30. Avoidable Penalty Costs

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects an amount of Kshs.31,342,060,784 in respect of other fees. Included in other fees is foreign borrowing of Kshs.27,614,306,332, out of which Kshs.3,139,601 were avoidable payments relating to penalties in respect of late interest, penalty fees, and penalty on late principal payments.

In the circumstances, the penalty costs result to increased loan servicing costs.

31. Avoidable Commitment Fees on Undrawn Balances

The statement of financial performance reflects other fees amount of Kshs.31,342,060,784 as disclosed in Note 8 to the financial statements. Included in the amount is foreign borrowing of Kshs.27,614,306,332, out of which commitment fees on undrawn loan amounts paid during the period under review amounted to Kshs.1,079, 876,429. Notably the high cost of commitment fees could have been minimized or avoided if The National Treasury (TNT) and implementing agencies ensured proper coordination for timely drawdown of loan facilities.

In the circumstances, the avoidable commitment fees result to increased loan servicing costs.

32. Failure to Service Outstanding Loans

The summary statement of public debt reflects amount of Kshs.14,419,139,177 in respect of five outstanding loans for security contracts and Kshs.997,249,012 in respect to bilateral loans, totalling Kshs.15,416,388,189 as at 30 June, 2025.

Review of loan records and reports provided revealed the following;

32.1 Security Contracts

The five security loans maturity dates range between the years 2007 to 2022 except for Loan ID 2002005 that is to mature in the year 2040. However, files and information for five (5) dormant Security Contract related to the above loans were not provided for audit review. In addition, review of the Debt Management Report of 2016 shared by The National Treasury revealed that the five (5) Security Contracts related to the Anglo-Leasing security-sector contracts arising from a loan signed on 4 December, 2003 for modernization of Kenya's passport system and purchase of security equipment for use at Kenya's borders.

Further, review of the Debt Management report of 2016, revealed that the Office of the Controller and Auditor General was tasked to undertake a special audit on the loan procurement and project implementation. The key findings of the report of the Controller and Auditor – General, 2006 were that the security contract projects violated procurement laws and regulations, projects were overpriced and that in some cases, there was no credit extended and the Government of Kenya was paying interest on its own funds.

However, supporting documents on the status of the implementation of the contracts were not provided for review. Further, there was no supporting evidence provided on whether the loans were repaid.

32.2 Bilateral Loans

The Public Debt Management Office (PDMO) has not been furnished with debt servicing invoices from the creditor for two (2) Bilateral loans (Loan ID 2001007 and 2002005) since 2007. It was not clear why PDMO has not followed up on the invoices for the repayment of the two (2) loans.

Failure by PDMO to service their obligations as and when they arise, is a breach of loan agreement terms and poses the risk of law suits, penalties and adverse credit ratings. This was contrary to Section 50(1) of the Public Finance Management Act, 2012, which states that in guaranteeing and borrowing money, the national government shall ensure that its financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk.

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

33. Foreign Exchange Loss

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects foreign exchange loss of Kshs.163,200,601,407 which includes an exchange loss of Kshs.67,041,783,302 for a World Bank loan (International Development Association) and another exchange loss of Kshs.19,082,514,615 for an International Monetary Fund loan as reflected in the Summary Statement of Public Debt for the financial year 2024/2025 in foreign currency. No explanation was provided to explain the nature of this exchange losses and/or what action the Government has taken to stabilize the rates and to minimize such losses.

In the circumstances, the foreign exchange losses totalling Kshs.163,200,601,407 could not be confirmed.

34. Other Public Debts

34.1 Sports, Arts and Development Funds

Review of Sports, Arts and Development Fund (SASDF) Board correspondences revealed that it approved the financing of the Talanta Sport City Project from the SASDF receivables in the financial year 2024/2025. The Fund entered into a revenue securitization arrangement under which part of the revenues of the SASDF were pledged and placed under the control of a Trustee to secure upfront financing for capital projects.

The arrangement ring-fenced future public revenues for debt servicing purposes and restricted the Fund`s discretion over the revenues.

However, the securitized financing was not disclosed or approved as public debt and no evidence was provided of Parliamentary approval for the creation of such financial obligations. This was contrary to Section 2 of the Public Finance Management Act,2012 which defines public debt as any obligation requiring repayment from public funds and Article 214 of the Constitution that provides that public debt means all financial obligations attendant to loans raised or guaranteed and securities issued by the National Government. Further, it was contrary to Sections 50 and 58 of the Public Finance Management Act, 2012 which requires Cabinet and Parliamentary approval before the National Government incurs public debt. However, supporting documents to demonstrate the approval were not provided.

34.2 Kenya Roads Board

In October 2024, The National Treasury and Economic Planning granted approval for a Road Infrastructure Loan Facility of up to Kshs.175 billion, to be leveraged on Kshs.7 from the Road Maintenance Levy. The funds were to be applied to settle pending bills and other obligations at the State Department for Roads. As a result, the Government opted to securitize a portion of the Fuel Levy –specifically Kshs.7 out of every Kshs.25 per litre to raise about Kshs.175 billion required to settle the pending bills. The sale of the future receivables was recognized as sale of future cash receivables through the Kenya Roads Board. However, the arrangement ring fenced the future public revenues from the Fund for debt servicing purposes and restricted the Board`s discretion over the revenues.

Additionally, the securitized financing was not disclosed or approved as public debt and no evidence was provided of Parliamentary approval for the creation of such financial obligations. This was contrary to Section 2 of the Public Finance Management Act, 2012 which defines public debt as any obligation requiring repayment from public funds. It was also contrary to Article 214 of the Constitution that provides that public debt means all financial obligations attendant to loans raised or guaranteed and securities issued by the national government and Sections 50 and 58 of the Public Finance Management Act,2012 which requires Cabinet and Parliamentary Approval before the national government incurs public debt. However, supporting documents to demonstrate the approval were not provided.

34.3 Payment in Arrears

The outstanding debt of Kshs.11,825,756,993,061 does not include payment arrears (pending bills) which are current liabilities owed to providers of goods and services reported under Ministries, Departments and Agencies (MDAs) and Donor Funded Projects during the year under review. It does not also include other liabilities and bank overdrafts incurred by national public sector entities including State-Owned Enterprises (SOEs).

34.4 Cereals and Sugar Finance Corporation

The statement of outstanding obligations guaranteed by the Government for financial year 2024/2025 reflects accounts receivables relating to the Cereals and Sugar Finance Corporation accounts of Kshs.152,317,825 which is a guaranteed obligation. However, the guarantee has not been reflected in the Summary Statement of Public Debt for financial year 2024/2025. Management indicated that it was in the process of finalizing the write-off with the Cabinet Secretary's approval already given. However, as at the time of completing the audit, the write off process had not been completed.

In the circumstances, failure to obtain the required approvals and to disclose the securitizations and the payment in arrears obligations as public debt exposes the Government to incurrence of undisclosed fiscal risk.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

35. Weaknesses in Information Communication Technology System

Review of ICT systems revealed the following:

35.1 Change Management Framework and Vendor Privileged Access Controls During System Updates

The audit established that the back office of the Public Debt Management Office (PDMO) has operational procedures outlining how changes are performed, including approval responsibilities, risk considerations, and step-by-step implementation. These procedures are in the form of a user manual, not a formal Change Management Policy aligned to governance frameworks. Missing elements include change classification, escalation paths, audit trail requirements, and formal endorsement by management. Further, there is no documented process explaining how vendors' privileged access is granted, monitored, or revoked during patching. This was contrary to Regulation 110(1) of the Public Finance Management (National Regulations) Regulations, 2015 that requires that Accounting Officers for a National government entity to institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity.

The system may be susceptible to undisclosed and unauthorized changes and was in breach of the regulation.

35.2 Lack of Approved Business Continuity Plan

The Public Debt Management Office (PDMO) has developed a draft Business Continuity Plan (BCP) outlining key elements such as Recovery Time Objectives and Recovery Point Objectives, and has initiated the establishment of a Disaster Recovery site. However, the BCP remains in draft form and has not been formally approved.

Consequently, without a finalized and approved BCP, The National Treasury lacks a frame work to guide response and recovery efforts of a high-risk area such as PDMO. The lack of a BCP increases the risk of prolonged service disruption and inadequate coordination during an incident.

35.3 Lack of Documented Evidence for Backup and Restoration Testing

Interviews with the System Administrator revealed that restoration tests are conducted periodically. However, no supporting documentation on formal reports, logs, or records of these tests were provided. This means there is no audit trail showing the dates, results, issues encountered, or corrective actions taken during such tests.

Lack of documented process increases the risk that backup failures or data corruption could go undetected until an actual recovery is needed, potentially resulting in extended service downtime or data loss.

35.4 Password Expiry Requirement Not Enforced in the System

The system does not currently enforce the required 90-day password expiry as stipulated by The National Treasury Information Security Policy (ISP) (November 2023), thus can remain active beyond the stipulated timeframe. Additionally, Multi-Factor Authentication (MFA) had not been implemented in December, 2025, despite being a recommended enhancement for strengthening security, particularly for privileged and remote accounts.

These lapses pose security risk from potential compromise of accounts, especially privileged accounts, due to prolonged password validity.

35.5 Lack of Regular Review of the System Audit Logs

The system is configured to generate audit logs that capture user activities and system changes. However, the audit found no supporting evidence that these logs are reviewed on a regular basis by PDMO management or IT personnel. This poses a risk of delay in detecting and responding to security incidents, reduced ability to identify patterns of misuse or attempted breaches therefore missing opportunities to strengthen system security through trend analysis.

In the circumstances, the effectiveness of Information Communication Technology system could not be confirmed.

RECEIVER OF REVENUE - RECURRENT – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

36. There were no material issues noted during the audit of the receiver of revenue financial statements of The National Treasury.

Emphasis of Matter

37. Doubtful Arrears of Revenue

As previously reported, and as disclosed in Appendix 2 of the financial statements, the statement of arrears of revenue reflects arrears of tax receipts of Kshs.2,724,054,087,254 and Government Investment and Public Enterprise (GIPE) arrears of Kshs.511,443,265,844 which, as disclosed in Table 4 of the financial statements, includes arrears totalling Kshs.2,416,781,574,017 referred as either being under validation, uncollectable, under reconciliation, under resolution or awaiting updating for taxpayers' ledgers as detailed below;

Category	Amount (Kshs.)
Debts Under Ledger Reconciliation	152,298,200,682
Migrated Legacy System Debts	759,237,250,910
Penalties and Interest	538,801,143,491
Debt Under Tax Appeal Processes (Objections, ADR, Court, TAT)	334,511,017,468
Debts Under Validation Process	17,937,334,807
Debts Under Resolved Disputes Not Updated in Taxpayers' Ledgers	613,996,626,659
Total	**2,416,781,574,017**

Although Management provided measures to address the arrears of revenue, the outstanding arrears remained uncollected as at 30 June, 2025.

38. Long Outstanding Arrears of Revenue

As reported previously, the statement of arrears of revenue reflects non-tax revenue arrears from Government Investment and Public Enterprises (GIPE) of Kshs.511,443,265,844. The balance comprises of Kshs.338,363,270,967 and Kshs.173,079,994,877 in respect of loan redemption and loan interest out of which, as disclosed in Appendix 3(ii) to the financial statements, Kshs.168,459,830,387 and Kshs.79,079,462,463 respectively have been outstanding for more than three years.

In addition, and, as disclosed in GIPE schedule of arrears of revenue, the non-tax revenue arrears include principal loan arrears of Kshs.330,907,208,211 as listed below due from State Corporations and private companies that are operational.

S/no.	Description	Total Arrears (Kshs.)
1.	National Water Conservation	2,134,726,553
2.	Athi Water Services Board	10,535,748,168
3.	Tanathi Water Services Board	1,584,961,434
4.	Coast Water Services Board	5,996,337,407
5.	National Irrigation Board	329,141,977

S/no.	Description	Total Arrears (Kshs.)
6.	Lake Victoria North Water Service Board	3,877,770,941
7.	Lake Victoria South Water Service Board	2,590,502,831
8.	Tana Water Service Board	1,456,466,064
9.	Central Rift Valley Water Services Board	410,041,273
10.	Water Resources Management Authority	105,760,665
11.	Lake Basin Development Authority	617,647,059
12.	Agricultural Finance Corporation	304,797,714
13.	Moi University	231,250,000
14.	Agro-Chemical and Food Co. Ltd	2,941,884,000
15.	Co-operative Bank of Kenya	72,915,185
16.	Catering Levy Trustee/Utalii College	122,000,000
17.	Kenya Meat Commission	338,000,000
18.	Kenya Electricity Transmission Co. Ltd.	2,346,365,655
20.	Kenyatta University	6,216,056,544
21.	Kenya Railways Corporation	288,694,834,741
	Total	**330,907,208,211**

Although Management provided various reasons for the non-receipt of the revenues and explained measures in place to improve the outstanding debt arrears position, it was not clear why some unrecovered long outstanding balances continue to be retained in the revenue statements.

My opinion is not modified in respect of these matters.

Other Information

39. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

40. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

41. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RECEIVER OF REVENUE FINANCIAL STATEMENTS - EXTERNAL RESOURCES

Basis for Qualified Opinion

42. Variance Between Consolidated Fund Services-Public Debt Statements and The Receiver of Revenue – External Resources Statements on Drawdowns for the Year

The statement of financial performance of the Receiver of Revenue - External Resources reflects non-exchange revenue of Kshs.560,105,995,744. However, Note 19c(ii) to the Consolidated Fund Services - Public Debt financial statements reflects an amount of Kshs.553,159,653,618 (Kshs.553,186,865,797 less Kshs.27,222,179 draw down reversal) in respect of borrowings drawn down during the year, resulting to an unreconciled variance of Kshs.6,946,352,126.

In the circumstances, the accuracy of the non-exchange revenue of Kshs.560,105,995,744 could not be confirmed.

Emphasis of Matter

43. Budget and Budgetary Performance

The statement of comparison of budget and actual amounts reflects budgeted versus actual receipts of Ksh.592,062,382,245 and Ksh.560,362,356,394 respectively resulting to a deficit of Ksh.31,700,025,851 or 5% of the budget. The significant deficit is an indication of possible weakness in the revenue budget process.

My opinion is not modified in respect of this matter.

Other Information

44. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

45. Failure to Utilize Drawn Down Loan Proceeds

The statement of cash flows and Note 14 to the financial statement reflects opening and closing cash and cash equivalents balances of Kshs.42,276,314,095 and Kshs.51,082,294,465 respectively. Included in the balances are twenty-one (21) designated account balances, with a cumulative balance of Kshs.1,278,511,699 that were undisbursed, with no transfer to the Exchequer Account or to the respective designated project implementation accounts during the year under review.

In the circumstances, lack of disbursement could result to incurring avoidable interest payments and lack of value for money.

46. Thwake Dam Water Project

Thwake Dam Water Project was contracted on 15 November, 2017 with a contract amount of Kshs.36,971,346,445 and expected end date of 4 November, 2022. Review of documents revealed that the contractor was granted the first extension up to 5 February, 2024 and end of defects liability period (DLP) on 5 February, 2025. Later, a second extension was sought and granted up to 6 December, 2024 with a defects liability period of 7 December, 2025.

Further, as at the end of the second extension, 6 December, 2024, the project completion status was at 94.2%. The contractor applied for a third extension which was granted on 24 June, 2025 by the Ministry of Water of Sanitation for a further period of five (5) months to 09 August, 2025. However, review of the project revealed the following findings;

46.1. Prolonged Contract Implementation Period

Physical verification conducted in July, 2025 revealed that there were no project activities at site for the last one year and that staff had left the construction site. The non-completion within the stipulated extension period risks increased variations in pricing due to changes in market rates.

In the circumstances, the delay in completion of the project may result to loss of funds and inability to meet the project objectives and denying the public critical services.

46.2. Significant Increase in Project Cost

The State Department for Water and Sanitation entered into a contract with a contractor valued at Kshs.36,971,346,445 for the construction of Thwake Dam with joint funding from the African Development Bank and Government of Kenya. This was later revised to Kshs.37,499,408,015 through an addendum 6 dated February, 2025.

During the financial year 2023/2024, the Ministry conducted a technical and financial appraisal of the program. The remaining works and the additional financing required to complete the program totalled Kshs.11,920,617,120 comprising of Kshs.9,645,150,952 from AFDB and Kshs.2,275,466,168 from Government of Kenya. This increased the total contract sum to Kshs.48,891,963,565 indicating a 32% increase from the initial contract sum. This was contrary to Section 139(d) of the Public Procurement and Asset Disposal Act, 2015 (revised in 2022) that states that any variation of a contract shall only be considered if the cumulative value of all contract variations for goods do not result in an increment of the total contract price by more than twenty-five per cent (25%) of the original contract price.

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

46.3. Avoidable Interest Due to the Contractor on Delayed Payments

Review of project documents revealed that there were delays in payments to the contractor resulting to interest on delayed payments amounting to Kshs.523,316, 684 in respect of Interim Payment Certificate (IPC) raised up to 30 June, 2024. Additionally, IPC 26 to IPC 30, which were Interim Payment Certificates raised during the FY 2024/2025 attracted interest on delayed payments of Kshs.45,723,984 resulting to total interest on

delayed payments of Kshs.569,040,668. As at the time of Audit in July 2025, only Kshs.100,903,392 had been paid leading to an outstanding interest on delayed payments of Kshs.468,137,276. Interest on delayed payments was an avoidable liability often un-budgeted for and distorts the current or future fiscal year's appropriations.

In the circumstances, the continued delay in payments may result to avoidable interest payment of Kshs.468,427,276 and lack of value for money.

46.4. Outstanding Repair Works Under Corporate Social Responsibility (CSR) Component

Review of records indicate that the project had a Corporate Social Responsibility (CSR) component in the civil works contract of Kshs.80 million for implementation of community supported social responsibility projects targeting structural improvement of existing Public Schools, Public Health Centers and Drilling and Equipping of boreholes for supply of clean water in Makueni and Kitui Counties.

However, physical verification of schools, health facilities and boreholes in Mbooni East Constituency, in Makueni revealed major structural and finishing defects that were yet to be repaired as follows:

No.	CSR Project	Issue Identified
1.	Kwa Kavithi borehole for Mutukya community	The borehole was non-operational due to a malfunctioning inverter, which rendered it unable to pump water to the kiosks.
2.	Kwa Kimanthi borehole for Kathulumbi community	The borehole was non-operational due to a malfunctioning inverter, which rendered it unable to pump water to the kiosks.
3.	Water tank installation at Kathulumbi Primary School	The water tank at Kathulumbi Primary School was not in use since it was vandalized.
4.	Four (4) No. classrooms renovated at Kathulumbi Primary School	The classroom floors were in poor condition, and the walls had visible cracks.
5.	Seven (7) No. classrooms renovated at Kitoto Secondary School	The classroom floors were in poor condition, and the walls had visible cracks.
6.	Two (2) No. constructed classrooms at Kathulumbi Secondary School	The classroom floors were in poor condition, and the walls had visible cracks.
7.	Construction of Kathulumbi Health Centre	The facility's floor was in poor condition, the walls had visible cracks, and the ceiling was collapsing.
8.	Borehole drilled for water supply at Kwa Kautheu	The borehole was not operational since it had broken down.

No.	CSR Project	Issue Identified
	Mulani for Kisyaani Community	
9.	Two (2) No. renovated classrooms, one kitchen and two toilets at Mumbeeni Primary School	The facilities' floors were in poor condition, and the walls had visible cracks.
10.	Two (2) No. renovated classrooms at Katithi Primary School	The facilities' floors were in poor condition, and the walls had visible cracks.
12.	Two (2) No. renovated classrooms at Mathangathi Primary School	The facilities' floors were in poor condition, and the walls had visible cracks.
13.	Two (2) No. blocks renovated at Mavindini Level (III) Hospital	The facility's floor was in poor condition, the walls had visible cracks, and the ceiling was collapsing.

In the circumstances, failure to address defects in the completed CSR projects within the defects liability period exposes the implementing entity to financial loss through increased future maintenance and rehabilitation costs that could have been avoided if timely repairs were undertaken.

It also increases the risk of non-achievement of the intended project objectives which includes provision of safe learning environments, access to basic healthcare, and availability of clean water.

46.5. Non-Renewal of Expired Insurance Cover for the Project

The contractor's insurance cover for the Thwake Dam project had expired on 6 February, 2025 and there was no evidence of renewal as at July 2025. This was contrary to Clause 18 of the contract, which requires continuous insurance during project implementation and the defects liability period.

In the circumstances, Government is financially exposed in the event of contractor default, substandard performance, or failure to correct defects.

46.6. Lack of Land Ownership Documents

The Government had acquired 9,158 acres of land for the dam project displacing approximately 1,820 Project Affected Persons (PAPs). A total of Kshs.3,528,082,018 was fully disbursed to National Land Commission (NLC) for the initial land acquisition.

Further, the Government acquired an additional 24.27 hectares (59.96 acres) of land, encompassing nine land parcels and affecting twenty-eight (28) PAPs. This acquisition was necessitated by the need to facilitate construction of the employer's camp, a saddle dam, an enlarged spillway, and main access road. The total compensation value amounted to Kshs.44,972,853, with all funds duly remitted to the NLC. All PAPs affected

by the additional land acquisition have since been fully compensated and have successfully relocated.

Audit review revealed that a total of 1,816 PAPs out of the targeted 1,820 PAPs had been fully compensated and relocated from the dam site. There remained four (4) uncompensated parcels affecting four (4) PAPs. Of these, two (2) cases are currently in court due to land ownership disputes, and two (2) are unresolved due to family disputes.

In the circumstances, delays in obtaining land ownership documents for the Thwake Dam Project land exposes the Government to the risk of disputes, encroachment, and potential legal claims from third parties.

47. Interest on Delayed Payments

The Ministry of Education entered into a contract with a contractor on 30 November, 2020 at a contract price of USD 64,000,000 for the establishment of Kenya Advanced Institute of Science and Technology (KAIST). However, review of the interests on delayed payments due to the Contractor from the KAIST project, revealed total outstanding amount of USD 389,082 out of which USD 38,212 was due for the financial year 2024/2025.

In the circumstances, delayed payment due to the contractor may result to avoidable interest payment of USD 389,082 and lack of value for money for the project.

48. Kenya Social Economic Inclusion Program

48.1. Variances Between Payment Voucher Amounts and Payroll Amounts in NICHE Program

A comparative analysis of payment vouchers and the payroll amount for the NICHE Program under the Kenya Social and Economic Inclusion Project for the months of July-October 2024 revealed an unexplained variance totalling Kshs.6,209,000 as detailed below;

Months (2024)	Amounts Paid (Kshs.)	Payroll Amount (Kshs.)	Variance (Kshs.)
July	13,745,500	11,372,500	2,373,000
August	12,897,500	11,712,500	1,185,000
September	12,753,500	11,474,000	1,279,500
October	12,466,000	11,094,500	1,371,500
Total			**6,209,000**

The variance of Kshs.6,209,000 between amounts paid and payroll amounts has not been explained and could result to increased costs of managing the NICHE program and a risk of irregular payments.

48.2. Inadequacies in the NICHE Program

Review of the payroll for the NICHE Program and interview held with sixty-nine (69) household beneficiaries in West Pokot and seventeen (17) in Kitui Counties revealed the following;

i. Five (5) ineligible beneficiaries registered under the NICHE Program in Kitui County.

ii. One beneficiary continued earning payouts after demise of the named beneficiaries in West Pokot and two in Kitui.

iii. There were six unpaid cash transfers in Kitui and nine in West Pokot.

iv. There was no Nutritional Counseling for the caretakers in Kitui County.

In the circumstances, the effectiveness of the project could not be confirmed due to payments being misdirected to ineligible beneficiaries and reduced program impact on the target population.

49. Lack of Capacity for COVID-19 Health Emergency Response Project

The Ministry of Health entered into a contract for supply and delivery of Cold Chain Equipment (CCE) and related services dated 18 December, 2023 (referenced 48001069) for a contract sum of USD 16,038,414.

Physical audit inspection carried out in Kwale, Bungoma, Kisumu and West Pokot counties in July 2025 for the deliveries and existence of CCE fridges established that fridges were delivered. However, there was no evidence of training health officers on operation and maintenance of the fridges.

In the circumstances, lack of training of the health officers could result to non-utilization or frequent breakdown of the cold chain equipment due to improper handling.

50. Delayed Completion of Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero

The Republic of Kenya and the African Development Fund signed a financing agreement not exceeding the equivalent of USD 228 Million on 13 May, 2016 to finance the Sirari Corridor Accessibility and Road Safety Improvement Project which had several components including supply of medical equipment (MRI machine) at St. Joseph's Nyabondo Mission Hospital and construction of Suna-Mirindi modern market (Migori Market). The project closure date was projected to be 31 December, 2020. As the time of audit in July 2025, two addendums on timeframe had been proposed seeking extension of time with the last pending approval to extend the tenure to 30 June, 2026 when the project closure date was projected to have been finalized.

The following observations were made on the project;

50.1. Interest on Delayed Payments Due to The Contractor

Review of the Contractor's Interim Payment Certificates (IPCs) revealed that interest on delayed payments amounting to Kshs.331,130,553 had accrued on various periods and remained unpaid as at the time of audit in June 2025.

However, in consolidating the total certificate payment due for clearance, the interest on delayed payments was excluded from IPCs in order to avoid exceeding the total contract sum. This was contrary to Clause 14.8 of the General Conditions in the Contract agreement dated 22 March, 2017 between KENHA and the Contractor that states, if the contractor does not receive payment in accordance to Clause 17 therein, the contractor shall be entitled to receive financing charges compounded monthly on the amount unpaid during the period of delay.

In the circumstances, Management was in breach of the contract agreement. Further, the delayed payments due to the contractor resulted to avoidable interest payment of Kshs.331,130,553.

50.2. Increase in Project Cost – Migori Market

The construction of Suna-Mirindi Modern Market (Migori Market) was taken over by the Ministry of Lands, Public Works, Housing and Urban Development vide a letter dated 1 July, 2025 under the Affordable Housing Program. Review of documents provided revealed that the contract sum under the Kisii-Sirare Project was revised upwards to Kshs.226,588,145 from the original estimate given by the resident engineer of Kshs.144,299,340 on grounds of design adjustments. The variation represents 57% of the contract sum.

The variation exceeded the recommended cumulative variation maximum of 25% contrary to Section 139 (4) of the Public Procurement and Asset Disposal Act, 2015, which states that the cumulative value of all contract variations should not result in an increment of the total contract price by more than twenty-five per cent (25%) of the original contract price. Further, in the case where variations result in an increment of the contract price by more than twenty-five percent, such variations shall be tendered separately.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

51. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GOVERNMENT INVESTMENTS AND PUBLIC ENTERPRISES – REVENUE STATEMENTS

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

52. Unconfirmed Loan Balances

Appendix 11 to the financial statements reflects summary schedule of outstanding loans amounting to Kshs.1,051,176,707,741 representing outstanding loans from fifty-four (54) entities as of 30 June, 2025. However, outstanding loan balances totalling Kshs.79,219,866,430 from six (6) entities lacked approved confirmation of loan balances from the respective entities, as outlined below;

No.	Institution	Amount Outstanding as at 30 June, 2025 (Kshs.)
1.	Athi Water Works Development Agency	61,957,305,908
2.	Kenya Meat Commission	940,241,100
3.	Kenyatta University	10,774,498,010
4.	Malindi Water, Sewerage & Sanitation Co. Ltd	1,584,270,995
5.	Mumias Sugar Company Limited	3,000,000,000
6.	Tavevo Water & Sewerage Co. Ltd	963,550,417
Total		**79,219,866,430**

In the circumstances, the existence, completeness and accuracy of the unconfirmed loans balance of Kshs.79,219,866,430 could not be confirmed.

Emphasis of Matter

53. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue targets and actual amounts of Kshs.109,558,900,800 and Kshs.85,600,640,610, respectively, resulting in an under collection of Kshs.23,958,260,190 or 22% of the budget.

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

My opinion is not modified in respect of this matter.

Other Matter

54. Dormant Loans

As previously reported, the summary schedule of outstanding loans reflects total loans outstanding of Kshs.1,051,176,707,741 from fifty-four (54) institutions. Included in the

balance are loans due from thirteen (13) institutions amounting to Kshs.25,515,108,908 which had no movement during the year and have remained unpaid over a significant period as detailed below:

No.	To Whom Lent	Amount Outstanding as at 30 June, 2025 (Kshs.)
1.	Agro-Chemical and Food Company Ltd	2,941,884,000
2.	Halal Meat Products	27,701,420
3.	KDC-IDB Capital Limited	590,108,567
4.	Kenya Meat Commission	940,241,100
5.	KDC-Kenya Tourist Development Corporation	48,000,000
6.	Kenya Urban Transport Various Towns	40,706,140
7.	Kenyatta University	10,774,498,010
8.	Lake Basin Development Authority (LBDA)	2,000,000,000
9.	Mumias Sugar Company Ltd	3,000,000,000
10.	National Irrigation Board	1,128,486,779
11.	National Water Conservation and Pipeline Corporation	2,460,874,897
12.	Uchumi Supermarkets Ltd	1,200,000,000
13.	Water Resources Management Authority	362,607,995
Total		**25,515,108,908**

Although Management indicated that demand letters to the respective entities had been issued, measures put in place to ensure that all loans are repaid and in case of default, sanctions imposed on the defaulters were not disclosed.

55. Loans Due from Defunct Entities

As previously reported, Appendix 11 on outstanding loans reflects total loans outstanding of Kshs.1,051,176,707,741 from fifty-four (54) entities. Review of the list revealed a total of Kshs.7,878,958,424 due from seven (7) entities that were defunct as at the time of the audit as detailed below:

No.	Entity	Amount Outstanding as at 30 June, 2025 (Kshs.)
1.	Agricultural Settlement Fund and Central Land Board	74,461,004
2.	Halal Meat Products	27,701,420
3.	Kenya Urban Transport Various Towns	40,706,140
4.	Local Government Loans Authority	7,594,273,720
5.	Mombasa Pipeline Board	22,964,980

No.	Entity	Amount Outstanding as at 30 June, 2025 (Kshs.)
6.	Mumias Out growers Company Limited	16,517,400
7.	Nairobi City Council	102,333,760
Total		**7,878,958,424**

In the circumstances, the recoverability of the loans from the defunct entities is doubtful.

56. Dormant Investments

As previously reported, the schedule of investments in various companies as disclosed in Appendix 13 reflects total investments of Kshs.115,939,921,225 which includes five (5) companies where the Government holds 5,727,503 shares valued at Kshs.114,550,000 that were either non-performing, struck off the Company's Register or dissolved as indicated below:

No.	Institution	Number of Shares	Nominal Value (Kshs.)
1.	Kenya Farmers Association	1	20
2.	National Agricultural Chemical & Fertilizer Ltd	2,084,998	41,699,960
3.	Nyari Estate Limited	2,500	50,000
4.	Kenya Poultry Limited	4	20
5.	Ken-Ren Chemicals and Fertilizers Limited	3,640,000	72,800,000
Total		**5,727,503**	**114,550,000**

Although Management indicated that they sought approval from the Cabinet to write off the dormant investment, the status as at the time of the audit was not provided.

Other Information

57. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

58. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports and submit them to the Cabinet Secretary and to The National Treasury contrary to Section 83(1) to (3) of the Public Finance Management Act, 2012 which requires that not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

59. Failure to Conduct Internal Audits

Management did not provide any internal audit report in respect to the Department for the year under review. This was contrary to Section 73(1) of the Public Finance Management Act, 2012 which states that every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the existence of effective internal controls in the Department could not be confirmed.

EAST AFRICA TOURIST VISA FEE COLLECTION ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

60. There were no material issues noted during the audit of the East Africa Tourist Visa Fee Collection Account financial statements of The National Treasury.

Other Information

61. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

62. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

63. There were no material issues relating to effectiveness of internal controls, risk management and governance.

E-CITIZEN REVENUE ACCOUNTABILITY STATEMENTS

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

64. Inaccuracy of Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,731,559,286 as disclosed in Note 26 of the revenue statements. The statement also reflects an opening cash and cash equivalents balance (as at 1 July, 2024) of Kshs.7,111,818,221 which is in agreement with the audited balance for the financial year 2023/2024. However, as reported in 2023/2024, the opening balance was not supported with cashbooks and bank reconciliation statements. Further, the prior year statement of revenue collection reflected unremitted funds of Kshs.5,082,922,514 which was at variance with the cash and cash equivalents balance of Kshs.7,111,818,221. The unsupported opening balance affected the accuracy of cash and cash equivalents as at 30 June, 2025. Further, the Government Digital Payment Unit (GDPU) did not have a structured framework to record, organize, and analyze its financial data (Accounting System).

In the circumstances, the completeness and accuracy of cash and cash equivalents balance of Kshs.3,731,559,286 could not be confirmed.

65. Inaccuracy of Current Liabilities Balances

The statement of financial position reflects total current liabilities balance of Kshs.3,731,559,286. The statement also reflects opening total current liabilities balance of Kshs.7,111,818,221. As reported in the previous year, the total current liabilities were at variance with the unremitted fund balance of Kshs.5,082,922,514 at the year end. Evidence of prior year adjustments to reconcile the balances was not provided for audit.

Further, the opening statement of financial position reflects unspecified prior year balance of Kshs.145,824,907 which is not supported by a corresponding Note to the revenue statements and was not supported with any documentation. In addition, the Department does not have an accounting system to track movement of the current liabilities balances. The inability to confirm the opening balance impacts on the accuracy of the total current liabilities balance as at 30 June, 2025.

In the circumstances, the completeness and accuracy of the total current liabilities balance of Kshs.3,731,559,286 could not be confirmed.

66. Inaccuracy of the Statement of Cash Flows

The statement of cash flows reflects receipts from opening payables received of Kshs.4,912,502,229. However, review of the audited prior year statements revealed that

the amount relates to undisbursed amounts at the close of the year which was in the entity's bank accounts and not receipts during the year under review.

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

67. Variances in Balances Between Revenue Statements and Entity Corroboration

67.1. Variances in Receipts Transferred to Entities

The statement of financial performance reflects total transfers of Kshs.206,130,045,721. However, corroboration of amount transferred for various entities revealed variances as analysed below;

Entity	Transferred by eCitizen to Entity (Kshs.)	Receipts Reflected by Entity (Kshs.)	Variance (Kshs.)
Kenya National Examinations Council	610,197,485	616,556,520	6,359,035
Kenya Meat Commission	77,984,298	79,335,920	1,351,622
Kenya Accountants and Secretaries National Examination Board	605,596,228	615,956,859	10,360,631
Kenya Institute of Supplies Examination Board	47,526,695	50,502,145	2,975,450
Kenya Institute of Supplies Management (KISM)	22,250,000	22,094,000	156,000
Retirement Benefits Authority	1,221,145,908	1,231,387,033	10,241,125
Kenya Civil Aviation Authority	3,296,391,480	3,026,629,861	269,761,619
National Construction Authority	922,815,156	22,582,721	900,232,435
Chuka University	171,146,223	170,943,182	203,041
Meru University of Science and Technology	379,178,045	378,925,688	252,357
Tharaka University	207,738,863	211,460,949	3,722,086
Kenya Industrial Property Institute	82,888,401	80,296,418	2,591,983
Kenya National Trading Corporation	1,557,705	141,160	1,416,545
Numerical Machining Complex	3,697,237	5,347,129	1,649,892
Jaramogi University	3,301,421	-	3,301,421
Kaimosi Friends University	156,566,623	156,440,523	126,100
Lake Basin Development Authority (LVBA)	28,228,552	28,626,982	398,430
Lake Victoria South Water Works Development Agency	1,846,600	1,953,600	107,000
Maseno University	972,608,648	1,003,486,337	30,877,689
University of Kabianga	122,945,356	125,302,321	2,356,965
Kenya Airports Authority	198,516,750	200,987,870	2,471,120

The variances have not been explained or reconciled. Management has indicated that it is in the process of procuring a revenue management system that will ensure real time reconciliation going forward.

Further, as reported in the Special Audit Report issued in March, 2025, the eCitizen operations collections were automated but the transfer of funds to Ministries,

Departments, and Agencies (MDAs) was conducted manually. The transfer from settlement account to MDA collection accounts process involved system batching, manual preparation and approval of payment records at both the GDPU and The National Treasury Directorate of Accounting Services before submission to the bank for onward settlement to the MDA collections accounts, a manual approach that results in delays, operational inefficiencies, and increases the risk of errors in revenue transfers.

In addition, the MDA collection accounts and services was already mapped within the eCitizen platform to allow for seamless automated transfers, making the current practice of manual settlements unnecessary and inconsistent with the logic of an integrated digital payment system. The manual processing of settlements exposes the process to errors and security risks.

67.2. Variances in Accounts Payables Balances

Further, the statement of financial position reflects Kenya Shillings denominated accounts payables balance of Kshs.3,052,142,281 and United States Dollars (USD) accounts payables equivalent of Kshs.618,162,052. However, corroboration of payables balances for various entities revealed variances as analysed below;

Entity	Balance as Per eCitizen RAS (Kshs.)	Balance as Per Entity (Kshs.)	Variance (Kshs.)
Kenya National Examinations Council	1,673,295	-	1,673,295
Kenya Meat Commission	1,144,175	1,693,507	549,332
Kenya Ports Authority	10,387,356	204,449,000	194,061,644
Public Procurement Regulatory Authority	981,870	64,800	917,070
Retirement Benefits Authority	2,726,699	10,241,125	7,514,426
Kenya Civil Aviation Authority	35,892,259	12,983,253	22,909,006
Kenya Railways Collections Account	5,813,327	4,675,061	1,138,266
National Construction Authority	3,448,550		3,448,550
Meru University of Science and Technology	2,632,240	2,515,412	116,828
University of Embu	569,376	1,989,012	1,419,636
Kenya Bureau of Standards	70,157,124	48,527,309	21,629,815
Kenya Industrial Property Institute	713,500	1,370,824	657,324
Kenya National Trading Corporation	141,160	-	141,160
Numerical Machining Complex	25,520	-	25,520
Kaimosi Friends University	825,691	983,251	157,560
University of Kabianga	903,976	1,374,739	470,763
Kenya Airports Authority	2,962,124		2,962,124

In the circumstances, the completeness and accuracy of total transfers of Kshs.206,130,045,721, Kenya Shillings denominated accounts payables balance of Kshs.3,052,142,281 and United States Dollars (USD) accounts payables equivalent of Kshs.618,162,052 could not be confirmed.

68. Funding of Expenditure Under Article 223 of the Constitution of Kenya

The statement of financial performance reflects Transfer of Convenience Fees of Kshs.906,687,764 as disclosed in Note 25 to the revenue statements. The amount includes convenience fees transferred to State Department for Immigration and Citizen Services of Kshs.299,954,781. Records provided indicate that Convenience Fees are used to settle vendor's fees for maintenance and support of the platform and are based on the number of transactions for the services rendered. Further, information provided from the State Department of Immigration and Citizen Services indicates that an amount of Kshs.1,137,712,306 was paid to the vendor during the period under review and unpaid pending bills of Kshs.1,188,018,052 disclosed in the financial statements of the State Department, all totalling Kshs.2,325,730,358. The clarity of the mismatch between convenience fee collected and amount paid to the vendor has not been explained.

In addition, a request of funds for settlement of eCitizen Convenience Fees of Kshs.2,000,000,000 was made by the State Department of Immigration and Citizen Services to The National Treasury and approval was granted under Article 223 of the Constitution of Kenya as Appropriations in Aid (AIA) on 29 November, 2024. However, the justification for the request under Article 223 and basis of Convenience Fees being settled was not provided for audit. The expenditure was also not reflected in the revenue statements.

In the circumstances, value for money on transfer of convenience fees of Kshs.299,954,781 could not be confirmed.

Other Matter

69. Unresolved Prior Year Matters

In the previous year's report, the following issues were raised and remained unresolved as they are yet to be discussed by the Parliamentary Oversight Committee.

No.	Observation
1.	Noncompliance with Public Sector Accounting Standards Board Reporting Template
2.	Inaccuracies in the Revenue Statement
3.	Unsupported Cash and Cash Equivalent Balance
4.	Unsupported Prior year Balances
5.	Partial, incomplete and Duplicated Payments
6.	Unsupported Commission Fees
7.	Noncompliance with the Law on Data Protection
8.	Non-Compliance with in Year Reporting of Revenue Collection
9.	eCitizen Government Digital Payments Platform Weaknesses

Other Information

70. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

71. Collection of e-Citizen Revenue

The statement of financial performance reflects total revenue and transfers of Kshs.206,519,733,160 and Kshs.206,130,045,721 respectively. The amounts represent collections and transfers to various Government Agencies by The National Treasury. This was contrary to Section 78 of the Public Finance Management Act, 2012, which states that the Kenya Revenue Authority shall be the collector of national government revenue. Management has indicated in Note 1 to the revenue statements that the Director Government Digital Payment Unit was not formally designated as a receiver of revenue but operates based on Gazette Notices, Presidential Directive and Ministerial Instructions.

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

72. Delayed Transfer of Funds from Collection Account to Settlement Account

As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, collections handled by various banks that signed the Service Level Agreement (SLA) on 31 May, 2025, revealed that collections through the eCitizen platform were not transferred to the designated Settlement Account as required under the terms of the SLA. Collections in three banks and six bank accounts (Kshs and USD account in each bank) had collections totalling Kshs.2,123,380,621 transferred after two business days after the transaction date contrary to the SLA.

However, Management did not provide evidence that penalty charges were computed or demanded for the delayed transfer of funds, despite such delays constituting a violation of Clause 8.2 of the Service Levy Agreement, which mandates that collected funds be deposited into the principal account by midnight on the second business day following the transaction.

In the circumstances, Management was in breach of the agreement

73. Discriminative Charge of Convenience Fee

Review of settlement data revealed that some entities were charged convenience fees for services while other entities were not charged. All services offered by public universities were not subjected to Convenience Fees except for services offered by Turkana University, Garissa University and University of Kabianga. Although Management attributed the inconsistency to a system weakness and those manual

adjustments were made to settle the affected universities on a gross basis (without retaining the Convenience Fee), the underlying system error remained unresolved.

In the circumstances, the justification for charging discriminative Convenience Fees could not be confirmed.

74. Unutilized Services Onboarded on e-Citizen Platform

Review of data revealed that as of 30 June, 2025, a total of 28,373 services had been onboarded onto the eCitizen platform. However, only 5,731 services (approximately 20%) were active, leaving 22,642 services (80%) unutilized since onboarding. Further, entities that had disproportionately high number of unutilized services are detailed below;

Entity	No. of Un-Utilized Services
Kenya Forest Service	9,274
Kenya Seed Company Ltd	1,590
National Police Service	1,197
Spinal Injury Hospital	978
Kenya School of Government	579
Kenya Civil Aviation Authority	489
Kenya Airports Authority	404
National Registration Bureau	338
Kenya Wildlife Services	309
Total	**15,158**

In addition, review of the novation contract dated 5 September, 2024 and handover agreement dated 13 January, 2023 indicated that payments were made to vendors in relation to onboarding of services. In the period under review an amount of Kshs.946,000,000 was paid through the State Department for Immigration and Citizen Services to the vendor for on boarding of services.

In the circumstances, value for money on payment for onboarding of unutilized services of Kshs.946,000,000 could not be confirmed.

75. Irregular Payment for Support and Maintenance Services Before Novation of Framework Contract

As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, review of the contract for provision of support and maintenance of eCitizen Platform framework, contracting agreement between ICT Authority and a Consortium of three vendors, the Government was to pay the vendor for support and maintenance, standardization of the system and provision of payment gateway services.

Subsequently, on 5 November, 2024, a Novation Agreement was executed involving the Ministry of Interior and National Administration, the Consortium and a new entity. Total payments as at 30 June, 2025 amounted to Kshs.1,137,712,306 paid to the new entity

out of which Kshs.402,035,542 was paid for services rendered between July to October, 2024 before the signing of the Novation agreement in November, 2024.

In the circumstances, value for money on payment for maintenance and support of Kshs.402,035,542 made by the State Department of Immigration and Citizen Services for eCitizen platform could not be confirmed.

76. Irregular Collection of Convenience Fee

The statement of financial performance reflects receipts from Convenience Fees of Kshs.908,867,435 as disclosed in Note 21 to the revenue statements. As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, Convenience Fee was charged contrary to the Gazette Notice No. 9290 of 2014 dated 23 December, 2014 which required Nominal Administrative fees be charged per transaction and which was to be a prorated percentage of the amounts paid. Instead, the Convenience Fees was charged at Ksh.50 or USD.1 per transaction contrary to the Gazette Notice.

Further, levying a standardized Convenience Fee on low priced products and services whose cost is equal to or less than Kshs.50 or USD.1 make them uncompetitive in the market.

In the circumstances, Management was in breach of the Gazette Notice.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

77. Lack of Clarity on Governance Structure

The annual reports presented together with the revenue statements did not provide information on the key leadership and governance structure of eCitizen. The operations are implemented across three Government departments and agencies, including the Information Communication and Technology Authority, the Directorate of eCitizen Services under the Ministry of Interior and National Administration, and the Digital Government Payments Unit within The National Treasury. Further, eCitizen operates under two committees namely; the Implementation Committee and the Technical Committee. However, in absence of minutes, guidelines and other records the framework under which the two committees operate, their composition, their tenure, and their respective terms of reference could not be confirmed. Further, as reported in the Special Audit Report of the Auditor General on Government Digital Payments Platform (eCitizen) issued in March, 2025 there was no oversight body created or mandated to co-ordinate the Government Departments and provide strategic leadership. Lack of clear governance structure exposes eCitizen Platform to risks of misalignment in responsibilities, system failures, data breaches and compliance.

In the circumstances, the effectiveness of internal controls, risk management and governance could not be confirmed.

78. Lack of Approved Standard Operating Procedures

As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, Management lacked documented Standard Operating Procedures (SOPs) to govern the daily operations of the eCitizen platform. The key business processes that lacked standardized procedures include user access management, onboarding of services, collection and settlement of revenue collected and reconciliations. Further, despite the vendor being heavily involved in the revenue collection process, clear roles and responsibilities for both vendor and government are not outlined to ensure accountability and oversight of operational activities. Management explained that it is working on draft regulations to guide the system operations.

In the circumstances, the effectiveness of Management operations and control over the system could not be confirmed.

79. Unjustified Operations of Two Pesaflow Systems

As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, the system operations had two (2) payment platforms (Pesaflow systems) processing eCitizen invoices and payments. The second platform was reportedly introduced to enhance capacity following the government directive to consolidate all collections under a single Paybill number (222222) and services onboarded on the platform. Further, evidence of future plans for system integration, ownership details of the new platform, or cost implications of operating both systems concurrently was not provided for audit. Inconsistencies were noted, where MDAs appear under different names across the two systems, creating confusion in reconciliation and reporting.

In addition, there was no indication of the existence of dashboard capabilities that would allow real-time monitoring of all revenues collected during the year at any given time, or the generation of comprehensive reports for management review synchronizing the two parallel systems. The absence of such monitoring tools limits transparency, oversight, and timely decision-making in revenue management.

In the circumstances, the effectiveness of Management operations over the two systems could not be confirmed.

80. Control of the Platform

As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, although the system was handed over to the Government in August, 2017, the Government Digital Payments Unit did not have full control of the system and significantly relied on the vendor for some critical functions. Over reliance on the vendor makes it difficult for the Unit to perform critical system configurations, changes to support growth and creates a single point of failure.

In the circumstances, the effectiveness of Management control over the operations of the eCitizen platform could not be confirmed.

81. Failure to Carry Out Internal Audits

During the year under review, the Department was not subjected to internal audit by the Internal Auditor-General's Department of The National Treasury as required by Section 73 (3) of the Public Finance Management Act, 2012 which requires the Department to ensure its arrangements for conducting internal audit including review of the governance mechanisms of the entity; mechanisms for transparency and accountability with regard to the finances and assets of the entity and strengthening internal controls that could have an impact on achievement of the strategic objectives of the entity.

In the circumstances, the effectiveness of governance mechanism and assurance of internal controls could not be confirmed.

82. Lack of Efficient Help Desk Mechanisms for Incident Management

As reported in the Special Audit Report of the Auditor-General on Government Digital Payments Platform (eCitizen) issued in March, 2025, the Platform lacked an established and structured Helpdesk System to address the reported system incidents. The lack of a helpdesk makes it difficult to track reported incidents and determine whether the issues were resolved, resulting in prolonged unresolved incidents, delays in service delivery leading to clients' frustrations. This was compounded by the fact that payments are at every service point and citizens may be denied services due to unresolved issues in the process/service point.

In the circumstances, the effectiveness of Management address to incidents related to the eCitizen platform could not be confirmed

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

83. Lack of Ledgers

The statement of outstanding obligations guaranteed by Government for the financial year ended 30 June, 2025 was prepared and submitted for audit review. However, the Trial Balance presented to support the financial statements did not have the constituent ledger balances and respective books of original entry. This was contrary to Section 68(2)(b) of the Public Finance Management Act, 2012 which requires the entity to ensure that they keep financial and accounting records that comply with the Act.

In the circumstances, the accuracy and completeness of balances in the financial statements could not be confirmed.

84. Failure to Present Adequate Write-off Supporting Documents

The statement of financial performance and Note 9 to the financial statements reflects Kshs.152,317,825 in respect to write-off of impaired receivables. Authority for this write-off was issued by the Cabinet Secretary - The National Treasury and Economic Planning vide memo referenced MOF/AC/305C VOL.2(255) dated 13 August, 2025 and disclosed as an event after the reporting period in Note 13 to the financial statements. However, the process of write-off of the impaired receivables has not been completed.

Section 69 of the Public Finance Management Act, 2012 and Regulation 204(e) to(f) of the Public Finance Management (National Government) Regulations, 2015 provides that the approval of loan guarantee includes; a loan guarantee request by the entity to The National Treasury, submission of a Sessional Paper to Parliament by the Cabinet Secretary to The National Treasury with recommendations seeking its approval, communication by The Cabinet Secretary on the decision of Parliament on the draft loan guarantee to the respective Chief Executive Officer and Upon approval by Parliament the Cabinet Secretary to The National Treasury to issue a loan guarantee. In the same manner, in order to write off the loan guarantee from the books of account, a Sessional Paper should be submitted to Parliament by the Cabinet Secretary to The National Treasury with recommendations seeking approval for the write off. No supporting documents were provided to show parliamentary approval for the write-off.

85. Unsupported Balances

The statement of financial position as disclosed in Note 9 reflects prior year accounts receivables balance of Kshs.152,317,825. However, the balances were not supported by debtor's ledger, debtor aging analysis, demand notices from The National Treasury to the Corporation and responses from the Corporation to confirm the existence of the accounts receivables balance.

In the circumstances, the existence of the accounts receivables balance of Kshs.152,317,825 could not be confirmed.

86. Undisclosed Balances

The statement of outstanding obligations guaranteed by the Government of Kenya does not include guaranteed debts/undischarged guarantee from three (3) entities totalling Kshs.83,240,665,430 which is reflected in the summary statement of Public Debt (Debt Stock) for the year ended 30 June, 2025 as indicated below:

		Guaranteed Debt (Kshs.)	
Entity	**Lender**	**FY 2024/2025**	**FY 2023/2024**
Kenya Airways	MTC Trust & Corporate Services Limited (Security Agent for local Banks)	9,689,613,651	29,139,206,543

		Guaranteed Debt (Kshs.)	
Entity	**Lender**	**FY 2024/2025**	**FY 2023/2024**
Kenya Ports Authority	Government of Japan	72,759,742,079	69,576,613,693
Kenya Electricity Generating Company PLC	Government of Federal Republic of Germany-GTZ	791,309,700	1,449,204,532
Total		**83,240,665,430**	**100,165,024,768**

In the circumstances, the accuracy and completeness of the balances in the financial statements could not be confirmed.

87. Non-Preparation of Quarterly Financial Reports

Audit review established that the Public Debt Management Office (PDMO) did not prepare and submit quarterly reports on outstanding obligations guaranteed by Government to the Cabinet Secretary, for the financial year 2024/2025. This was contrary to Section 83 of the Public Finance Management Act, 2012, which requires an Accounting Officer for a national government entity to prepare a report for each quarter of the financial year in respect of the entity. This is also in breach of The National Treasury's Circular No.13/2024, dated 03 October, 2024 which gives guidance on new annual and quarterly accrual based financial reporting templates for National and County Government entities as prescribed by the Public Sector Accounting Standards Board vide Gazette Notice No. 11033 of 30 August, 2024 on the transition from cash to accrual basis of accounting.

In the circumstances, Management was in breach of law.

88. Unresolved Prior Year Matters

In the audit report for the previous year, several issues were raised under the Report on Financial Statements. However, Management had not resolved the issues as at 30 June, 2025.

Other Information

89. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

90. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

91. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit conclusion.

CONSOLIDATED FUND SERVICES – SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

92. There were no material issues noted during the audit of the financial statements of Consolidated Fund Services – Salaries, Allowances and Miscellaneous.

Emphasis of Matter

93. Payment of Guaranteed Loan in Respect of Domestic Borrowing by Kenya Airways Limited

The statement of financial performance reflects transfers to other Government entities-local banks of Kshs.19,685,136,690 as disclosed in Note 8 to the financial statements. Review of supporting documents indicate that the payment was in respect of a guaranteed Kenya Airways Limited loan with local Banks (Consenting Banks).

Kenya Airways Limited defaulted on the guaranteed debt of USD 225 million (Equivalent of Kshs.22.84 billion), which was partially called up via a demand notice dated 15 August, 2024. The partial call ups comprised Standby Letters of Credit (SBLCs) invoked by Kenya Airways Limited lessors and suppliers amounting to USD 107.7 million between May 2022 and September 2024, and loans due to the local banks amounting to USD 42.23 million in December 2024, bringing the total to USD 149.99 million (Equivalent of Kshs.19.68 billion). The Government settled these obligations in January 2025.

The continued repayment of Kenya Airways Limited loans by the Government is contrary to Section 58(2)(b) to (d) of the Public Finance Management Act, 2012 which provides that the Cabinet Secretary shall not guarantee a loan under subsection (1) unless the borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it. In the case of a private borrower, there needs to be sufficient security for the loan. In addition, the financial position of the borrower over the medium term should be likely to be satisfactory.

In the circumstances, the loans guaranteed and repaid did not meet the thresholds provided.

My opinion is not modified in respect of this matter.

Other Matter

94. Unresolved Prior Year Matter

In the audit report for the previous year, one issue on repayment of principal and interest cost in respect of domestic and foreign borrowing by Kenya Airways Limited was raised under Emphasis of Matter. However, Management had not resolved the issue as at 30 June, 2025.

Other Information

95. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

96. Non-Compliance with the One-third Rule on Payment of Salary

Review of the Consolidated Fund Services payroll revealed that fifteen (15) State Officers were paid net salaries that were below a third of their respective basic salaries. This was contrary to the provisions of Section 19(3) of the Employment Act, 2007, which prohibits employers from deducting from the salaries of employees amounts that exceed two-thirds (2/3) of the wages of the employees.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

97. There were no material issues relating to effectiveness of internal controls, risk management and governance.

CONSOLIDATED FUND SERVICES – PENSIONS AND GRATUITIES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

98. Long Outstanding and Unresolved Fraudulent Payments

The statement of financial position reflects a cash and cash equivalents balance of Kshs.7,948,758,378, as disclosed in Note 9 of the financial statements. However, review of the June, 2025 bank reconciliation statement provided for audit revealed an amount of Kshs.15,640,107 in respect to payments in bank not in cash book which upon analysis revealed that the amount had been outstanding since 2008. Further, as previously reported, an amount of Kshs.14,891,205 was attributed to fraudulent payments which were investigated and after the due process was completed, the amount was categorized as a loss and a loss report was prepared and submitted to The National Treasury. Although management reported to have expedited the process of obtaining approval to write off this amount, the process had not been completed and the amount remained outstanding as at 30 June, 2025.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.7,948,758,378 could not be confirmed.

99. Long Outstanding and Unsupported Accounts Payable Balance

As previously reported, the statement of financial position reflects a payables balance of Kshs.12,985,397,296 which, as disclosed in Note 11 to the financial statements, relates to returned pensions (re-credited cheques) for beneficiaries whose accounts experienced failed credits. The audit revealed that the returned pensions amount has been increasing over the years (FY 2023/2024 – Kshs.7,109,779,106, FY 2022/2023 – Kshs.6,715,563,752).

Although Management had committed to implement a comprehensive action plan to resolve the outstanding balance, including the identification of beneficiaries or their dependents for unclaimed amounts, the balance continues to increase. Notably, the balance rose by 82% from the prior year's balance of Kshs.7,109,779,106. This trend raises concerns regarding the adequacy of follow-up mechanisms, the accuracy of pensioner payment details and the timeliness of reconciliation processes for failed transactions. Further, out of the balance of Kshs.12,985,397,296, a balance of Kshs.8,897,341,197 had the name and pension number indicated as various and was therefore not supported.

Further, the re-credited funds were not available in the bank accounts to pay the returned pensions in the event of claim by the beneficiaries. The aging analysis of the balance is as follows:

Category	Balance as at 30 June, 2025 (Kshs.)	% of the Total	Balance as at 30 June, 2024 (Kshs.)	% of the Total
Below 1 year	5,875,618,190	45%	418,364,502	6%
Between 1–3 years	1,098,413,098		1,939,143,921	27%
Between 4–5 years	1,833,496,312	14%	1,060,450,154	15%
Above 5 years	4,177,869,696	32%	3,691,820,529	52%
Total	**12,985,397,296**	**100%**	**7,109,779,106**	**100%**

In the circumstances the accuracy and completeness of the payables balance of Kshs.12,985,397,296 could not be confirmed.

100. Failure to Disclose Provision for Actuarial Present Value of Promised Retirement Benefits

The statement of financial position reflects a nil balance for the provision relating to the actuarial present value of promised retirement benefits. The revised financial reporting template issued by the Public Sector Accounting Standards Board (PSASB) requires pension schemes to disclose this liability in line with the requirements of IPSAS 49 for Defined Benefit Schemes. The omission means the financial statements do not present the scheme's long-term obligations, reducing transparency and compliance with the prescribed reporting framework.

In the circumstances, the accuracy and completeness of the nil balance in respect of the provision for actuarial present value of promised retirement benefits could not be confirmed.

Other Information

101. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

102. Payments to Dependents for More than Five Years

Analysis of the dependants' payroll data revealed that nine (9) widows continued to receive deceased pensioners' benefits beyond the stipulated five-year period, amounting to Kshs.2,093,448 during the year under review. This was contrary to Section 17(1)(a) of the Pensions Act, Cap 189 which provides that a widow's pension shall be payable for a period not exceeding five years from the date it becomes due, unless otherwise provided by the Act. Although Management indicated that the payments had ceased and recovery of overpaid amounts initiated, no evidence to that effect was provided for review.

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

103. Delay in Payment of Lumpsum and Monthly Arrears

Review of pension lumpsum and arrears data revealed that seventeen (17) pensioners had not been paid, twelve (12) months after retirement, contrary to The National Treasury Service Charter, which requires all payments to be settled within ninety (90) days upon the claim being received. The total amount due as at the time of the audit was Kshs.31,094,710, indicating a systemic failure in the timely disbursement of pensioners benefits.

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

104. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, the Pensions Department failed to prepare and submit quarterly financial reports as required by Section 83(1) to (3) of the Public Finance Management Act, 2012 which provides that an accounting officer for a national government entity shall prepare a report for each quarter of the financial year in respect of the entity and not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and the National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

105. Incomplete Pension Records

Review of the pension management system and analysis of the pension data revealed several data integrity issues as detailed below;

i. There were four thousand eight hundred and forty-three (4,843) pensioners in the main payroll for December, 2024 with either invalid or missing tax PINs in the system.

ii. The pension enrolment data contained seven (7) records with either incomplete or future dates of enrolment.

iii. There were four thousand, eight hundred and forty-seven (4,847) pensioners in the main payroll whose date of birth was identical to their enrolment or end-of-service date.

iv. There were forty thousand, one hundred and forty (40,140) pensioners in the month of June, 2025 who had invalid ID numbers.

v. There were two thousand, nine hundred and twelve (2,912) deceased principal pensioners who had their names captured as "DUMMY".

vi. There were two thousand, three hundred and eighty-six (2,386) instances where the pensioners' names were identical to the dependents' names.

vii. The audit revealed seventy-three thousand, one hundred and fifty-three (73,153) instances where the death date was set to null (blank) in the pension system.

In the circumstances, the credibility and integrity of the pensioners' data used for processing pension payments could not be confirmed.

106. Inadequate Staffing

Review of the approved staff establishment for the Pensions Department revealed that the Department had technical staff authorized establishment of four hundred and eighty-two (482) personnel against the in-post of one hundred and sixty (160) personnel leading to shortage of three hundred and twenty-two (322) staff. The Department continues to experience shortage of technical staff across a number of cadres. Although Management indicated that engagements were ongoing with the Public Service Commission and The National Treasury's Human Resource Department, this situation had not been resolved as at the time of the audit.

In the circumstances, the current staffing gaps pose a significant risk to the achievement of the Department's strategic objectives and the quality of service provided to the public.

REVENUE STATEMENTS OF THE PENSIONS DEPARTMENT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

107. There were no material issues noted during the audit of the revenue financial statements of Pensions Department of The National Treasury.

Other Information

108. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

109. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

110. Failure to Identify Non-Remittance Risk

As previously reported, the statement of financial performance reflects an amount of Kshs.420,478,558 in respect of receipts which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.101,196,103 in respect of 31% Contribution remitted by Parastatals and other Semi-Autonomous Government Agencies on behalf of civil servants on secondment from Ministries and Departments. However, review of the processes revealed that there is a potential risk associated with unremitted contributions because the Department does not have a system of identifying officers on secondment and therefore follow up on payments of contributions from the organizations where they have been seconded. Management did not provide any mitigation strategies against the risk.

In the circumstances, there is a risk of loss of public funds where officers who have been on secondment receive their full pension before recovery of the 31% contribution.

DONOR FUNDED PROJECTS

INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS PROJECT - IDA CREDIT NO. 5157 - KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

111. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

112. Unresolved Prior Year Matters

In the prior year's audit report, 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. Review of the status during audit of the Project's financial statements for 2024/2025 financial year revealed that the following six (6) issues remained unresolved;

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Use of Expired Access to Government Procurement Opportunities (AGPO) Certificate
3.	Irregularities in Contract for Consultancy to Provide Transaction Advisory Services for the Development, Operation and Maintenance of Nairobi Nakuru Mau Summit Highway Project
4.	Irregularities In Hiring of New Staff
5.	Expenditure Without Workplan
6.	Weaknesses In the Management of Imprest for Daily Subsistence Allowance

Other Information

113. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

114. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

115. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

116. As required by International Development Association (IDA) Credit Agreement No.5157 – KE, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as it appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS - ADDITIONAL FINANCING (IDA CREDIT NO. 6121- KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

117. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

118. Unresolved Prior Years Audit Matters

In the prior year's audit reports, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public resources respectively. Review of the status during audit of the Project's financial statements for 2024/2025 financial year revealed that the following five (5) issues remained unresolved:

No.	Audit Issues
1.	Budgetary Control and Performance
2.	To Increase Private Investment in PPP Projects for Provision of Public Goods to Kenyans
3.	Promote Program Monitoring and Learning Practices for Improved Delivery of PPP Services
4.	To Increase and Sustain Resources for the PPP Program
5.	To Enhance Visibility of the PPP Program

Other Information

119. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

120. Project Implementation

The project duration was seven years from 21 December, 2017 to 30 June, 2024. Even though the project was given a three months extension which lapsed on 30 September, 2024, the project had not achieved all its objectives as revealed in a performance audit of effectiveness of the legal and institutional frameworks in the management of Public Private Partnerships which covered the period 2013 to 2025.The observations made include;

120.1. Failure to Develop Sector Specific Regulations and Guidelines

Documentary review and interviews revealed that the Directorate of Public Private Partnerships had not developed sector specific regulations and guidelines in the implementation of Public Private Partnership (PPP) projects. Although Management stated that they participated in the development of various sector specific policies and legislations including; Public Finance Management (National Toll Fund Regulation), Water Amendments Bill No.33 of 2023 and Amendments on VAT Act to improve uptake of PPPs, no evidence was presented for audit review. This was contrary to Section 2(c) of Part A of the Credit agreement on Institutional Support and Regulatory Reforms which required The National Treasury to carry out reviews and develop sector specific policies and legislations to help in the creation of an improved and enabling environment to generate a pipeline of bankable PPP projects.

Lack of sector specific regulation and guidelines may result in inconsistent project development and implementation.

120.2. Inadequate Awareness of PPP Activities in the County Governments

The audit established that there was inadequate awareness of Public Private Partnerships activities in the County Governments since fifteen (15) or 94% of County Governments sampled had not attended any capacity building activities, public awareness campaigns and investment conferences on PPPs. This was contrary to the Financing Agreement-Credit No. 6121-KE under project description on support to institutional strengthening (Schedule E, Section b) which provided for capacity building activities and the carrying out of public awareness campaigns, workshops and hosting of investment conferences.

Further, it was noted that although Management indicated that they had trained a number of officers from Counties, the rate of retention of the staff was low. In addition, while the management stated that they refocused to training institutions and not individuals, they

did not provide the list of institutions trained. In addition, it was established that only three (3) or 19% of the county governments sampled had PPP projects at different stages.

Inadequate awareness may lead to underutilization of Public Private Partnerships for delivery of projects that benefit the citizens.

120.3. Inadequate Capacity Building for Contracting Authorities

Review of documents revealed that there were inadequacies in capacity building of Contracting Authorities' staff at both the National and County Government levels. Although, Management indicated that they had capacity built fifty (50) staff from Ministries, Departments and Agencies through a Public Private Partnerships Certification course and trained thirty (30) Counties in PPP project appraisal, there was no evidence presented for audit review. Additionally, it was established that there was no evidence of PPP curriculum or study materials developed or provided to County Government officials for training purposes and public awareness campaigns, workshops, or investment conferences related to PPPs being carried out in the Counties. These were contrary to Schedule 1, Part 1(b)(i) to (iii) of the Financing Agreement (Additional Financing for the Infrastructure Finance and Public Private Partnerships Project) between the Republic of Kenya and the International Development Association, 2017 on support to capacity building activities.

Inadequate skills and capacities to develop and implement sustainable Public Private Partnership projects may deny contracting authorities the benefits of Public Private Partnerships projects that will in turn benefit the citizens.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

121. Failure to Tag Project Assets

Annex 3 to the financial statements on fixed assets register reflects assets amounting to Kshs.26,080,160 that were held and owned by the project. However, by the project closure date of 30 September, 2025, the assets had not been handed over to the Accounting Officer, State Department for Public Investments and Assets Management. Despite Management explanation that the Infrastructure Finance and Public Private Partnerships 1 and 2 projects were implemented by the Public Private Partnerships Directorate (PIUs) staff who are directly answerable to the Accounting Officer the National Treasury, the assets were not tagged to reflect that they were procured from the proceeds of the project. This was contrary to Regulation 74(6)(b) and (c) of the Public Finance Management (National Government) Regulations, 2015 which requires Accounting Officer to ensure that whenever projects are completed, the project assets including buildings, plants vehicles, furniture, fittings and equipment are properly recorded and handed over to the Accounting Officer in accordance with the Financing Agreement and where no timeframe is provided for the project, the Accounting Officer should ensure that the assets are handed over within three months from the date of closure of the project.

In the circumstances, the internal controls over the management of the projects' assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

122. As required by International Development Authority (IDA) Credit No.6121-KE Financing Agreement, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as it appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM (CREDIT NOS. DANIDA/FY06, SIDA 51110081, IDA GESDeK-7438-KE, AFD/CKE 1130, PASEDE CRIS NO:041-658 AND UNICEF CPD KENYA)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

123. There were no material issues noted during the audit of the financial statements of the Program.

Emphasis of Matter

124. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget of Kshs.564,408,775 and actual revenue of Kshs.439,040,243, resulting to an under-funding of Kshs.125,368,532 or 22% of the budget. Similarly, the Program spent an amount of Kshs.457,572,486 against actual revenue of Kshs.439,040,243 resulting to an under-performance of Kshs.18,532,243 of the actual revenue.

The under-funding and under-performance affected implementation of the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

125. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

126. Long Outstanding Gratuity

The statement of financial position reflects a balance of Kshs.29,527,983 in respect of gratuity as disclosed in Note 25 to the financial statements. Management explained that the Program has been unable to fully settle the gratuity due to employees as a result of inadequate resources in the gratuity budget line. Management did not explain how the gratuity though budgeted and funds received in the respective years remained unpaid to date. This was contrary to Section 68(2)(d) of the Public Finance Management Act, 2012 which requires accounting officers to ensure that all contracts entered into by an entity are lawful and are complied with.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

127. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

128. As required by DANIDA/FY06, SIDA 51110081, GESDeK-7438-KE, AFD/CKE 1130, PASEDE CRIS NO: 041-658 and UNICEF CPD KENYA Agreements, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and, the Project's financial statements are in agreement with the accounting records and returns.

MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT (CREDIT NO. CKE 3004 01E AND CKE 6010 01E)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

129. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

130. Unresolved Prior Year Issues

In the audit report of the previous year, an issue on failure to close the Project was raised under the Report on Lawfulness and Effectiveness in the Use of Public Resources, which was unresolved as at 30 June, 2025.

Other Information

131. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

132. Failure to Close the Project

According to Clause 10 of the Financing Agreement, the Project was to end on 31 October, 2010 which was later extended to 31 December, 2014. However, and as previously reported, the Project closure report was not submitted for audit. Although Management indicated that Agence Francaise de Development (AFD) issued a No Objection for transfer of the Project's surplus funds to the Rural Kenya Finance Inclusion Facility (RK FINFA), also funded by AFD, the transfer process was not completed to enable formal closure of the Project. No explanation was provided on why it has taken over ten (10) years to conclude the process of closing the dormant Project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

133. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

134. As required by the credit Facility Agreement No.CKE3004 01E and Finance Agreement No.6010 01E between the Republic of Kenya and the Agence Francaise de Development (AFD) I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

FINANCING LOCALLY-LED CLIMATE ACTION PROGRAM (LOAN NO. BMZ-NO. 2016 65 108/2018 65 138)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

135. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

136. Amount Withdrawn but Not Claimed

Part B of the statements of Special (designated) reconciliation for account no. 1000658959 and 1000738413 for the Program reflects EUR 1,067,606.99 (Kshs.154,938,920) and EUR 9,600,000.00 (Kshs.1,393,222,080) respectively as withdrawn but unclaimed as at 30 June, 2025. This represents cumulative funds' transfers to the local Program bank account but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

137. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.550,000,000 and Kshs.425,423,068 respectively resulting to an under-funding of Kshs.124,576,932 or 23% of the budget. Similarly, the Program spent an amount of Kshs.291,007,804 against actual receipts of Kshs.425,423,068 resulting to an under-utilization of Kshs.134,415,264 or 32% of the actual receipts.

In the circumstances, the under-funding and under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

138. Delayed Disbursement of County Funds

Review of the annual performance assessment report revealed that an amount of Kshs.1,200,000,000 ought to have been disbursed to Counties as transfers to other Government entities during the year under review. However, as reflected in the statement of financial performance, only Kshs.203,938,051 was transferred to Counties, leaving an amount of Kshs.996,061,949 or 83% of the approved allocation undisbursed.

In the circumstances, delays in funds disbursement to counties may have negatively affected the implementation of Counties' workplans.

My opinion is not modified in respect of these matters.

Other Matter

139. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during the audit of the 2024/2025 financial year revealed that issues on unaccounted transfers to other government entities, budgetary control and performance, delayed disbursement of funds and irregular advance payment for training remained unresolved.

Other Information

140. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

141. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

142. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

143. As required by the Loan Agreement No. BMZ-No. 2016 65 108 / 2018 65 138 between the Republic of Kenya and the KfW, Frankfurt am Main dated 22 December, 2022, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

FINANCING LOCALLY-LED CLIMATE ACTION PROGRAM (PROJECT NO. P173065; IDA CREDIT NO.6980-KE; GRANT NO. TF0B6810-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

144. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

145. Amount Withdrawn but Not Claimed

Part B of the statement of Special (Designated) Account No 1000581727 reconciliation for the Program reflects USD 2,724,442.30 (Kshs.351,597,997) as withdrawn but unclaimed as at 30 June, 2025. This represents cumulative funds' transfers to the local Program bank account but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

146. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final total receipts budget of Kshs.2,053,000,098 against actual receipts of Kshs.1,577,431,835 resulting in an under-funding of Kshs.475,568,264 or 23% of the budget. However, the Program spent an amount of Kshs.1,577,003,969 against actual receipts of Kshs.1,577,431,835 resulting in an under-utilization of Kshs.427,866 of the total receipts.

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

147. Delayed Disbursement of County Funds

Review of the annual performance assessment rationalized in the approved County Governments Additional Allocations Act, 2024 revealed that an amount of Kshs.3,712,000,000 ought to have been disbursed to Counties as transfers to other Government entities during the year under review. However, as reflected in the statement of financial performance, only Kshs.561,615,777 was transferred to Counties, leaving an amount of Kshs.3,150,384,223 or 85% of the approved allocation undisbursed.

In the circumstances, delay in funds disbursement to counties may have negatively affected the implementation of Counties' workplans.

My opinion is not modified in respect of these matters.

Other Matter

148. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the 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. Review of the status during the audit of 2024/2025 financial year revealed that the following twelve (12) issues remained unresolved.

No.	Observation
1.	Variances in the Cumulative Purchase of Goods and Services
2.	Unaccounted for Transfers to Other Government Entities

No.	Observation
3.	Overstatement of the Expenditure
4.	Unsupported Expenditure
5.	Budgetary Control and Performance
6.	Non-Compliance with Financial Reporting Requirements
7.	Lack of Updated Staff Establishment and Remuneration Structure Conversion
8.	Non-Payment of Top Up for Deployed and Seconded Employees
9.	Irregularities in Human Capital
10.	Un-Refunded AIEs
11.	Irregular Payment of Staff Gratuity
12.	Slow Implementation of the IPF Activities

Other Information

149. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

150. Long Outstanding Payables

The statement of financial position and as disclosed in Note 23 to the financial statements reflects trade and other payables balance of Kshs.195,933,369 which includes an amount of Kshs.38,122,778 that has been outstanding for more than two (2) years. This was contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015 which requires that an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract(s) are reflected in approved budget estimates.

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

151. Non-Adherence with Affirmative Action on Persons Living with Disability

Review of the human resource records revealed that the Program had twenty-eight (28) employees during the year under review. However, none of the employees were identified as persons living with disabilities (PWDs). This was contrary to Section 4(f) of the Persons with Disabilities Act, 2025 which requires national government to promote the inclusion and integration of persons with disabilities in the public service putting measures in place that ensure that at least five per centum (5%) of the employment positions are filled by persons with disabilities.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

152. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

153. As required by the International Development Association (IDA) and Credit Facility Agreement No. IDA 6980-KE dated 10 November, 2021, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

PUBLIC DEBT MANAGEMENT SUPPORT PROJECT (ADB GRANT AGREEMENT NO.5500155013708)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

154. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

155. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts budget and actual on a comparable basis of Kshs.109,479,327 and Kshs.80,192,004 respectively, resulting to an under-funding of Kshs.29,287,323 or 27% of the budget. Similarly, the project incurred an expenditure of Kshs.57,137,967 against a total receipts of Kshs.80,192,004 resulting to underutilization of Kshs.23,054,037 or 29% of the total receipts.

The under-funding and under-expenditure affected the planned activities, specifically training and benchmarking which may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

156. Unresolved Prior Year Matters

In the report of the previous year, three issues on inaccuracies in the presentation and disclosure of financial statements, amount withdrawn and not claimed and delay in procurement of the supply configuration and implementation of electronic document management system raised under Report on Lawfulness and Effectiveness in Use of Public Resources remained unresolved as at 30 June, 2025.

Other Information

157. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

158. Low Absorption of Project Funds

On 15 September, 2020, the Republic of Kenya entered into a tripartite agreement with the African Development Bank and African Development Fund, an agreement in which the Republic of Kenya was to receive a grant totalling USD 1,120,000 (Kshs.144,742,416) with the Government of Kenya committing Kshs.30,000,000. The grant was to strengthen the capacity of the Public Debt Management Office in public debt management to ensure transparent, accountable and effective management of public debt and borrowing. The initial closing date for the project was 31 May, 2022, after which an extension was granted by the Bank to 30 November, 2025 vide a letter by the Bank dated 6 March, 2025. As at 30 June, 2025, the project had drawn a total of USD 864,849 equivalent to Kshs.106,465,846 representing an absorption rate of 77% of the total grant. With about 92% of the project duration having elapsed and absorption of the grant at 77%, the project objectives may not be achieved within the set project end date of 30 November, 2025.

In the circumstances, the effectiveness and impact of the grant by African Development Bank and African Development Fund could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

159. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

160. As required by Grant Agreement No. 5500155013708 between the Republic of Kenya, African Development Bank and the African Development Fund, dated 23 September, 2020, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND - TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE (GRANT AGREEMENT NO. KEN-H-TNT-2065)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

161. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

162. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual receipts on comparable basis of Kshs.6,143,272,199 and Kshs.5,554,598,810, respectively resulting to an under collection by Kshs.660,400,061 or 11% of the budget. Similarly, the statement reflects actual expenditure of Kshs.5,518,735,474, against actual receipts of Kshs.5,554,593,810 resulting to an under-utilization of Kshs.35,863,336.

The under collection and under performance may have impacted negatively on service delivery to the public.

163. Inadequate Counterpart Funding

The Government of Kenya (GoK) counterpart financing commitment for the entire Project period totalled Kshs.3,286,924,944 out of which Kshs.2,820,571,623 had been received as at 30 June, 2025 resulting in a cumulative underfunding of Kshs.466,353,321 or 14% of the GoK's total financing commitment.

The inadequate counterpart funding may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

164. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

165. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports for the Project and submit them to the Cabinet Secretary and to The National Treasury contrary to Section 83(1) to (3) of the Public Finance Management Act, 2012 which requires that not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

166. Delay in Distribution and Expiry of Drugs in Store

Drugs procured by the Kenya Medical Supplies Authority (KEMSA) under the Project's Grant were found to have expired in the Authority's stores due to delayed distribution and low uptake/demand for the drugs.

In the circumstances, the effectiveness of internal controls over inventory management could not be confirmed.

167. Unreliable Enterprise Resource Planning System

The Global Fund Project procured an Enterprise Resource Planning (ERP) system in the financial year 2021/2022 at an undisclosed cost. However, it was noted that the accounting module was not in use to help in maintaining accounting records as well as generating management and accounting reports.

In the circumstances, the effectiveness and efficiency of the ERP system could not be confirmed.

168. Failure to Conduct Internal Audits

Despite the National Treasury's Internal Audit Unit having an annual work plan that included the audit of Global Fund Projects, no audits were conducted on the Projects in the year under review. Management attributed this to inadequate capacity within the Internal Audit Unit.

In the circumstances, the lack of audit coverage on the Project represents a significant gap in internal oversight and assurance.

169. Lack of an Asset Register

During the year under review, Management did not maintain an asset register as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, existence of adequate controls over non-current assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

170. As required by Grant Agreement No. KEN-H-TNT-2065, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

AFFORDABLE HOUSING FINANCE PROJECT (IBRD CREDIT NO.8958-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

171. Unconfirmed Lending and Repayments

The International Bank for Reconstruction and Development (IBRD) entered into a loan agreement with the Republic of Kenya to lend an amount of two hundred nineteen million Euro (EUR 219,000,000), to finance expansion of access to affordable housing finance to targeted beneficiaries according to a Financing Agreement signed on 05 December, 2019 for the period up to 30 June, 2025. The loan was restructured by cancellation of EUR 45,000,000 in March 2024. The project consisted of two parts namely support to Kenya Mortgage Refinance Company (KMRC) component who are the principal lenders and technical assistance component which was to be provided by The National Treasury and the Ministry of Land and Physical Planning. Records provided for audit revealed that disbursements amounting to EUR 148,028,519 (Kshs.19,620,451,418) have been made to Kenya Mortgage Refinance Company (KMRC) as at 30 June, 2025 for on lending to beneficiaries.

Further, according to the Subsidiary Loan Agreement between the Government of Kenya and KMRC dated 26 February, 2020, the company was to repay the principal amount of the loan in forty (40) equal consecutive semi-annual installments on 30 March, and 30 September, each year commencing 30 March, 2024 and therefore the Company should have made three repayments by 30 June, 2025. However, the status of utilization of the Kshs.19,620,451,418 disbursed to KMRC that had been lent to beneficiaries and the Company's compliance with the terms of the loan's disbursement to beneficiaries and

repayment of the principal amount could not be confirmed. This is because the financial statements of KMRC are not audited by Auditor-General or delegated auditor appointed in line with Section 23 of the Public Audit Act, 2015. In addition, the amount disbursed to KMRC has not been reflected in the project financial statements.

In the circumstances, the accuracy and appropriate utilization of Kshs.19,620,451,418 disbursed to KMRC for project implementation could not be confirmed.

Emphasis of Matter

172. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipt budget and actual on a comparable basis of Kshs.94,312,000 and Kshs.72,692,639 respectively, resulting to an under-funding of Kshs.21,619,361 or 23% of the budget. Similarly, the project incurred an expenditure of Kshs.70,394,502 against actual receipts of Kshs.72,692,639 resulting to under expenditure of Kshs.2,298,137.

The under-funding and under expenditure affected the planned activities, specifically training and benchmarking which may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

173. Unresolved Prior Year Matters

In the report of the previous year, two issues on unconfirmed lending and repayment and unsupported expenditure on air travel were raised under Report on the Financial Statements but were unresolved as at 30 June, 2025.

Other Information

174. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

175. Low Absorption of Project Funds

On 5 December, 2019, the Cabinet Secretary, on behalf of the Republic of Kenya, entered into a loan agreement of EUR 219,000,000 with the International Bank for Reconstruction and Development, for implementation of Affordable Housing Finance Project. The loan agreement was subsequently amended on 5 February, 2024 and a further loan restructuring made on 29 May, 2024. The restructuring resulted to a cancellation of a loan amount of EUR 45,000,000 in respect of the loan. According to the loan agreement and the loan restructuring, The National Treasury, jointly with Ministry of Lands, Public

Works, Housing and Urban Development, were to implement part 2 of the project, which entailed technical assistance for the project. The technical support comprised of several activities involving; goods, consulting services, non-consulting services, training and incremental operating costs for part 2 of the project. The amount of loan allocated to the project component was EUR 4,800,000.

The project's overall performance information indicates that as at 30 June, 2025, EUR 1,214,698 (Kshs.177,736,067) had been drawn, out of EUR 4,800,000 (574,368,000) allocated to the project component, representing 25% of the funds. With the project having ended on 30 June, 2025, the remaining balance may not be utilized, unless the duration is extended.

In the circumstances, the effectiveness and impact of the loan granted by the International Bank for Reconstruction and Development could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

176. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

177. As required by Financing Agreement No. 8958 – KE between the Republic of Kenya and International Bank for Reconstruction and Development (IBRD) dated 5 December, 2019, I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

NATIONAL TREASURY CAPACITY STRENGTHENING PROJECT (GRANT NO.5500155013902 ID NO. P-KE-KOO-011)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

178. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

179. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Kshs.74,178,286 and Kshs.34,626,108 respectively resulting in underfunding of Kshs.39,552,178 or 53% of the budget. Similarly, the project spent Kshs.34,231,061 against actual receipts of Kshs.34,626,108 resulting in an under expenditure of Kshs.395,047.

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

My opinion is not modified in respect of this matter.

Other Information

180. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

181. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

182. Failure to Include Training Activities in the Annual Work Plan

Review of records revealed that Management conducted training activities during the year which were not included in the approved annual or quarterly training plan. The lack of a documented training plan for these activities made it difficult to assess their alignment with strategic objectives of the project. Further, there was no evidence of a Training Needs Analysis to determine which competencies or skills required to be developed.

In the absence of a documented training plan and Training Needs Analysis, the effectiveness of internal controls over training of staff could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

183. As required by the Financing Agreement between the Republic of Kenya and the African Development Bank, I report based on my audit, that 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. Further, adequate accounting records have

been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND – TO ENSURE PROVISION OF QUALITY CARE AND PREVENTION SERVICES FOR ALL PEOPLE IN KENYA WITH TB, LEPROSY AND LUNG DISEASES (GRANT AGREEMENT NO. KEN-T-TNT-4148)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

184. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

185. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budget and actual receipts of Kshs.775,269,152 and Kshs.1,573,382,252 respectively, resulting in excess receipts of Kshs.798,113,100 or 103% of the budget. Similarly, actual expenditure amounted to Kshs.1,508,146,326 against actual receipts of Kshs.1,573,382,252 resulting in an under expenditure of Kshs.732,877,174.

The excess receipts could be an indication of weaknesses in the budget process. Further, the under expenditure affected planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

186. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

187. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports for the Project and submit them to the Cabinet Secretary and to The National Treasury contrary to Section 83(1) to (3) of the Public Finance Management Act, 2012 which requires that not later than fifteen days after the end of each quarter, the accounting officer

shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

188. Weaknesses in the Management of Imprest

As previously reported, review of supporting schedules and payment vouchers on daily subsistence and training allowances revealed that eight (8) members of staff were paid amounts totalling Kshs.49,208,052 as daily subsistence and training allowances across the three Global Fund Program (Malaria TB and HIV) during the year under review. The cumulative amounts due to the staff could not be justified as it implied that the staff were out of their duty stations for a significant part of the year.

Although Management indicated that the eight officers were not the sole recipients of the allowances and that their names were used solely for imprest accounting purposes, this system is susceptible to abuse as the secondary recipients may not be liable for imprest issued to them through other officers. Further, there is no assurance that the imprest will be paid to the intended staff by the officers receiving the imprest on their behalf.

In the circumstances, the effectiveness of management control over imprest for daily subsistence and training allowances could not be confirmed.

189. Unreliable Enterprise Resource Planning System

The Global Fund Project procured an Enterprise Resource Planning (ERP) system in the financial year 2021/2022 at an undisclosed cost. However, it was noted that the accounting module was not in use to help in maintaining accounting records as well as generating management and accounting reports.

In the circumstances, the effectiveness and efficiency of the ERP system could not be confirmed.

190. Failure to Conduct Internal Audits

Despite the National Treasury's Internal Audit Unit having an annual work plan that included the audit of Global Fund Projects, no audits were conducted on the Projects during the year under review. Management attributed this to inadequate capacity within the Internal Audit Unit, resulting in an excessive workload for the available staff.

In the circumstances, the lack of audit coverage on the Project represents a significant gap in internal oversight and assurance.

191. Lack of an Asset Register

During the year under review, Management did not maintain an asset register as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, existence of adequate controls over non-current assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

192. As required by Grant Agreement No. KEN-T-TNT-4148, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND - TO ENSURE PROVISION OF QUALITY CARE AND PREVENTION SERVICES FOR ALL PEOPLE IN KENYA WITH TB, LEPROSY AND LUNG DISEASES (GRANT AGREEMENT NO. KEN-T-TNT-2067)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

193. There were no issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

194. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual receipts on comparable basis of Kshs.579,301,743 and Kshs.583,883,896, respectively resulting to excess receipts of Kshs.4,582,153 or 8% of the budget. Similarly, the statement reflects actual expenditure Kshs.545,074,861 against actual receipts of Kshs.583,883,896, resulting to an expenditure of Kshs.38,809,035 or 7% of actual receipts.

The under expenditure may have negatively impacted on service delivery to the public.

195. Slow Absorption of Grant Funds

The Project's funding summary reflects total grant commitment amount of USD 47,557,318 (Kshs.5,554,694,742) and cumulative amount received as at 30 June, 2025 of USD 9,821,485 (Kshs.1,260,122,091) leaving an undrawn balance of

USD 37,735,832 (Kshs.4,294,572,651) as at the close of the project. The undrawn funds represented 77% of the total donor commitment. Management attributed the under absorption to short shelf life of TB drugs, prolonged procurement processes and donor conditionalities.

The slow absorption of the grant funds may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

196. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

197. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports for the Project and submit them to the Cabinet Secretary and to The National Treasury contrary to Section 83(1) to (3) of the Public Finance Management Act, 2012 which requires that not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

198. Failure to Deploy Equipment

Audit verification at the Kenya Medical Supplies Agency (KEMSA) stores in August 2025 revealed that one hundred (100) heavy-duty barcode scanners and sixteen (16) label thermal printers, procured at Kshs.41,634,800 (to improve depot efficiency) were being held at the main store and had not been deployed. Additionally, the equipment lacked ownership tags from either KEMSA or the Global Fund.

In the circumstances, value for money in procurement of these items could not be confirmed.

199. Delayed Commissioning of Digital Weighing Machines

Review of documentation and physical verification at the KEMSA warehouse in August 2025, revealed that eight (8) digital weighing machines were procured for a total of USD 14,960 and were delivered to the warehouse as scheduled but had not been fully commissioned because the SAP system that was intended for integration was not yet operational.

In the circumstances, value for money in the procurement of the weighing machines could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

200. Unreliable Enterprise Resource Planning System

The Global Fund Project procured an Enterprise Resource Planning (ERP) system in the financial year 2021/2022 at an undisclosed cost. However, it was noted that the accounting module was not in use to help in maintaining accounting records as well as generating management and accounting reports.

In the circumstances, the effectiveness and efficiency of the ERP system could not be confirmed.

201. Failure to Conduct Internal Audits

Despite the National Treasury's Internal Audit Unit having an annual work plan that included the audit of Global Fund Projects, no audits were conducted on the Projects during the year under review. Management attributed this to inadequate capacity within the Internal Audit Unit, resulting in an excessive workload for the available staff.

In the circumstances, the lack of audit coverage on the Project represents a significant gap in internal oversight and assurance.

202. Lack of an Asset Register

During the year under review, Management did not maintain an asset register as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, existence of adequate controls over non-current assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

203. As required by Grant Agreement No. KEN-T-TNT-2067, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND – TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE (GRANT AGREEMENT NO. KEN-H-TNT- 4147) – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

204. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

205. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual receipts of Kshs.4,014,866,581 and Kshs.5,437,504,223 respectively resulting in excess receipts of Kshs.1,422,637,642 or 35% of the budget. Further, the statement reflects actual expenditure of Kshs.5,382,079,602 against actual receipts of Kshs.5,437,504,283 respectively resulting in an under-expenditure of Kshs.55,433,620.

In the circumstances, the excess receipts is an indication of possible weaknesses in the revenue budget process.

My opinion is not modified in respect of this matter.

Other Matter

206. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,658,197,411 as detailed in Note 16 to the financial statements. Analysis of the balance revealed that Kshs.1,547,626,779 had been outstanding for over a year. However, these balances did not form first charge for the year ended 30 June, 2025.

Other Information

207. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

208. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports for the Project and submit them to the Cabinet Secretary and to The National Treasury contrary to Section 83(1) to 83(3) of the Public Finance Management Act, 2012 which

requires that not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

209. Unprioritized Settlement of Payments - Kenya Medical Supplies Authority

The statement of financial performance reflects other capital grants and transfers amount of Kshs.198,400,000 which, as disclosed in Note 12 to the financial statements, are in respect of transfers to the Kenya Medical Supplies Authority (KEMSA). Review of records revealed that, the Project transferred the amount to KEMSA in the form of an AIE dated 15 January, 2025 for furnishing of KEMSA's warehouse and new offices. However, the Project had accumulated pending bills as at 30 June, 2025 of Kshs.1,658,197,411 out of which Kshs.1,558,649,887 was to be settled through GoK Counterpart Funding. In this context, the decision to allocate Kshs.198,400,000 to KEMSA, rather than addressing the Project's outstanding obligations, raises concerns about the prioritization of expenditures.

In the circumstances, the transaction does not demonstrate optimal use of public funds and may undermine the Project's ability to meet its primary obligations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

210. Weaknesses in the Management of Imprest for Daily Subsistence Allowance

As previously reported, review of supporting schedules and payment vouchers on daily subsistence and training allowances revealed that eight (8) members of staff were paid amounts totalling Kshs.49,208,052 across the three Global Fund Programs (Malaria, TB and HIV) as daily subsistence and training allowances during the period under review. The cumulative amounts due to the staff could not be justified as it implied that the staff were out of their duty stations for a significant part of the year.

Although Management indicated that the eight officers were not the sole recipients of the allowances and that their names were used solely for imprest accounting purposes, this system is susceptible to abuse as the secondary recipients may not be liable for imprest issued to them through other officers. Further, there is no assurance that the imprest will be paid to the intended staff by the officers receiving the imprest on their behalf.

In the circumstances, the effectiveness of management control over imprest for daily subsistence and training allowances could not be confirmed.

211. Unreliable Enterprise Resource Planning System

The Global Fund Project procured an Enterprise Resource Planning (ERP) system in the financial year 2021/2022 at an undisclosed cost. However, it was noted that the accounting module was not in use to help in maintaining accounting records as well as generating management and accounting reports.

In the circumstances, the effectiveness and efficiency of the ERP system could not be confirmed.

212. Failure to Conduct Internal Audits

Despite The National Treasury's Internal Audit Unit having an annual work plan that included the audit of Global Fund Projects, no audits were conducted on the Projects in the period under review. Management attributed this to inadequate capacity within the Internal Audit Unit.

In the circumstances, the lack of audit coverage on the Project represents a significant gap in internal oversight and assurance.

213. Lack of an Asset Register

During the period under review, Management did not maintain an asset register as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, existence of adequate controls over non-current assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

214. As required by Grant Agreement No. KEN-H-TNT-4147, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

RURAL KENYA FINANCIAL INCLUSION FACILITY (RK FINFA) (IFAD LOAN NO. 2000004121 AND IFAD LOAN NO. 2000004122)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

215. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

216. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual receipts of Kshs.650,000,000 and Kshs.650,262,267 resulting in excess receipt of Kshs.262,267. Further, the statement reflects total payments of Kshs.464,412,573

against total receipts of Kshs.650,262,267 resulting in an under expenditure of Kshs.185,849,694 or 29% of the actual receipts.

The under-utilization may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

217. Delay in Meeting Project Milestones

The Project is designed to boost rural financial inclusion and green investments through three main components: technical support, rural investment instruments and creating an enabling finance environment. The Project has a planned completion date of 30 June, 2028. Review of the project status report for the year ended 30 June, 2025 indicated that only 357 beneficiaries comprising of 339 farmers and 18 Micro, Small, and Medium Enterprises were onboarded against a combined target of 1,660 for the year under review. Cumulatively only 4,529 beneficiaries have been onboarded, representing 17% of the beneficiary target level of 26,400 set for the upcoming 2025/2026 mid-term review.

Consequently, it is not clear whether the Project will achieve its intended objectives within the scheduled timeframe given this low rate of onboarding target beneficiaries.

Other Information

218. There were no material issues noted relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

219. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

220. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SUPPORTING ACCESS TO FINANCE AND ENTERPRISE RECOVERY PROJECT (IDA CREDIT NO. 7018-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

221. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

222. Unresolved Prior Year Matters

In the report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during the audit of financial year 2024/2025 revealed that issues on budgetary control and performance, late remittance of statutory deductions, unbudgeted approved gratuity payable, failure to settle pending accounts payable and non-compliance with the provisions of the Financing Agreement were unresolved as at 30 June, 2025.

Other Information

223. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

224. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

225. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

226. As required by Financing Agreement No.7018-KE dated 8 February, 2022 between the Government of Kenya and the International Development Association, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

ADB AFRICA CLIMATE SUMMIT PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

227. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

228. Unresolved Prior Year Matters

In the report of the previous year, two issues on unsupported balance and accuracy and completeness of financial statements raised under Report on the Financial Statements remained unresolved as at 30 June, 2025.

Other Information

229. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

230. Low Absorption of Project Funds

The Republic of Kenya entered into a grant agreement with the African Development Bank for an amount of USD 3,000,000(Kshs.393,972,900) on 15 November, 2023. The grant was to be used for meeting the cost of eligible activities of the African Climate Summit held between 4 and 8 September, 2023 as detailed in annex 2 and development of adaptation compacts as detailed in annex 3 and 4 to the Grant Agreement. According to the Agreement, USD 2,500,000 was to be utilized in funding the summit activities while USD 500,000 was to be spent on the development of the adaptation compacts, which was to be done within one year, in 2024. Further, the Agreement provided under covenants clause and paragraph 5.3 on accountability of funds that, any unutilized amount shall be reimbursed to the Bank.

As at 30 June, 2025, only USD 37,500 of the USD 500,000 meant for development of the compact had been drawn, representing 7.5% of the funding. During the financial year under review, Kshs.2,758,400 was spent on inception workshop for the development of the adaptation compact. The Grant Agreement lapsed on 03 January, 2025, before the compact had been developed. Although Management indicated that it was committed to

following up on a no cost extension of the grant as well as repurposing of the unutilized balance of Kshs.62,896,854 (undrawn balance Kshs.60,737,489; bank balance Kshs.2,159,365), the same had not been realized as at the time of audit in October, 2025.

In the circumstances, value for money for the Kshs.2,758,400 spent on the development of the adaptation compacts, the effectiveness and impact of the grant from the African Development Bank and compliance with the Grant Agreement could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

231. Weak Internal Controls Over Imprest Management

The statement of financial performance reflects expenditure on use of goods and services of Kshs.2,758,400 as disclosed in Note 7 to the financial statements. The amount relates to domestic travel and subsistence allowance. Review of imprest records revealed that nine (9) staff did not surrender imprests issued to them within seven (7) days of the completion of the official activity as required by Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the effectiveness of management over issuance and surrender of imprests could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

232. As required by the Grant Agreement between the Republic of Kenya and African Development Bank dated 15 November, 2023, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

TECHNICAL SUPPORT TO THE FRENCH DESK AT THE NATIONAL TREASURY (PROJECT GRANT NO. AFD CKE 1204 01E)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

233. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

234. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

235. Lack of Evidence of Progress Reports

Review of project implementation and documentation revealed that for the twenty-one (21) months period the project had been in operation, there was no evidence of any activity having taken place as the Management did not submit to the Agency, the technical and financial progress reports as required by Section 7.1(a) of the Grant Agreement which requires submission of a technical and financial progress report in relation to the implementation of the project within fifteen (15) calendar days from the end of each quarter.

In the circumstances, the value for money on expenditure incurred for the twenty-one (21) months could not be confirmed and the Management was in breach of the Project Agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

236. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

237. As required by the Grant Agreement No. AFD CKE 1204 01E between the Republic of Kenya and the Agence Française De Développment, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GREEN CLIMATE FUND READINESS PROJECT (GRANT NO. KEN-RS-004)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

238. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

239. Amount Withdrawn but Not Claimed

Part B of the statement of Special (Designated) Account reconciliation for the Program reflects USD 124,000 (Kshs.16,002,597) as withdrawn but unclaimed as at 30 June, 2025. This represents cumulative Funds' transfers to the local Program bank account but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

240. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounting to Kshs.32,231,116 and Kshs.23,233,713 respectively resulting to an under-funding of Kshs.8,997,403 or 28% of the budget. Similarly, the Project spent Kshs.8,965,780 against actual receipts of Kshs.23,233,713 resulting to an under-expenditure of Kshs.14,267,933 or 61% of the actual receipts.

The under-funding and under-utilization affected the approved workplan and may have negatively impacted on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

241. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

242. GoK Counterpart Funds Not Received

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.32,231,116 which includes transfer from Government entities amount of Kshs.2,400,000 relating to GoK counterpart funding. However, the amount was not received during the year under review.

In the circumstances, non-receipt of the GoK counterpart funding may have negatively affected the approved workplan for the year.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

243. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GLOBAL FUND - REDUCING THE BURDEN, ENSURING SUSTAINABILITY AND ACCELERATING PROGRESS TOWARDS MALARIA ELIMINATION IN KENYA (GRANT AGREEMENT NO. KEN-M-TNT 4149)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

244. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

245. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual receipts Kshs.498,335,972 and Kshs.869,254,351 respectively resulting to excess receipts of Kshs.370,918,379 or 74% of the budget. Similarly, the statement reflects actual expenditure of Kshs.854,536,009 against actual receipts of Kshs.869,254,351 resulting in an under-expenditure of Kshs.14,718,342.

The significant excess receipts and under expenditure is an indication of possible weaknesses in the budget making process.

My opinion is not modified in respect of this matter.

Other Information

246. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

247. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports for the Project and submit them to the Cabinet Secretary and to the National Treasury contrary to Section 83(1) to (3) of the Public Finance Management Act, 2012 which requires that not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

248. Weaknesses in the Management of Imprest

As previously reported, review of supporting schedules and payment vouchers on daily subsistence and training allowances revealed that eight (8) members of staff were paid amounts totalling Kshs.49,208,052 as daily subsistence and training allowances across the three Global Fund Programs (Malaria, T.B and HIV) during the period under review. The cumulative amounts due to the staff could not be justified as it implied that the staff were out of their duty stations for a significant part of the year.

Although Management indicated that the eight officers were not the sole recipients of the allowances and that their names were used solely for imprest accounting purposes, this system is susceptible to abuse as the secondary recipients may not be liable for imprest issued to them through other officers. Further, there is no assurance that the imprest will be paid to the intended staff by the officers receiving the imprest on their behalf.

In the circumstances, the effectiveness of management control over imprest for daily subsistence and training allowances could not be confirmed.

249. Unreliable Enterprise Resource Planning System

The Global Fund Project procured an Enterprise Resource Planning (ERP) system in the financial year 2021/2022 at an undisclosed cost. However, it was noted that the accounting module was not in use to help in maintaining accounting records as well as generating management and accounting reports.

In the circumstances, the effectiveness and efficiency of the ERP system could not be confirmed.

250. Failure to Conduct Internal Audits

Despite the National Treasury's Internal Audit Unit having an annual work plan that included the audit of Global Fund Projects, no audits were conducted on the Projects in the year under review. Management attributed this to inadequate capacity within the Internal Audit Unit.

In the circumstances, the lack of audit coverage on the Project represents a significant gap in internal oversight and assurance.

251. Lack of an Asset Register

During the year under review, Management did not maintain an asset register as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, existence of adequate controls over non-current assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

252. As required by Grant Agreement No. KEN-M-TNT-4149, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and, the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND - TO REDUCE MALARIA INCIDENCE AND DEATHS BY AT LEAST 75 PERCENT OF THE 2016 LEVELS BY 2023, WORKING TOWARDS A MALARIA-FREE KENYA (GRANT AGREEMENT NO. KEN-M-TNT-2064) – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

253. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

254. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual receipts on comparable basis of Kshs.547,823,464 and Kshs.1,017,216,111, respectively resulting to excess collection of Kshs.469,392,647 or 86% of the budget. Similarly, the statement reflects actual expenditure of Kshs.1,005,556,957 against actual receipts of Kshs.1,017,216,111 resulting to an under-utilization of Kshs.11,659,154.

The significant excess collection could be an indication of weaknesses in the budget making process. Further, the under expenditure affected planned activities and may have impacted negatively on service delivery to the public.

255. Slow Absorption of Grant Funds and Inadequate Counterpart Funding

The Project's funding summary reflects total grant commitment amount of Kshs.4,728,021,485 and cumulative amount received as at the end of the project of Kshs.2,997,465,321 resulting in an undrawn balance of Kshs.1,730,556,164 or 37% of total commitment.

The slow absorption of the grant funds may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

256. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE THE OF PUBLIC RESOURCES

Basis for Conclusion

257. Failure to Prepare and Submit Quarterly Financial Reports

During the year under review, Management did not prepare quarterly financial reports for the Project and submit them to the Cabinet Secretary and to The National Treasury contrary to Section 83(1) to (3) of the Public Finance Management Act, 2012 which requires that not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and The National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

258. Weaknesses in the Management of Imprest for Daily Subsistence Allowance

As previously reported, review of supporting schedules and payment vouchers on daily subsistence and training allowances revealed that eight (8) members of staff were paid amounts totalling Kshs.49,208,052 as daily subsistence and training allowances across the three Global Fund Programs (Malaria, TB and HIV) during the year under review. The cumulative amounts due to the staff could not be justified as it implied that the staff were out of their duty stations for a significant part of the year.

Although Management indicated that the eight officers were not the sole recipients of the allowances and that their names were used solely for imprest accounting purposes, this system is susceptible to abuse as the secondary recipients may not be liable for imprest issued to them through other officers. Further, there is no assurance that the imprest will be paid to the intended staff by the officers receiving the imprest on their behalf.

In the circumstances, the effectiveness of management control over imprest for daily subsistence and training allowances could not be confirmed.

259. Unreliable Enterprise Resource Planning System

The Global Fund Project procured an Enterprise Resource Planning (ERP) system in the financial year 2021/2022 at an undisclosed cost. However, it was noted that the accounting module was not in use to help in maintaining accounting records as well as generating management and accounting reports.

In the circumstances, the effectiveness and efficiency of the ERP system could not be confirmed.

260. Failure to Conduct Internal Audits

Despite the National Treasury's Internal Audit Unit having an annual work plan that included the audit of Global Fund Projects, no audits were conducted on the Projects in the year under review. Management attributed this to inadequate capacity within the Internal Audit Unit.

In the circumstances, the lack of audit coverage on the Project represents a significant gap in internal oversight and assurance.

261. Lack of an Asset Register

During the year under review, Management did not maintain an asset register as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, existence of adequate controls over non-current assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

262. As required by Grant Agreement No. KEN-M-TNT-2064, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE NATIONAL TREASURY

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO.5638-KE) – KENYA REVENUE AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

263. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

264. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipt budget and actual on a comparable basis of Kshs.482,700,000 and Kshs.238,907,000

respectively, resulting to an under-funding of Kshs.243,793,000 or 51% of the budget. Similarly, the Project incurred an expenditure of Kshs.238,860,000 against the actual receipt of Kshs.238,907,000 resulting to under expenditure of Kshs.47,000. The Management attributed the underfunding and under expenditure to the delay by The National Treasury in submitting direct payment expenditure to the World Bank which was made in 2025/2026 financial year. The under-funding and under expenditure affected the planned activities which may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

265. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

266. There were not material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

267. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

268. As required by Financing Agreement No. 5638 – KE between the Republic of Kenya and International Development Association (IDA) dated 20 July, 2015 I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (IDA CREDIT NO.6768-KE) - KENYA REVENUE AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

269. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

270. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

271. Supply and Delivery of Motor Vehicles on Behalf of Public Procurement Regulatory Authority (PPRA)

The statement of financial performance reflects expenditure on transfer to other government entities of Kshs.83,322,000 as disclosed in Note 11 to the financial statements. The amount includes Kshs.47,000,000 in respect of motor vehicles purchased on behalf of PPRA. Review of documents revealed that the procurement was in line with the World Bank's approval on transfer of Project activities for PPRA as a beneficiary entity, from Kenya National Highways Authority (KeNHA) to Kenya Revenue Authority (KRA) as the implementing entity. During the period under review, Management entered into a contract with a local supplier for supply of motor vehicles at a contract sum of Kshs.47,341,380. However, the approved budget, No Objection from World Bank for the procurement plan and approval letter expressly stated that the cost of Motor vehicles was Kshs.38,700,000. Management therefore exceeded the approved amount by Kshs.8,641,380 or 22% of the approved budget. Further, Management did not provide details of the source of funding to finance the supplier's bid and contract sum of Kshs.47,341,380.

In the circumstances, value for money on procurement of motor vehicles on behalf of PPRA could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

272. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

273. As required by Financing Agreement No. 6768 – KE between the Republic of Kenya and International Development Association (IDA) dated 20 July,2015 I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR ECONOMIC PLANNING – VOTE 1072

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

274. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

275. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. The issues as detailed below remain unresolved as Parliament had not deliberated on the same.

No.	Audit Issue
1.	Inaccuracies in Additions of the Fixed Assets
2.	Unsupported Training Expenses
3.	Pending Accounts Payables
4.	Budgetary Control & Performance
5.	Un-updated Fixed Assets Register

Other Information

276. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

277. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

278. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR ECONOMIC PLANNING

COORDINATE IMPLEMENTATION OF POPULATION POLICY AND ICPD25 COMMITMENTS PROJECT – NATIONAL COUNCIL FOR POPULATION AND DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

279. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

280. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

281. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

282. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL INFORMATION PLATFORM FOR FOOD SECURITY AND NUTRITION PROJECT (CREDIT NO. FOOD/2017/393-022) - KENYA NATIONAL BUREAU OF STATISTICS

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

283. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

284. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

285. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

286. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

287. As required by the Financing Agreement Credit No.Food/2017/393-022 between European Union and the Republic of Kenya, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

KENYA JOBS AND ECONOMIC TRANSFORMATION PROJECT (IDA CREDIT NO.7450-KE) - KENYA DEVELOPMENT CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

288. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

289. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue transfer budget and actual on a comparable basis of Kshs.100,000,000 and Kshs.23,840,001 respectively, resulting to an under-funding of Kshs.76,159,999 or 76% of the budget. Similarly, the project incurred an expenditure of Kshs.20,591,043 against total receipts Kshs.23,840,001 resulting to under-utilization of Kshs.3,248,958 or 14% of total receipts.

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

My opinion is not modified in respect of this matter.

Other Information

290. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

291. Delay in Project Implementation

The International Development Association (IDA) entered into a Concessional Financing Agreement with the Republic of Kenya on 28 February, 2024 for a credit sum of EUR 42,210,000. The objective of the Project was to increase private sector investment, access to markets and sustainable finance to create and improve jobs. The Government of Kenya entered into a Subsidiary Agreement with Kenya Development Corporation (KDC), on 5 September, 2024 to implement Part 3 of the project on behalf of the Government. The activity entailed scaling up green financing and strengthening climatic resilience for Small and Micro Enterprises (SMEs).

During the year under review, KDC submitted a work plan of Kshs.510,000,000 which was to be financed during the year. However, only a budget of Kshs.100,000,000 was approved for the Project. Further, out of the approved budget of Kshs.100,000,000, only Kshs.23,840,000 was disbursed to the project account. As at 30 June, 2025, only EUR 162,000 (less than 1%) had been disbursed to the project and spent with approximately 49% of the project period having lapsed casting doubt on implementation of the project activities before its closure on 31 December, 2028.

In the circumstances, the effectiveness and impact of the loan granted by the International Development Association could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

292. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

293. As required by Financing Agreement No. 7450 – KE between the Republic of Kenya and International Development Association (IDA) dated 28 February, 2024, I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SUPPORTING ACCESS TO FINANCE AND ENTERPRISE RECOVERY PROJECT (IDA CREDIT NO. 7018-KE) - KENYA DEVELOPMENT CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

294. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

295. Amount Withdrawn but Not Claimed

Part B of the statement of special designated account reconciliation for the Project reflects EUR 30,216,007 (Kshs.4,385,167,541) as amount withdrawn but unclaimed as at 30 June, 2025. This represents cumulative funds' transfers to the local Project bank account but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

Delays in the submission of expenditure returns distorts the reported Projects expenditures for the year.

296. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.5,849,998,850 and Kshs.1,849,998,850 respectively resulting to an underfunding of Kshs.4,000,000,000 or 68% of the budget.

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

My opinion is not modified in respect of these matters.

Other Information

297. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

298. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

299. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

300. As required by International Development Association Financing Agreement, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

EXECUTIVE OFFICE OF THE PRESIDENT - VOTE 1011

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

301. There were no material issues noted during the audit of the financial statements of the Executive Office of the President.

Emphasis of Matter

302. Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.13,656,423,839 in respect of trade and other payables relating to amounts due to suppliers, service providers, and other third-party obligations. The payables were not settled during the year under review but were instead carried forward to the financial year 2025/2026.

Failure to settle the payables during the year in which they relate adversely affects the budgetary provisions for the subsequent year as they form first charge.

My opinion is not modified in respect of this matter.

Other Matter

303. Unresolved Prior Year Matters

In the prior year's audit report, five issues were raised under Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance, respectively. These include pending accounts payables, delay in implementation of contract for construction of small claim courts, non-compliance with the one-third of basic salary rule, long outstanding third-party deposits and retention balances, and enhancement of governance systems for security related expenditures. Review of the status during audit of Executive Office of the President in 2024/2025 revealed that the matters remained unresolved.

Other Information

304. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

305. Non-Compliance with One-Third of Basic Salary Rule

Analysis of the payroll revealed that sixty-two (62) members of staff earned net salaries of less than a one-third (1/3) of the basic salary. This was contrary to Section19(3) of the

Employment Act, 2007 which states that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two thirds of such wages or salaries.

In the circumstances, Management was in breach of law.

306. Failure to Prepare and Submit Financial Statements for Audit

During the year under review, the Executive Office of the President incurred total expenditure of Kshs.4,226,938,555 as reflected in the statement of financial performance. Included in this amount is a total expenditure of Kshs.114,648,159 incurred by the National Lottery Board. However, the Board did not prepare and submit financial statements for audit. This was contrary to Section 21(1) of the National Lottery Act, 2023 which requires the Board to prepare quarterly and annual financial and non-financial reports in a format prescribed by the Public Sector Accounting Standards Board and submit the same to The National Treasury and the Auditor-General.

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

307. Breach of Contract

The Executive Office of the President, on 6 February, 2024, entered into a three (3) year contract for the supply, delivery, installation, training, and commissioning of Enterprise Resource Planning (ERP) on behalf of the Government Press Fund. Review of the progress report for the ERP System dated 28 June, 2024 revealed that the procurement, installation and implementation of the ERP system were 80% complete with nine (9) modules installed and testing and deployment currently underway.

Following the successful installation of the modules, the supplier raised an invoice dated 14 June, 2024 amounting to Kshs.28,424,000. However, as at the time of audit in November 2025, Management had not processed the payment due to shortage of funds resulting from development budget cuts.

Management was therefore in breach of Articles 4.3 and 4.4 of the Contract which stipulated that payments must be settled within three months; failure to which could entitle the supplier to terminate the contract. Further, the Management would still be liable for immediate payment of all supplier expenses, the value of in-process inventory and costs of any nature incurred costs due to the termination when termination becomes effective leading to potential loss of value for money.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

308. Lack of a Risk Management Policy

During the year under review, the Office did not have a Risk Management Policy that provides a framework for minimizing risks by enhancing mitigative and corrective

measures thereby maximizing potential opportunities. Further, risk assessment was not conducted during the year under review. As a result, there was no identification, assessment and rating of risks or development of strategies to deal with identified risks.

In the circumstance, the effectiveness of the Office's risk management practices could not be confirmed.

309. Failure to Enhance Governance Systems for Security Related Expenditures

During the financial year 2023/2024, the Executive Office of the President incurred some expenditures and transferred funds to a Government Agency for confidential security operations. Certificates of confidential expenditure were issued, supported by declarations from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures through review of the Regulations to clearly define entities eligible for confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in December 2025, no action had been taken to implement the audit recommendations.

DONOR FUNDED PROJECT

EU PARTNERSHIP FOR THE IMPLEMENTATION OF THE NATIONAL STRATEGY TO COUNTER VIOLENT EXTREMISM IN KENYA - NATIONAL COUNTER TERRORISM CENTRE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

310. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

311. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

312. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

313. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE DEPUTY PRESIDENT – VOTE 1012

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

314. There were no material issues noted during the audit of the financial statements of the Office of the Deputy President.

Emphasis of Matter

315. Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.1,833,328,103 in respect of trade and other payables relating to amounts due to suppliers, service providers, and other third-party obligations. The payables were not settled during the year under review but were instead carried forward to the financial year 2025/2026.

Failure to settle the payables during the year in which they relate adversely affects the budgetary provisions for the subsequent year as they form first charge.

My opinion is not modified in respect of this matter.

Other Information

316. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

317. Stalled Refurbishments Works - State House Annex Mombasa

The Office of the Deputy President awarded a contract for the refurbishment of State House Annex Mombasa on 07 February, 2024 at a contract sum of Kshs.49,983,805 for a contract period of twenty-four (24) weeks. The construction began on 09 February, 2024 with an initial expected completion date of 02 August, 2024.

The scope of works consisted of; the refurbishment to the main residence for the Deputy President (Main House) which was completed and is in use, ablution block to serve guests and staff, stores and machine room of different levels. During the refurbishment process, several variations to the original scope were made which included; development of a swimming pool, changing rooms and office space. During implementation, excavation of the coral rock cliff facing the ocean allowed for the inclusion of the new guest rooms. As a result, the scope of work was revised to incorporate the concrete framework for the guest rooms.

Review of payment records indicated that two payments were made to the contractor vide payment voucher dated 05 April, 2024 for Kshs.28,242,435 and payment voucher dated 09 May, 2024 for Kshs.21,741,370. However, physical verification carried out in the month of December 2025 revealed that the project is incomplete and no works were ongoing with a sixteen (16) months delay beyond the expected completion date.

In the circumstances, value for money may not be obtained on the resources already spent on the project.

318. Non-Compliance with the Public Procurement Capacity Building Levy Order

During the year under review, the Office made various procurements worth Kshs.1,111,055,268. However, the Office did not deduct and remit to the Public Procurement Regulatory Authority the 0.03% capacity building levy as required. This was contrary to Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 (The Levy Order, 2023) which requires all procuring entities to deduct and remit to the Authority a levy of 0.03% of the value of the signed contracts between the supplier and procuring entity exclusive of all applicable taxes.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

319. Lack of Audit Committee and Weakness in the Internal Audit Function

During the year under review and as previously reported, the Office did not have an active Audit Committee. This was contrary to the provisions of Section 73(5) of the Public Finance Management Act, 2012 which requires that every national government public entity establish an Audit Committee, whose composition and functions shall be prescribed by the Regulations. The Office therefore did not benefit from Audit Committee oversight. In addition, the Internal Audit Function did not maintain adequate documentation, including an implementation matrix to track prior audit recommendations and follow-up actions taken.

In the circumstances, the existence of an effective oversight mechanism to ensure efficient system of internal controls could not be confirmed.

320. Enhancement of Governance Systems for Security Related Expenditures

During the year under review, the Office incurred some expenditures on confidential security operations. Certificates of confidential expenditure were issued, supported by declarations from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures through review of the Regulations to clearly define entities eligible for

confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in November 2025, no action had been taken to implement the audit recommendations.

OFFICE OF THE PRIME CABINET SECRETARY – VOTE 1013

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

321. There were no material issues noted during the audit of the financial statements of the Office of the Prime Cabinet Secretary.

Other Information

322. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

323. Non-Compliance with Public Procurement Capacity Building Levy Order

During the year under review, the Office made various procurements worth Kshs.394,846,311. However, the Office did not deduct and remit to the Public Procurement Regulatory Authority the 0.03% capacity building levy. This was contrary to Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 (The Levy Order, 2023) which requires all procuring entities to deduct and remit to the Authority a levy of 0.03% of the value of the signed contracts between the supplier and procuring entity exclusive of all applicable taxes.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

324. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PARLIAMENTARY AFFAIRS - VOTE 1014

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

325. There were no material issues noted during the audit of the financial statements of the State Department.

Other Information

326. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

327. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

328. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PERFORMANCE AND DELIVERY MANAGEMENT – VOTE 1015

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

329. There were no issues noted during the audit of the financial statements of the State Department.

Other Matter

330. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. The following issues remained unresolved;

No.	Audit Issue
1.	Over Expenditure on Use of Goods and Services
2.	Net Pay below One-Third Basic Pay Rule
3.	Irregular Secondment of the Government Delivery Services Officers to County and Ministries by the Cabinet Secretary
4.	Retention of Staff Above Age of 60 Years
5.	Lack of an IT Strategic Plan

Other Information

331. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND THE EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

332. Non-Compliance with Climate Regulations

The State Department has not effectively integrated the National Climate Change Action Plan 2023-2027 into its sectoral strategies and operational plans and the Department does not have an effective system in place to monitor, review and report on the integration of climate change into its activities and policies. Further, Management has not submitted its sectoral greenhouse gas emissions report to the national inventory. This was contrary to the provisions of the Climate Change (Amendment) Act, 2023.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

333. Long Outstanding Unsurrendered Imprest

The statement of financial position and as disclosed under Note 14 to the financial statements reflects receivables from exchange transactions balance of Kshs.1,747,897. Included is an amount of Kshs.1,278,526 relating to unsurrendered temporary imprests owed by one (1) officer who is no longer in service. However, it was not clear why the officer left the service before surrendering the imprest.

In the circumstances, the recoverability of an amount Kshs.1,278,526 could not be confirmed.

334. Weaknesses In Internal Audit Function

Review of the governance framework for the State Department revealed notable non-compliance with statutory internal audit and oversight requirements. The internal audit unit did not prepare or submit the required quarterly internal audit reports for the financial year. This was contrary to Regulation 173 of the Public Finance Management (National Government) Regulations, 2015 which require the head of internal audit to prepare quarterly internal audit reports. Further, the Audit Committee did not to convene the mandatory quarterly Audit Committee meetings as required by Regulation 174 of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the effectiveness of governance and oversight role of the internal audit functions could not be confirmed.

STATE DEPARTMENT FOR CABINET AFFAIRS VOTE - 1016

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

335. There were no material issues noted during the audit of the financial statements of the State Department.

Other Information

336. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

337. Unauthorized Staffing in Excess of Approved Establishment

The State Department has an approved staff establishment of seventy-seven (77) positions. Review of the current staff complement against the approved establishment revealed an excess of forty-one (41) employees in certain cadres. Management explained that the variance arose from staff postings made prior to the development of the organizational structure and authorization of the establishment. However, no evidence of efforts by Management to regularize the anomaly was provided.

In the circumstances, the State Department's staffing levels are not in compliance with the approved staff establishment.

338. Non-Compliance with the Public Procurement Capacity Building Levy Order

Review of the Annual Procurement Plan and other procurement records revealed that the State Department procured goods and services at estimated cost of Kshs.68,809,574 for the financial year under review. However, there was no evidence that the entity deducted and remitted the prescribed levy rate of 0.03% to the Public Procurement Regulatory Authority. This was contrary to Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 (The Levy Order, 2023) which requires all procuring entities to deduct and remit to the Authority a levy of 0.03% of the value of the signed contracts between the supplier and procuring entity exclusive of all applicable taxes.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

339. Lack of Audit Committee and Weakness in the Internal Audit Function

During the year under review and as previously reported, the State Department for Cabinet Affairs did not have an active Audit Committee. This was contrary to the provisions of Section 73(5) of the Public Finance Management Act, 2012 which requires every national government public entity to establish an Audit Committee, whose composition and functions shall be prescribed by the regulations. The State Department therefore did not benefit from an Audit Committee oversight.

In the circumstances, the existence of an effective oversight mechanism to ensure efficient system of internal controls could not be confirmed.

STATE HOUSE – VOTE 1017

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

340. There were no material issues noted during the audit of the financial statements of State House.

Other Information

341. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

342. Non-Compliance with One-Third of Basic Salary Rule

Analysis of the payroll revealed that one hundred and eight (108) members of staff earned net salaries of less than a third (1/3) of the basic salary. This was contrary to Section19(3) of the Employment Act, 2007 which states that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two thirds of such wages or salaries.

In the circumstances, Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

343. Enhancement of Governance Systems for Security Related Expenditures

During the year under review, State House incurred some expenditures and transferred funds to a Government Agency for confidential security operations. Certificates of confidential expenditure were issued, supported by declarations from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures, which has increased over the years, through review of the Regulations to clearly define entities eligible for confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in November 2025, no action had been taken to implement the audit recommendations.

STATE DEPARTMENT FOR CORRECTIONAL SERVICES - VOTE 1023

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

344. There were no issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

345. Long Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.947,834,761 in respect of trade and other payables which as disclosed in Note 15 to the financial statements related to amounts due to suppliers, service providers, and other third-party obligations. The payables were not settled during the year under review but were instead carried forward to the financial year 2025/2026.

Failure to settle the payables during the year in which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of this matter.

Other Matter

346. Unresolved Prior Year Matters

In the prior years' audit reports, eleven (11) 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. Review of the status during audit of the State Department in 2024/2025 revealed that the following eleven (11) issues relating to 2023/2024 remained unresolved as detailed below:

No.	Observation
1.	Non-Compliance with One-Third of Basic Salary Rule
2.	Pending Accounts Payable
3.	Irregular Leasing of a Residential House
4.	Unbudgeted Expenditure at the Prison Staff Training College
5.	Poor Maintenance of Buildings and Civil Works
6.	Collapsed Perimeter Wall at Shimo La Tewa Maximum Prison
7.	Stalled Construction Projects in Various Correctional Facilities
8.	Encroachment of Prison Land
9.	Enhancement of Governance Systems for Security Related Expenditures
10.	Weak Controls in Management and Recording of Firewood
11.	Weak Controls in Management of Medical Drugs

Other Information

347. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

348. Non-Compliance with One-Third of Basic Salary Rule

During the year under review, three thousand two hundred eighty-one (3,281) employees received a net salary less than one-third (1/3) of their basic salary. This was contrary to Section 19 (3) of the Employment Act, 2007 which requires the total amount of all deductions that may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of such wages or salaries.

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

349. Encroachment of Prison Land

As previously reported, several parcels of land in various correctional facilities had been occupied by illegal occupants. Verification of the status of the land in the month of August, 2025 revealed additional encroachments as detailed below;

349.1. Malindi GK Prison

The prison land is not surveyed and the two parcels of land have not been consolidated. Further, one block of approximately 262 acres is currently occupied by unknown number of illegal occupants. In addition, the boundary of the prison land is not marked and no perimeter fence had been erected ever since the prison was established.

349.2. Narok Main Prison

The Prison risks losing 12 acres of land to illegal occupants who have since erected permanent and semi-permanent buildings for either commercial or residential purposes. There has been long-standing dispute concerning the size (acreage) and boundaries of Narok Prison land. In addition, records revealed that Narok County Council alienated 16.1881 acres of the Prison land and allocated the plots to private developers.

349.3. Kabarnet Prison

The land is currently encroached by illegal occupants and fourteen (14) plots were hived from the original acreage which remain undeveloped. Through a letter dated 13 September, 2019 to the Officer in Charge, Kabarnet Prison, the National Land Commission indicated that it was in the process of revoking the illegal titles. However, no evidence was provided to show that the title deeds were finally revoked and the land returned to Kabarnet GK Prison.

349.4. Nakuru GK Prison

The land has been adversely affected by illegal grabbing, encroachment and part of it has been hived off by private developers and government institutions including a church. Initial acreage was 628 out of which 170 acres have been hived off or disputed in court. However, in an attempt to safeguard and/or repossess the illegally/irregularly alienated Prison land, the ownership of these parcels of land has been challenged before the Lands and Environment Division court in Nakuru.

349.5. Kitale GK Prison

Approximately 2,321.09 acres of the land is currently occupied by unknown number of persons who acquired the disputed portions through illegal means. Some of the people who claim ownership of this land were allocated several parcels whose ownership has been a subject of litigation between the Government and the allottees with several cases pending in Court.

Further, a petitioner had filed a case in Environment and Land Court in Kitale sometimes in 2015 seeking certain orders of the Court. Among the orders sought was that the continued occupation of the land by the Prisons Department was a breach of the petitioner's grandfather's fundamental rights and that the Prison Department should compensate him for the period the land was in use by the Prison Department. The stay of the judgement was granted for a period of 6 months from 9 July, 2025 in view of the order granting the holders of title deeds an opportunity to engage the petitioner to regularize or discuss the modalities of regularising their status on the suit parcels of land and the petitioner ordered that he was at liberty to issue an eviction order to all the occupants on the parcels of land within 6 months from the date thereof.

In the circumstances, the ownership and security of the land could not be confirmed.

350. Poor Maintenance of Buildings and Infrastructure

As previously reported, various correctional facilities remained in deplorable conditions. Verification conducted in the months of July and August, 2025 in various correctional facilities revealed poor maintenance of various correctional facilities as detailed below;

No.	Station	Observations
1.	Nanyuki Main Prison	(i) The capital wards have no ceiling which is a security threat. Ordinary ward and ward six need plastering overhaul and all wards need flooring and toilets repairs. (ii) The staff houses need ceiling, floor repair and repainting. (iii) The inmates' kitchen is in need of roofing overhaul. (iv) Roofing of capital mixed block needs to be renovated to enhance security and perimeter fence wall for the main prison, expanded women prison and watch towers. (v) Staff Houses have asbestos roofing.

No.	Station	Observations
2.	Meru Main Prison	(i) Ten (10) wards require new roof, timber works and iron sheets. Ward 1 to 15 require flooring. Four unfinished wards require plastering and flooring. Five wards require toilet basin replacements. 90 staff houses need refurbishment. (ii) The guard room, dispensary and welfare office require new roofing and repainting. The current administration block, documentation office, special store (armory), general office, OIC office and Deputy OIC office require new roofing and repainting. (iii) The institution requires a modern kitchen equipped with a ration store, modern Jikos, cooks ward and firewood place.
3.	Nairobi Medium Prison	(i) Inadequate office accommodation for the staff with only three (3) office rooms utilized by the Officer in Charge, general office and accounts office. (ii) Prisoners' wards floors are dilapidated with rough floors, potholes, dirty marks on the walls with some sections of the roof leaking when it rains. (iii) No generator backup to be utilized in case of prolonged power blackout and no CCTV cameras are installed to monitor activities within the prison. (iv) Kitchen used to prepare meals for the inmates is in a dilapidated state with poor drainage system and dirty water. The floor has potholes which makes it impossible to clean thoroughly and this might expose inmates to health hazards and outbreak of diseases.
4.	Nairobi West Prison	(i) Main store for food and ration is a temporary old iron sheets structure in a dilapidated condition. Store is raised with poles one and half meters (11/2) from the ground and timber fixed forming the base for placing the various food items. It was noted due to wide timber spacing the rats and rodents were entering in the store and the food items could be seen lying under the store base leading to wastage. (ii) The food items are subject to wetness during rainy season and the strength of the poles is doubtful in case the store is packed to full capacity. The store is not well ventilated for the air to flow since all sides are covered with iron sheets. The roof of the store leaks water since the iron sheets are very old and some parts covered with bodex to avoid water pouring on food items which can lead to deterioration.

No.	Station	Observations
		(iii) Some offices are housed in the temporary iron sheets structure due to lack of adequate office space and lack of funding to construct the modern office and store. (iv) Breakdown of Grundfos pump CR 32-2 4KW on 11 September, 2023 which is the only pump that the institution has been relying on for pumping water to the staff quarter and prison for inmates use. (v) Inmate Wards require replacement of iron sheets, floor repair and painting. (vi) Administration block is made of stabilized soil block unit which is now dilapidated. (vii) 96 staff housing units require painting, guttering and re-roofing of some of the roofs and around 350 temporary mabati structures are in poor condition. (viii) Kitchen requires re-roofing, painting and flooring.
5.	Mwingi Main Prison	(i) Ceiling of the Administration block was worn out due to multiple roof leakages. (ii) Staff houses were unfinished and lacked proper wiring and water piping installed in to units and around the staff line and boilers in the kitchen were worn out. (iii) The station is in need of a modern kitchen and ration store and health facility quoted at a cost of Kshs.6,973,319 and Kshs.11,696,388 as per Bills of Quantities done in August 2020. (iv) There is no perimeter fence and modern watch towers which is a security risk to the prison.
6.	Nanyuki Women Prison	(i) Inmate wards were congested due to the increasing number of inmates and the station lacked separate children ward and daycare. (ii) Current store housed food items and other inventory items and was very congested. (iii) Administration Block Office, Duty Office, Store and Welfare Office have asbestos roofing.
7.	Langata Women Prison	(i) Three (3) blocks of 120 staff housing units exhibit structural weakness due to water seepage on the structures. Raila estate 100 units require overhaul repairs.

No.	Station	Observations
		(ii) Matopeni estate of Lang'ata Women Prison with a population of 100 houses is being supplied by a single drop cable which is overloaded. (iii) Inmate wards require flooring, ceiling, door fixing, roofing and painting. (iv) Administration block requires paint works, flooring, roof replacement, electrical and plumbing works.
8.	Nairobi Remand Prison	(i) 45 cells in Capital block and 7 wards in A & B block leaks during heavy rains with rain water seeping through to the floor of the Prison wards due to the state of the roofing sheets and 3 blocks J, K and L guard rail require repair. (ii) Administration block requires overhaul replacement of ceiling and the roof requires repair. (iii) The 168 units of the staff quarters are in need of maintenance and 615 mabati houses require upgrading from shanties to decent units. (iv) The kitchen roof and the smoke chimney are leaking. The kitchen needs flooring and 2 cooking Jikos with worn out metal sheets need to be replaced with modern energy saving Jikos. (v) The sewerage system at the command is overloaded and keeps on stalling especially during the rainy season. (vi) Prison has seven (7) CCTV cameras in place to monitor activities and movement within the Prison which leave other critical areas not monitored.
9.	Nyeri Maximum Security Prison	(i) Inmate wards require repainting, concrete and iron sheets. (ii) Administration block requires ceiling repair and re-painting. (iii) Kitchen requires re-roofing, painting and flooring and four Jikos require replacement. (iv) Four (4) high Grade houses require painting and one requires roof replacement. (v) Seven (7) Medium grade houses need roof repair and six (6) need ceiling repairs. All medium grade and low-grade houses require repainting. 206 low grade houses need ceiling boards and 150 need roof repairs.

No.	Station	Observations
		(vi) 159 temporary houses are built of iron sheets and there is need to upgrade to modern units. 32 houses are inhabitable because they are incomplete. (vii) Lack of CCTV at Nyeri Maximum Security Prison. (viii) Prison station lacks CCTV cameras despite recommendations by the County Security Intelligence Committee (CSIC). The Bills of Quantities for the installation of CCTV, dated February 2024 from the County Government Department of Transport, Public Works, Infrastructure and Energy cost the works at Kshs.10,725,500. (ix) Lack of a Second Perimeter Wall and adequate modern Watch towers at Nyeri Maximum Security Prison
10.	Nyeri Medium Prison	(i) The facility lacks modern watch towers and a dispensary for the inmates. (ii) Inadequate stores including staff uniforms and inmates' beddings. (iii) Inadequate houses for officers; out of the prison staff strength of 146, only 64 officers reside within the compound. (iv) The prisoners' multi-purpose hall needs renovation and the prison kitchen is small and insufficient to cater for the current 332 inmates as of 30 July, 2025.
11.	Meru Women Prison	(i) The inmates' wards are congested and the prison requires a one Storey ward to ease congestion and improve security. (ii) All the five wards require repairs in roofing, floor, wall painting and toilets. (iii) The 2nd floor of the administration block is unfinished for office structures. The facility needs three staff toilets inside the prison industry and a modern prison industry. (iv) Unfinished 10 rooms unit for staff houses which need to be completed. All senior staff houses require roof repair, painting and ceiling. (v) The temporary kitchen needs to be modernized for the inmates and children with spacious ration stores.

No.	Station	Observations
12.	Uruku Prison	(i) Four (4) inmates wards require repair in ceiling, floor and toilets. (ii) The kitchen roof is leaking and require overhaul repair. (iii) The septic tank at the facility needs major repair and expansion due to increase in prisoners and remands population. (iv) The prison is need of remand blocks as currently the remands are congested in one block. (v) The prison is need of modern staff houses as currently the staff live in old timber structures. (vi) The administration block that was funded through an OIC initiative is yet to be put to use due to lack of furniture.
13.	Embu Main Prison	(i) Lack of a perimeter fence; the prison currently has a live fence safeguarding prisoners which is a security risk.
14.	Embu Women Prison	(ii) Station in need of a guard room and gate lodge. The previous iron sheets' structure was demolished. (iii) The kitchen has leaking roofs and chimney. (iv) Inmates' wards need floor repair, painting, sock pit and septic tanks.
15.	Kitui Main Prison	(i) Lack of a perimeter wall along Kibwezi road. (ii) Inmates' wards need floor repair, ceiling, roof and door repairs. (iii) 58 staff housing units need a floor, doors, windows and roof overhaul. 17 units were condemned and deemed not fit for human dwelling but are still occupied by the prison staff. (iv) Prisoners' kitchen needs an overhaul of the waste drainage system and requires tiles, painting, floor repair, roof repair and water installation.
16.	Kitui Women Prison	(i) The inmates' kitchen has leaking roof and chimney. (ii) There are no wards for mothering inmates and there is no daycare for babies. (iii) The prisoners' wards need roof renovation.
17.	Manyani Prison	(i) There is need for electric fencing of the facility to keep off the wild animals. (ii) Three (3) inmate blocks with wards, the main prison Administration Block and three (3) staff houses at the staff line have asbestos roofing.

No.	Station	Observations
18.	Voi Remand Prison	(i) The prisoners' wards need repainting, roofing and ceiling repair. (ii) The kitchen has leaking roofs and need modern Jikos, floor renovation and chimney replacement. (iii) The sewage system is not in good condition and the septic tanks are not connected to the sewer system since there is none in Voi. (iv) 21 staff house units require plastering and 4 units need roofing. (v) Four (4) Units of staff houses have asbestos roofing.
19.	Kwale Main Prison	(i) There is no barrier and fence. (ii) The ceiling of the administration block needs to be replaced due to leaking roof. (iii) The inmates' wards are over congested. Ceiling needs to be replaced due to leaking roof and the water closet in the wards need to be replaced. (iv) Six (6) blocks of staff houses need replacement of iron sheets and the semi-permanent staff houses need iron sheets replacements. (v) The inmates' kitchen needs grill replacement, ceiling and water closet need to be replaced.
20.	Kwale Women Prison	(i) The prison has only two renovated wards, therefore it is difficult to categorize the inmates because the convicted prisoners have a small ward, while the ordinary remands and capital remands are sharing the same wards and the roof is leaking. (ii) The prison needs a modern kitchen with modern Jikos. (iii) The administration block needs reroofing and there is need of a ladies guardroom; the current one is made of old iron sheets which are leaking. (iv) Perimeter fence of the prison is made up of old used iron sheets.
21.	Kaloleni Prison	(i) Lack of a Perimeter Wall and Modern Watch towers at the Prison. (ii) Ward A is inhabitable due to sunken leaking roof. The inmates' wards are leaking and are in need of ceiling, flooring and the drainage chambers have worn out.

No.	Station	Observations
		(iii) The administration block ceiling is leaking and the drainage system needs connectivity to the main sewer. (iv) Thirteen (13) staff houses need repair of roofing, flooring, repainting and rendering. 61 staff units have been condemned due to their structural integrity yet they are still occupied. (v) The inmate kitchen requires a smoke chimney, flooring, doors and windows replacements.
22.	Kilifi Prison	(i) Lack of Sewerage Connectivity/ Septic Tank-letter of notification of award for proposed construction of a septic tank was awarded to a contractor on 6 July, 2024 at a contract sum of Kshs.8,714,800. However, the project was not funded. (ii) The prison cells/ wards need ceiling and proper roofing. (iii) The toilets need modern repair with grill doors and windows. (iv) All 46 staff house units need roofing and ceiling and two (2) condemned units by the housing department are still occupied. (v) The kitchen needs overhaul of the roofing and floor. (vi) The jiko stands are worn out and need to be renovated. (vii) Eight (8) staff units, Prisoners' wards -Mixed block A, B & C, Gate lounge and Main gate guard lounge have asbestos roofing.
23.	Malindi Main Prison/Malindi Women Prison	(i) The station is in need of a modern septic tank since the current septic tank overflows and discharges raw sewage onto prison land near civilian residential area. Contract was awarded on 5 July,2024 for the construction of a modern septic tank at a contract sum of Kshs.9,765,005 but no works have started. (ii) The prison is in need of a wall that separates the administration block and the prison compound. (iii) The prison cells/ wards roofs need urgent repairs due to leaking iron sheets, and worn-out timber attached to the roof. (iv) The administration block needs roof repair which is leaking. The documentation room, prisoners' property

No.	Station	Observations
		and duty office need flooring, ceiling and roofing due to leakages. (v) The kitchen is relatively small; leaks during rainy season and the current Jikos are collapsing. (vi) Staff houses are leaking and need roof repair, ceiling, flooring and repainting. (vii) Six (6) staff houses and two (2) inmates wards have asbestos roofing. (viii) Malindi Women Prison kitchen needs smoke chimney replacement and the inmates' property store roof is leaking. (ix) Mixed block and Guard room at Malindi Women Prison have asbestos roofing.

This was contrary to Section 6(1) of Occupational Safety and Health Act, 2007 which provides that every occupier shall ensure the safety, health and welfare at work of all persons working in his workplace.

In the circumstances, Management is in breach of the law and service delivery in the correctional facilities' may be impaired due to poor status of the buildings and infrastructure.

351. Stalled Projects

Physical verification carried out in the months of July and August, 2025 in various correctional facilities revealed stalled projects in seventeen (17) correctional facilities as detailed in below;

	Facility	Observations
1.	Nanyuki Main Prison	Stalled Dispensary at the Prison Farms. Project was funded up to Kshs.2,169,937 but never completed and currently stalled at superstructure level.
2.	Meru Main Prison	i. The construction of the Prisoners Accommodation Wards and Administration started on 27 October, 2010. The project status was at 45% and the total estimated cost was Kshs.17,000,000. One floor of the shell of the structure has been converted to a store storing inmates' items and another incomplete floor has been converted to a food store. ii. The project for a storeyed (60 Units) Staff Houses was started on 5 August, 2011 and stalled shortly after at 20% on the slab of the 1st floor. The project stalled due to lack of funding. Later on, the County Public Works department reviewed the project and discontinued the

	Facility	Observations
		construction due to the topography of the land where the project had initially been planned.
3.	Nairobi Remand Prison	Stalled Bio-Digester at which commenced on January 24, 2013. The contract was awarded at a contract sum of Kshs.7,681,462. No progress had been made since May, 2013.
4.	Nyeri Medium Prison	i. Stalled Gate Lodge, Armory and Duty Office at 70% to completion. Project was started in the financial year 2012/2013 and was valued at Kshs.3,131,910. Kshs.2,750,000 has been spent on the project. ii. Stalled coffee reticulation irrigation project started on 2014/2015 financial year and was previously valued at Kshs.15,000,000. Only Kshs.1,000,000 was disbursed for construction of water towers and purchase of four (4) water tanks each holding 10,000 liters.
5.	Meru Women Prison	i. Stalled Storeyed Prisoners Accommodation Wards and Administration block which stalled at first floor. A bill of quantity dated 23 September, 2024 showed that the building requires Kshs.3,978,750 for completion. ii. Stalled perimeter Wall.
6.	Uruku Prison	i. Stalled Tea Buying Centre which started in 2014 and stalled at 70%. ii. Stalled Construction of Kitchen and Ration Store which stalled at 10%. iii. Stalled Prisoners Visitors Waiting Bay which stalled at 80%. iv. Stalled Catholic Chapel which stalled at 60%.
7.	Embu Main Prison	i. Stalled Mixed Block at 82% to completion and currently occupied by inmates in the unfinished state. ii. Stalled SDA Church at 90% to completion. iii. Stalled Prisoners Kitchen at 80% to completion.
8.	Embu Women Prison	i. Stalled administration block at 80% to completion. Kshs.7,239,400 has been spent on the project and requires Kshs.1,772,782 for completion ii. Biogas Plant stalled at 68.5% to completion. Kshs.3,200,000 has been spent on the project and requires Kshs.1,470,000 up to production level. iii. Stalled Prisoners Kitchen at 42.2% and currently needs an amount of Kshs.2,624,680 for completion. Kshs.1,754,610 has been spent on the project.

	Facility	Observations
9.	Manyani Maximum Prison	i. Stalled Inmates Social Hall at Manyani 'B'. ii. Stalled Perimeter Wall which started in 2021/2022 financial year at a contract price of Kshs.9,219,960. The contractor was paid Kshs.5,367,909 but was issued a default notice on August 13, 2025 by the county works officer due to failure to maintain adequate labor on site and regular progress of works and other subsequent verbal instructions to execute work diligently. iii. Stalled 22 Classrooms in which the completion of the project was costed at Kshs.12,971,213 as per the Bill of Quantities issued by the County Public Works office on January, 2025. iv. Stalled four (4) Staff Houses v. Incomplete multipurpose hall vi. Bill of Quantities issued by the County Public Works office on January, 2025 cost the completion of the project at Kshs.6,740,413. However, this project was funded Kshs.3,000,000 in the financial year 2024/2025.
10.	Voi Remand Prison	i. Stalled Perimeter Wall, Gate and Gate Lounge which was started in 2019 at 15% to completion. ii. Stalled Armory and Guard room at 80% to completion.
11.	Kwale Main Prison	i. Stalled Perimeter Wall and 6 Modern Towers which was started on 24 May, 2016 and allocated Kshs.2,500,000 in 2015/2016 financial year. ii. Stalled Multi-Purpose Dining Hall, which was started on 3 February, 2012 with an allocation of Kshs.1,500,000 disbursed during 2011/2012 financial year. iii. Stalled septic tank which started on 9 April, 2016.It was allocated an amount of Kshs.1,000,000 during the financial year 2015/2016.
12.	Kwale Women Prison	Stalled mosque at roofing stage on 28 July,2022.
13.	Kaloleni Prison	Stalled Mixed Block which started in 2015 and stalled at the slab level. The total cost of the project was Kshs.14,006,050 but only Kshs.1,000,000 was disbursed.
14.	Malindi Main Prison	Stalled construction of Perimeter wall and 2 watch towers height enhancement which commenced on May 5, 2021

	Facility	Observations
		at a contract sum of Kshs.16,934,480 and was terminated on 17 October, 2024.
15.	Kamiti Maximum Prison	Defective Generator in which has not been in use since 2015 due to lack of spare parts.
16.	Machakos Women Prison	Stalled Perimeter Wall which started during the 2012/2013 financial year. The wall was 5% complete as at 13 January, 2013 and Kshs.3,547,000 was required for its completion out of the total estimated cost of Kshs.4 million. The portion of the wall at the Women Prison gate had physical cracks indicating poor workmanship. The first 100 metres of the constructed wall along the road was not as straight as required (wall had a curvature) and the rows of quarry stones were not properly aligned.
17.	Marsabit Prison	Stalled Borehole awarded on 9 May, 2023 at a contract sum of Kshs.14,950,277 for a contract period of 6 weeks. The pending works included application of 3 phase power supply, water reticulation supply and installation of two (2) No 10,000 litres plastic tanks. The borehole stalled at 50% to completion.

In the circumstances, value for money for the expenditure incurred on the stalled projects could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

352. Grounded and Unserviceable Motor Vehicles

Physical verification carried out in the months of July and August, 2025 revealed a total of twenty-seven (27) motor vehicles grounded at Prisons Central Workshop and earmarked for disposal. The Ministry of Roads and Transport carried out a mechanical motor vehicle inspection on the twenty-seven (27) motor vehicles and recommended for their disposal due to their poor mechanical condition and high fuel consumption. Further, an additional fourteen (14) motor vehicles under the custody of various prison stations were unserviceable. Management did not indicate measures put in place to dispose or derecognize the assets to avoid any further deterioration.

In the circumstances, the effectiveness of controls related to asset management could not be confirmed.

STATE DEPARTMENT FOR IMMIGRATION AND CITIZEN SERVICES – VOTE 1024

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

353. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

354. Outstanding Trade and Other Payables

The statement of financial position reflects a balance of Kshs.5,966,074,772 in respect of trade and other payables relating to amounts due to suppliers and service providers. The payables were not settled during the year under review but were instead carried forward to the financial year 2025/2026.

Failure to settle the payables during the year in which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of this matter.

Other Matter

355. Unresolved Prior Year Matters

In the prior year audit report, two issues were raised under Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. These include non-compliance with one-third of basic salary rule and lack of a Risk Management Policy. Review of the status during audit of the State Department in 2024/2025 revealed that the two issues had not been resolved.

356. Contingent Liability - Electronic Travel Authorization (eTA) Platform

During the year under review, an amount of Kshs.779,753,459 was invoiced and paid to a service provider for use of Electronic Travel Authorization (eTA) platform for six (6) months from July, 2024 to December, 2024. However, an undetermined amount due for services rendered for six (6) months from January, 2025 to June, 2025, was not disclosed. Management indicated that the service provider had not issued an invoice for the services rendered, making it difficult to provide for the amounts due to the service provider. However, the undisclosed amount might result in a future obligation to the State Department.

Other Information

357. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

358. Non-Compliance with the Public Procurement Capacity Building Levy Order

During the year under review, the State Department made various procurements worth Kshs.8,690,152,710. However, the State Department did not deduct and remit to the Public Procurement Regulatory Authority the 0.03% capacity building levy as required. This was contrary to Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 (The Levy Order, 2023) which requires all procuring entities to deduct and remit to the Authority a levy of 0.03% of the value of the signed contracts between the supplier and procuring entity exclusive of all applicable taxes.

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

359. Non-Compliance with Law on Affirmative Action at Workplaces

Physical verification conducted at the National Registration Bureau offices in Mvita, Voi and Likoni and the Civil Registration Service offices in Mvita and Embu West noted that the offices are located on elevated floors in buildings that lack access ramps and functional lifts.

Although Management explained that the buildings are not owned by the State Department lack of access ramps and functional lifts results in discrimination of persons living with disabilities. This was contrary to Section 30(1) of the Persons with Disabilities Act, 2025 which entitles them a barrier-free and disability-friendly environment to enable them have access to buildings, roads and other social amenities and assistive devices and other equipment to promote their mobility.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

360. Lack of Legal Framework on Disposal of Uncollected Passports and National Identity Cards

The audit revealed that a total of 56,187 passports 417,633 national identity cards remained uncollected at various offices as at 30 June, 2025. However, the laws on immigration and registration of persons have no provision on how to handle uncollected passports and identity cards. The uncollected security documents pose a challenge of storage and security without a clear legal framework on disposal.

In the circumstances, the effectiveness of controls on uncollected passports and identity cards could not be confirmed.

361. Lack of Updated Asset Register

During the year under review, the State Department did not maintain an asset register. Further, the assets owned by the State Department were not tagged with unique identification. Management did not explain how it tracks and monitors the usage of its assets in the absence of a register.

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

RECEIVER OF REVENUE FINANCIAL STATEMENTS - STATE DEPARTMENT FOR IMMIGRATION AND CITIZEN SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

362. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

363. Budgetary Control and Performance

The statement of comparison budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.28,300,877,084 and Kshs.15,896,286,330 respectively resulting in an underperformance of Kshs.12,404,590,754 representing 44% of the budget. Management has attributed the underperformance to The National Treasury's decision to designate some of the revenue streams to Appropriations-In-Aid during the financial year without adjusting the budget estimates.

In the circumstances, the underperformance may have negatively affected funding of planned government activities.

My opinion is not modified in respect of this matter.

Other Information

364. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

365. Long Outstanding Unremitted Revenue

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,304,938,156 which includes Kshs.927,489,739 or USD 7,221,830 relating to Electronic Travel Authorization (eTA) collections made between January, 2025 and 9 March, 2025. Available Information indicates that a Memorandum of Understanding (MoU) was entered into between the Government of Kenya (GoK) and a Swiss-founded company to collect the eTA fees for an initial period of three months, later extended by two months to 31 May, 2024. A contract was then signed in August 2024 for a further six

(6) months running from 1 June to 31 December, 2024. However, the company continued collecting the fees between January 2025 and March 2025 without a valid contract. As at the time of the audit, the amounts collected had not been remitted to the Revenue Account at the Central Bank of Kenya (CBK) and ultimately to the Exchequer Account as per the terms of the MoU.

Further, no evidence of the Accounting Officer's effort to collect the amounts was provided. This is contrary to Regulation 64(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which requires an accounting officer and a receiver of revenue be personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for, all national government revenue and other public moneys relating to their Ministries, Departments or Agencies and adequate measures, including legal action where appropriate, are taken to obtain payment. Although Management has explained that the State Department had convened several meetings to resolve the dispute, no evidence was provided, and the amount remained outstanding.

In the circumstances, Management was in breach of the law, and there is a risk of loss of the unremitted amounts.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

366. Manual Receipting of Revenue

Review of records maintained at the Civil Registration Services (CRS) Department revealed that the Department collected a total revenue of Kshs.410,561,933 which included an amount of Kshs.389,303,243 collected in cash from the various regional offices. The Service continued to use manual system in the collection and accounting for revenue although the eCitizen provides a digital platform for collection of revenue. Further, there was no evidence of reconciliation between reported revenue from regional offices and the Kenya Commercial Bank (KCB) revenue collection bank account making it difficult to confirm whether all cash collections were banked.

In the circumstances, the effectiveness of internal controls on revenue collection could not be confirmed.

367. Failure to Maintain Records of Verification Fees

Audit of revenue from verification fees revealed that the Department of Integrated Population Registration Services (IPRS) had contracted the Kenya Commercial Bank to open a float account for clients to deposit funds charged for every verification service by IPRS. The float account is debited with transfers to the revenue account and transaction commissions. However, the Department did not maintain a record of deposits and utilization per client to track account balances over time. It was therefore not possible to confirm the status of each client's ledger.

In the circumstances, the effectiveness of controls in place regarding the clients' records could not be confirmed.

NATIONAL POLICE SERVICE – VOTE 1025

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

368. There were no material issues noted during the audit of the financial statements of the Service.

Emphasis of Matter

369. Long Outstanding Trade and Other Payables

The statement of financial position reflects a balance of Kshs.10,964,776,767 in respect of trade and other payables due to suppliers, service providers, and other third-party obligations. However, review of the ageing analysis provided for audit revealed that a balance of Kshs.3,613,208,060 representing approximately 33% of the total outstanding payables have remained unpaid for over one year.

Failure to settle the payables during the year to which they relate distorts the financial statements and adversely affect the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of this matter.

Other Matter

370. Unresolved Prior Year Matters

In the prior years' audit reports, 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. Review of the status during audit of the National Police Service in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Audit Issue
1.	Abandoned Construction Works at Laisamis Police Station
2.	Delay in Separation of Electricity Meters
3.	Unremitted Ex- Gratia Claims
4.	Unpaid Last Expense Under Medical Cover by NHIF
5.	Lack of Handing over of Stalled Development Projects at Kanyoonyo Border Post Unit
6.	Asbestos Roofing at Embakasi B Campus Housing
7.	Stalled Administration Police Service Projects

Other Information

371. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

372. Non-Compliance with One-Third of Basic Salary Rule

Review of the Service's payroll for June 2025 revealed that five thousand four hundred and forty-five (5,445) employees were paid net salaries below the one-third of basic pay threshold. This was contrary to Section19(3) of the Employment Act, 2007 which states that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two thirds of such wages or salaries.

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

373. Contract Management

373.1. Anomalies in Provision of Comprehensive Medical Insurance Cover

The National Police Service awarded a contract for provision of medical cover for the members of the National Police Service and the Kenya Prison Services to an Insurance Company at a total premium of Kshs.8,669,999,999 which included Kshs.200,000,000 excess of loss (ex-gratia) claims excluding dental and optical. The contract was dated 28 March, 2024 and covered a period of three (3) years from 1 April, 2024 to 31 March, 2027.

Review of insurance records revealed that Clause 6.20.1 of the Medical Insurance Cover, contract provides for last expense for principal members at a rate of Kshs.200,000 and Kshs.50,000 for each declared dependant. However, as at the time of audit in November 2025 the insurer had not settled thirty (30) claims for principal members and dependents amounting to Kshs.3,300,000 for last expense covered under the comprehensive medical cover.

373.2. Anomalies in Group Life Cover, Work Injury Benefits Act and Group Personal Accident Cover

The National Police Service awarded a contract for Provision of Group Life Cover and Work Injury Benefits Act (WIBA) and Group Personal Accident Cover (GPA) to an Insurance Company at an annual premium of Kshs.4,285,280,762 covering a total population of 139,439 members for three (3) years from 1 April, 2024 to 31 March, 2027. However, review of insurance records revealed the following unsatisfactory matters:

a) Unpaid Last Expense under Group Life Cover

Clause 2.3 of the contract provides for last expense for principal members at a rate of Kshs.300,000 while for declared dependants the rates are Kshs.200,000 and Kshs.100,000 for spouses and children respectively. However, as at the time of audit in November, 2025 the Insurer had not settled one hundred and twenty-one (121) claims for principal members and dependents amounting to Kshs.25,200,000 for last expense covered under the Group Life Cover.

b) Unpaid Group Life Benefits

Clause 2.3.1 of the contract provides that upon the death of a member, the Member's declared next of Kin shall be paid a lump sum compensation equivalent to five years (5) annual basic salary. However, as at the time of audit in November, 2025, the Insurer had not paid one hundred seventy (170) claims totalling Kshs.423,885,996 in respect of group life sum assured. This was contrary to the contract terms which states that claims shall be paid within five (5) days after notification and provision of all documents.

c) Unpaid Injury Group Personal Accident (GPA) Claims

The contract provides that where a member is out of work due to an injury arising out of an accident or as a result of illness such members shall be entitled to compensation for loss of gross salary for upto a maximum period of two (2) years subject to the prevailing Human Resource Policy at the time of injury or illness. However, review of insurance records revealed that as at the time of audit in November 2025, the Insurer had not settled nine hundred and seven (907) injury GPA claims despite having been notified.

d) Unpaid Work Injury Benefits Act (WIBA)

The contract provides that death or total disablement under WIBA or as a result of occupational/accident shall be compensated at a rate of eight (8) years gross salary of the beneficiary. However, review of records provided revealed that the insurer had not settled seventeen (17) WIBA death claims.

In the circumstances, Management did not adequately monitor the contracts to ensure that the contract terms were complied with and ensure value for money and benefit to the members and their beneficiaries.

374. Delayed Completion and Handing over of Police Station

The National Police Service entered into a contract with a local firm on 1 June, 2022 for Construction of Himaki Police Station at a contract sum of Kshs.30,100,160 for a contract period of eight (8) months. As at the time of audit in November 2025, the contractor had been paid a total of Kshs.29,900,160 representing 99% of the contact sum. However, physical verification of the station revealed that although the construction of the police station had been completed, the septic tank was not constructed, gutters for rainwater disposal were not installed, connection to existing power lines by Kenya Power had not been done and there was no water connection. The officers currently stationed at the police station were using *uni-huts* as the office. The Station also requires a drainage system as the compound floods when it rains. Further, the contractor was not on site, and certificate of practical completion was not provided for audit. The police station was not in use as official handing over from the contractor to the County Commander had not been done.

In the circumstances, the Service and the public did not receive value for money for funds spent on the project.

375. Non-Operational National Police Service Hospital at Mbagathi

Construction and equipping of the National Police Service (NPS) Mbagathi Hospital was done under the supervision of the Ministry of Defence at a cost of Kshs.1,233,628,135. An amount of Kshs.400,000,000 was paid while the remaining balance of Kshs.833,628,135 was still outstanding as at the time of the audit in November 2025. Although the construction and equipping of the Hospital was completed in the financial year 2022/2023, official handing over of the hospital had not been done. Physical verification of the facility revealed some defects that had not been made good by the contractor and some rooms were being used to store items and tools for the contractor.

Further, the level 4 hospital with a 150 – 180 bed capacity was partially equipped and only 70 beds were available. The hospital has two theatres but only one was equipped while the rest of the equipment were partially supplied. In addition, some of the equipment requiring maintenance by the suppliers had not been maintained since they were supplied.

In the circumstances, value for money for funds spent on the project may not have been realised.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

376. Incomplete Land Register and Lack of Ownership Documents

Inquiries from Management revealed that the National Police Service was in possession of two thousand four hundred and sixty (2,460) parcels of land across the country out of which one hundred and eight five (185) had title deeds and an additional five hundred and seventy-one (571) had allotment letters. Out of the remaining one thousand seven hundred and four (1,704) parcels, sixty-eight (68) had disputes or had been encroached on. However, the Management did not provide a comprehensive listing of the parcels of land owned by the Service.

Further, no evidence was provided for audit to confirm that the title deeds had been submitted to The National Treasury as custodian of Government of Kenya assets in line with The National Treasury Circular Ref: NALM/2/1/C/ (106) dated 2 August, 2024.

In addition, Management did not provide an action plan to resolve the disputes for the sixty-eight (68) parcels of land which had disputes or had been encroached on.

In the circumstances, the ownership and safe custody of the Service's land could not be confirmed.

377. Old and Dilapidated Buildings at Sondu Police Station

Physical verification revealed that Sondu Police Station was established in 1932 and no new structures have been put up at the station except for the ongoing works at the police lines. Further, there have been no improvements or renovations on the existing offices at

the station. Some of the offices had developed major cracks that have weakened the structures and resulted in leaning walls.

In the circumstances, structural failures may lead to collapse of the buildings and posed a risk to the officers and visitors at the Station.

378. Police Stations Operating Without Motor Vehicles

Review of records and physical verification of the National Police Service motor vehicles fleet in sampled counties revealed that ninety-four (94) gazetted Police Stations were operating without motor vehicles.

In the circumstances, the lack of motor vehicles may hinder the effective and efficient delivery of services by the National Police Service.

379. Enhancement of Governance Systems for Security Related Expenditures

During the year under review, the National Police Service incurred some expenditure on confidential security operations. Certificates of confidential expenditure were issued, supported by a declaration from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures, which has increased over the years, through review of the Regulations to clearly define entities eligible for confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in November 2025, no action had been taken to implement the audit recommendations.

RECEIVER OF REVENUE FINANCIAL STATEMENTS – NATIONAL POLICE SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

380. There were no material issues noted during the audit of the financial statements of the Service.

Emphasis of Matter

381. Long Outstanding Arrears of Revenue

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,090,515,677 as disclosed in Note 8 to the financial statements.

However, the receivables balance of Kshs.1,090,515,677 includes an amount of Kshs.773,546,329 that has been outstanding for over one year. Management did not provide evidence of efforts taken to recover the arrears of revenue.

My opinion is not modified in respect of this matter.

Other Information

382. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

383. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

384. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR INTERNAL SECURITY AND NATIONAL ADMINISTRATION – VOTE 1026

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

385. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

386. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.3,127,122,934 as disclosed in Note 16 to the financial statements. However, review of ageing analysis provided for audit revealed that a balance of Kshs.646,713,808 representing approximately 21% of the total outstanding payables have remained unpaid for over one year.

Further, the payables were not settled during the year under review but were instead carried forward to the financial year 2025/2026. Failure to settle the payables during the year in which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of this matter.

Other Matter

387. Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Audit Issue
1.	Non-Compliance with One-third of Basic Salary Rule
2.	Stalled Development Projects
3.	Unpaid Claims Under Work Injury Benefits Act (WIBA) and Group Personal Accident Cover (GPA)
4.	Lack of Land Ownership Documents
5.	Pending Accounts Payable
6.	Ineffective Maintenance of Elevators
7.	Enhancement of Governance Systems for Security Related Expenditures

Other Information

388. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

389. Legal Matters

389.1. Delayed Settlement of Court Awards

The statement of financial position reflects trade and other payables balance of Kshs.3,127,122,934. Review of records revealed that a balance of Kshs.799,257,132 relates to court awards issued during the year that remain unsettled.

The delayed settlement of the court awards implies contempt of court and may result to unplanned expenditures in form of penalties, interest and additional litigation costs.

389.2. Avoidable Expenditure on Court Award

The statement of financial performance reflects an expenditure of Kshs.18,943,658,111 under use of goods and services which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.15,341,164,337 in respect of other operating expenses. The expenditure of Kshs.15,341,164,337 includes legal expenses of Kshs.662,416,019 out of which an amount of Kshs.365,116,120 was paid to the State Law Office. Review of legal files revealed that the payment relates to Constitutional Petition No.2 where a judgement was issued for release of two impounded motor vehicles as well as a sugar packing machine by the Directorate of Criminal Investigations (DCI) to the petitioner. However, this order was not complied with and on 22 November, 2024, through judicial review on civil application No. E004 of 2021, an order was issued against the DCI to pay Kshs.482,670,000 for failure to comply with the Court orders issued on 17 December, 2019.

The Attorney General on 15 January, 2024 through a letter referenced AG/CPT/1G/181/18 and AG/EMB/INJ/JR/R/6/2 advised the Ministry that a consent had been entered into with the plaintiff on 11 December, 2023, to pay the decretal sum of Kshs.482,670,000 together with interest calculated at 14% from 02 December, 2019 to 31 November, 2023 totalling Kshs.747,411,189. In addition, the State Department has continued to disregard this order since the full payment has not been transferred to the Attorney General.

Failure to comply with the Court order issued on 17 December, 2019 resulted to incurrence of avoidable expenditure amounting to Kshs.264,741,189 had the earlier order been complied with in a timely manner.

389.3. Delay in Payment of Decretal Sum in the Acquisition of General Service Unit (GSU) Land

In the year 1988 the former Ministry of State for Provincial Administration and Internal Security purchased one hundred and ninety-six (196) housing units from the defunct

Kenya Post and Telecommunication Corporation (KPTC) on a 17.8-acre parcel, in Drive-In Estate, Nairobi, for Kshs.64,680,000.

In the year 2006, the then commandant of General Service Unit hived off an additional 19.6 acres from the land and fenced it off. This resulted in a civil suit in 2012 against the Attorney General for trespass. A judgement on this matter was delivered on 12 February, 2013, against the Attorney General for the decretal sum of Kshs.4,086,883,330. By a consent dated 02 April, 2013, the parties mutually agreed to reduce the decretal amount to Kshs.2,400,000,000. It was also agreed that the Government will pay a further sum of Kshs.150,000,000 for Continental Finance Limited (In Liquidation) which had a registered charge on the property.

However, review of records provided for audit revealed the following anomalies;

i. As at 30 June, 2025, the State Department had made payments totalling Kshs.1,878,339,170 to the plaintiff resulting to a balance of Kshs.521,660,830 that was yet to be settled resulting to a breach of the court ruling dated 12 February, 2013.

ii. Included in the total amount paid of Kshs.1,878,339,170 is an advance interest capping charge of Kshs.600,000,000, settled on 20 April, 2015 under a consent dated 25 March, 2015. This resulted in incurrence of avoidable expenditure had the order been complied with in a timely manner.

iii. Although the Court had ordered payment of Kshs.150,000,000 to facilitate discharge of the charge, review of land search records for the land indicated that the property remains encumbered by a registered charge in favor of Continental Credit Finance Limited (In Liquidation). There was no evidence to indicate that the payments made through the State Law Office was used to facilitate the discharge since the land remained encumbered.

iv. There has been unreasonably long delay of about twelve (12) years in payment of the full amount by the Government. The Government has not therefore, obtained the property title despite having paid a considerable amount of the decretal sum.

In the circumstances, value for money on expenditure of Kshs.1,878,339,170 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

390. Ineffective Maintenance of Elevators

Review of records for maintenance of elevators at Nyayo house, Uhuru na Kazi and Harambee House Buildings offices revealed that the State Department entered into a framework contract for monthly maintenance of lifts on 14 August, 2023 for a period of two years at a contract sum of Kshs.8,978,000. However, after expiry of the contract on 13 August, 2025, Management did not enter into a service level agreement for maintenance of the elevators to ensure continued maintenance.

Physical verification carried out in November 2025 revealed that only three (3) of eight (8) elevators in Nyayo House and two (2) of three (3) in Harambee House were operational. The functioning lifts in Nyayo House also experienced frequent breakdowns, causing long queues resulting to delays in service delivery and occupational and safety risks. Further, Management decision to transfer the Foreign Service Management Services from Ground Floor to the 17th Floor of the building during year under audit resulted to excess traffic and inconvenience to elderly foreign citizens who were forced to take the stairs when the lifts were out of service. In addition, several lift lobbies areas had been converted to office spaces in disregard of the building design and safety measures.

Further, review of the technical assessment report of elevators at Uhuru na Kazi building in Mombasa revealed that only one (1) lift of three (3) was functional with recurring breakdown.

In the circumstances, the existence of effective internal controls and risk management practices for management of the elevators could not be confirmed.

391. Enhancement of Governance Systems for Security Related Expenditures

During the year under review, the State Department for Internal Security and National Administration incurred some expenditures on confidential security operations. Certificates of confidential expenditure were issued, supported by declarations from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures, which has increased over the years, through review of the Regulations to clearly define entities eligible for confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in November 2025, no action had been taken to implement the audit recommendations.

RECEIVER OF REVENUE FINANCIAL STATEMENTS - STATE DEPARTMENT FOR INTERNAL SECURITY AND NATIONAL ADMINISTRATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

392. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

393. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.157,374,800 and Kshs.329,428,034 respectively, resulting to an over-collection of Kshs.172,053,234. Management has attributed the over-collection to funds whose budget were under the State Department of Immigration and Citizen Services and the National Police Service but the funds were deposited in the State Department for Internal Security and National Administration account.

My opinion is not modified in respect of this matter.

Other Information

394. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

395. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

396. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECT

TECHNICAL ASSISTANCE TO ENHANCE THE CAPACITY OF THE PRESIDENT'S DELIVERY UNIT (ADB GRANT NO. 5500155012902) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

397. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

398. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

399. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

400. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

401. As required by the African Development Bank, I report based on my audit, that the Project's funds have been utilized in accordance with the conditions outlined in the Grant Agreement, with due consideration for economy, efficiency, and effectiveness for their intended purposes. Further, goods and services financed under the Project have been procured in compliance with the Grant Agreement and the Bank's rules and procedures. I also confirm that all necessary supporting documents, records, and accounts have been maintained for all Project activities, and that adequate internal controls are in place to monitor expenditures, oversee financial transactions, and ensure the safe custody of assets.

STATE DEPARTMENT FOR DEVOLUTION - VOTE 1032

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

402. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

403. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.3,128,669,920 and Kshs.2,214,821,283 respectively, resulting to an underfunding of Kshs.913,848,637 or 29% of the approved final budget.

The underfunding affected the planned activities and programmes of the State Department, which may have impacted negatively on effective service delivery to the public.

404. Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.2,768,447,038 in respect of trade and other payables relating to amounts due to suppliers, service providers, and other third-party obligations. The payables were not settled during the year under review but were instead carried forward to the financial year 2025/2026.

Failure to settle the payables during the year in which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of these matters.

Other Matter

405. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the following six (6) issues relating to 2023/2024 remained unresolved:

No.	Audit Issue
1.	Unsupported Prior Year Adjustments
2.	Unsupported and Long Outstanding Pending Accounts Payable
3.	Failure to Provide Recommendations Implementation Status Report
4.	Lack of an Audit Committee

No.	Audit Issue
5.	Unclear Engagement of Commissioners of Nairobi Rivers Commission
6.	Stalled Proposed Africities Convention Center In Kisumu County

Other Information

406. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

407. Engagement of Staff Beyond the Approved Staff Establishment

Review of the staff records revealed that the State Department had an authorized staff establishment of one-hundred and forty (140). However, the actual number of staff in post was one hundred and seventy-seven (177), resulting in an excess of thirty- seven (37) staff members beyond the approved establishment. This was contrary to Part III of Regulation 15–16 of the Public Service Commission Regulations, 2018 which stipulates that staff appointments must align with the approved establishment of Offices.

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

408. Non-Compliance with the Public Procurement Capacity Building Levy Order

Review of the Annual Procurement plan and other procurement records revealed that the State Department procured goods and services at estimated cost of Kshs.423,611,278 for the financial year under review. However, there was no evidence that the entity deducted and remitted the prescribed levy rate of 0.03% to the Public Procurement Regulatory Authority. This was contrary to Order 3(1) of the Public Procurement Capacity Building Levy Order, 2023 (The Levy Order, 2023) which requires all procuring entities to deduct and remit to the Authority a Levy of 0.03% of the value of the signed contracts between the supplier and procuring entity exclusive of all applicable taxes. In addition, monthly returns filed and submitted to the Authority were not provided.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

409. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA COOPERATION AND PARTNERSHIP FACILITY (KCPF) PROJECT NO.KE/FED 2019/041-712, CREDIT NO.FED/2021/423-175

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

410. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

411. Failure to Surrender Unutilized Funds and Close the Project

The statement of financial position reflects a cash and cash equivalents balance of Kshs.1,740,476 as disclosed in Note 2 to the financial statements. The Project's records indicate that the Project's operational period was for an initial one year from August 2021 to September 2022. A six (6) months extension was later granted and the expected Project closure period was between 16 March, 2023 and 15 July, 2023. However, as at the time of audit in September, 2025, the Project had not been closed and had an active bank account held with the Central Bank of Kenya with a balance of Kshs.1,740,476. Management did not provide reasons for failure to surrender the unutilized funds to The National Treasury and close the Project more than two (2) years after the end of the Project's implementation period.

My opinion is not modified in respect of this matter.

Other Information

412. Undrawn Project Funds

As disclosed under Paragraph 2.2 on project information, the Project's start date was on 16 August, 2021 and the end date was on 15 March, 2023. Further, Paragraph 2.7 on funding summary indicates that the Donor had made a commitment amounting to Kshs.45,634,700. However, the total amount received as at 30 June, 2025 was Kshs.31,534,900 leaving an undrawn balance of Kshs.14,099,800 or 31% of expected funding. In addition, Paragraph 3 on the statement of performance against the Project's predetermined objectives indicates that fourteen (14) out of seventeen (17) projects in fifteen (15) counties were completed and started. The remaining three (3) were at 50% - 60% completion level.

Failure to draw the committed funds may have impacted negatively on achievement of the Project's objectives.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

Other Information

There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

413. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

414. There were no material issues relating to internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

415. As required by European Development Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM (IDA CREDIT NO. 7447- KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

416. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

417. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

418. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

419. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

420. As required by the International Development Association (IDA), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and, the Project's financial statements agree with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR DEVOLUTION

KENYA SYMBIOCITY PROGRAMME - SIDA NO. 51110060 - COUNCIL OF GOVERNORS

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

421. There were no material issues noted during the audit of the financial statements of the Programme.

Other Matter

422. Unresolved Prior Years Issues

In the audit report of the previous year, an issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources on lack of project closure Procedures. However, the issue remained unresolved as at 30 June, 2025.

Other Information

423. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

424. Incomplete Project Closure Procedures

The Kenya Symbiocity Programme ended on 30 June, 2023 according to the Amendment No. 3 to the Specific Agreement Article 19 on termination. However, at the time of the

audit in September, 2025, Management had not finalized the closing procedures for the Programme despite the contract having reached its end of term.

In the circumstances, Management did not comply with the provisions of the Specific Agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

425. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM CREDIT NO. IDA 7447-KE – COUNTY GOVERNMENT OF KILIFI

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

426. Unsupported Expenditure on Domestic Travel and Subsistence

The statement of financial performance reflects expenditure on use of goods and services totalling Kshs.43,865,758 as disclosed in Note 9 to the financial statements. The amount includes Kshs.23,229,699 incurred on domestic travel and subsistence out of which Kshs.2,106,900 was paid in respect to allowances for attending sensitization workshop for project management committee from 24 to 26 April, 2025 at a hotel in Mombasa. However, the expenditure was not not supported with evidence of travel.

In the circumstances, the accuracy and completeness of expenditure on use of goods and services totalling Kshs.43,865,758 could not be confirmed.

427. Inaccuracies in the Statement of Financial Position

Review of the statement of financial position revealed the following:

i. The statement reflects property plant and equipment balance of Kshs.2,084,986 while the disclosing Note 20 to the financial statements reflects a balance of Kshs.1,876,488 resulting to unreconciled variance of Kshs.208,499.

ii. The statement reflects balances which differ with recomputed amounts as indicated below:

Item	Statement of Financial Position (Kshs.)	Recomputed Balance (Kshs.)	Unexplained Variance (Kshs.)
Total Assets	62,859,407	62,650,909	208,498
Total Liabilities	31,933,663	31,640,079	353,584
Net Assets (A-B)	0	31,010,830	31,010,830

iii. The statement reflects trade and other payables balance of Kshs.31,640,079. However, the supporting ledger reflects a balance of Kshs.8,377,364 resulting to unreconciled variance of Kshs.23,262,715.

iv. The statement reflects accumulated surplus and total net assets balance of Kshs.30,925,744 and Kshs.62,859,407 respectively. However, the statement of changes in net assets reflects accumulated surplus balance and total assets balance of Kshs.11,706 and Kshs.Nil resulting to unreconciled variance of Kshs.30,914,038 and Kshs.62,859,407respectively.

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

Emphasis of Matter

428. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amount of Kshs.75,000,000 Kshs.37,500,000 resulting to budget under funding of Kshs.37,500,000 or 50% of the budget. Similarly, the Project spent Kshs.29,049,256 against an actual receipt of Kshs.37,500,000 resulting to under-utilization of Kshs.8,450,744 or 23% of the receipts.

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

My opinion is not modified in respect of this matter.

Other Information

429. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

430. Late Submission of the Financial Statements

Management submitted the annual report and financial statements on 21 November, 2025. This was contrary to paragraph 1.8 of The National Treasury Circular Ref No:AG.3/88 Vol. VII (41) of 4 December, 2024 which directed all public entities for both National and County Governments to prepare and submit annual statements by 31 August, 2025 to the Office of the Auditor-General with a copy to the Controller of Budget, The National Treasury and Commission on Revenue Allocation.

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

431. Non-Compliance with Public Sector Accounting Standards Board Reporting Requirements

Review of the annual report and financial statements revealed the following:

i. The cover of the financial statements read amended annual report and financial statements instead of Annual report and financial statements.

ii. The project overview on page iv reflects State Department for Devolution instead of County Department of Devolution, Civic Education and Public Participation.

iii. Page vi refers to the independent auditor as Independent Verification Agent instead of The Office of The Auditor General.

iv. Page xi reflect funding summary reflected in donor currency without conversion to Kenya shillings as per the template.

v. Page xii indicate source of funds as KDSP II instead of World Bank Group and Undrawn balance to date of USD 500,000 while a re-casted indicate USD 250,000.

vi. Annex 2 reflects nil total inter-entity transfers while the re-casted amount is Kshs.37,500,000.

vii. The summary of significant accounting policies under retirement benefits plan in page 15 of the financial statements refers to the designations not appearing in key management information's.

viii. Annex 4 refers to other support documents included are bank reconciliation statement as at 30 June, 2025, board of survey report which have not been included with the financial statements.

In the circumstances, Management did not comply with the Public Sector Accounting Standards Board Reporting template requirements.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

432. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM (KDSPII) CREDIT NO. IDA-7447-KE – COUNTY GOVERNMENT OF LAMU

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

433. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

434. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

435. Late Submission of Financial Statements

Management submitted the Project's financial statements for the year ended 30 June, 2025, to the Office of the Auditor-General on 13 November, 2025 more than two (2) months after the submission deadline of 31 August, 2025. This was contrary to The National Treasury's circular Ref No. AG.3/88 Vol. VII (41) dated 04 December, 2024 which directed Accounting Officers to prepare and submit annual financial statements for the year ended 30 June, 2025, by 31 August, 2025.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

436. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM (KDSP II) – GRANT/CREDIT NUMBER IDA-7447-KE - COUNTY GOVERNMENT OF TAITA TAVETA

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

437. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

438. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.40,000,000 and Kshs.2,500,000 respectively, resulting in receipts shortfall of Kshs.37,500,000 or 94% of the budget.

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

My opinion is not modified in respect of this matter.

Other Information

439. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

440. Late Submission of Financial Statements

The financial statements for the Project were submitted to the Office of the Auditor-General on 18 November, 2025 two and a half months after the submission deadline of 31 August, 2025. This was contrary to The National Treasury's Circular No. AG.3/88. Vol. VII (41) of 4 December, 2024 which required that the financial statements be submitted to the Office of the Auditor-General by 31 August, 2025.

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

441. Failure to Report Utilization of Funds

The statement of financial performance and as disclosed in Note 9 to the financial statements, reflects use of goods and services of Kshs.2,458,097. However, the expenditure was not reported to the County Assembly of Taita Taveta and the Controller of Budget. This was contrary to Paragraph 76 of the Second Kenya Devolution Support Program (KDSP II) County Program Operations Manual (CPIU), 2024, which states that the County Government will report on the use of the grant as part of its normal reporting to the County Assembly and the Controller of Budget.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

442. Lack of a Risk Management Policy

Assessment of the Project's internal control system revealed that Management had not established a Risk Management Policy to identify, mitigate and control operational and other risks that the Project may face.

In the circumstances, the effectiveness of risk management within the Project could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

443. As required by Financing Agreement Credit Number IDA-7447-KE dated 2 February, 2024, I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM CREDIT NO. IDA-7447-KE - COUNTY GOVERNMENT OF GARISSA

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

444. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

445. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

446. Late Submission of Financial Statements

Management submitted the annual financial statements for the year ended 30 June, 2025 on 11 November, 2025, contrary to paragraph 1.8 of The National Treasury Circular Ref. No. AG.3/88 Vol. VII (41) issued on 4 December, 2024, which required all public sector entities, both at the national and county levels, to prepare and submit annual financial statements by 31 August, 2025.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

447. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

448. As required by Financing Agreement Credit No. IDA-7447-KE dated 2 February, 2024 between World Bank and Republic of Kenya: I report based on my audit that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM CREDIT NO. IDA-7447-KE - COUNTY GOVERNMENT OF WAJIR

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

449. There were no material issues noted during the audit of the financial statements of the Program.

Emphasis of Matter

450. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipt budget and actual amount on comparable basis of Kshs.42,500,000 and Kshs.5,000,000 respectively, resulting in an under-funding of Kshs.37,500,000 or 88% of the budget. Similarly, the statement reflects total payments of Kshs.4,980,697 against actual receipts of Kshs.5,000,000 resulting in under expenditure of Kshs.19,303.

The under-funding may have affected the planned activities of the project and may have impacted negatively on the achievement of the objectives of the project.

My opinion is not modified in respect of this matter.

Other Information

451. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

452. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2025 were submitted on 10 November, 2025. This was contrary to paragraph 1.8 of The National Treasury Circular Ref. No. AG.3/88 Vol. II (41) issued on 4 December, 2024, which required all public sector

entities, both at the National and County levels, to prepare and submit annual financial statements by 31 August, 2025.

In the circumstances, Management was in breach of The National Treasury Circular.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

453. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

454. As required by Financing Agreement Credit No. IDA-7447-KE dated 2 February, 2024 between World Bank and Republic of Kenya: I report, based on my audit, that 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. Further, Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM CREDIT NO. IDA-7447-KE - COUNTY GOVERNMENT OF MANDERA

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

455. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

456. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.52,500,000 and Kshs.9,000,000 respectively, resulting in an under-funding of Kshs.43,500,000 or 83% of the budget. Similarly, the project spent a total of Kshs.8,939,440 against actual receipts of Kshs.9,000,000, resulting in an under-utilization of Kshs.60,560.

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

My opinion is not modified in respect of this matter.

Other Information

457. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

458. There were not material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

459. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

460. As required by Financing Agreement Credit No. IDA-7447-KE dated 2 February, 2024 between World Bank and Republic of Kenya, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME (KDSP II) (CREDIT NO. IDA-7447-KE) - COUNTY GOVERNMENT OF NYERI

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

461. There were no material issues noted during the audit of the financial statements of the Programme.

Emphasis of Matter

462. Budgetary Controls and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.45,500,000 and Kshs.8,000,000 respectively resulting to an under-funding of Kshs.37,500,000 or 82% of the budget.

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

My opinion is not modified in respect of this matter.

Other Information

463. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

464. Late Submission of Financial Statements

The Management of the Kenya Devolution Support Program II-County Government of Nyeri submitted the financial statements for the year ended 30 June, 2025 to the Office of the Auditor-General on 6 November, 2025, instead of the set deadline of 31 August, 2025. No explanation was provided for the non-compliance with National Treasury guideline Paragraph 1.8 Ref: No:AG.3/88 Vol. VII (41) of 4 December, 2024 which directs all public sector entities, for both national and County Governments, to prepare and submit annual financial statements by 31 August, 2025 to office of the Auditor-General with a copy to Controller of Budget, The National Treasury and Commission on Revenue Allocation.

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

465. Uneconomical Use of Resources

The statement of financial performance for the year ended 30 June, 2025 reflects use of goods and services expenditure of Kshs.7,998,880 as disclosed in Note 9 to the financial statements. Audit tests under the hospitality vote established that the accounting officer irregularly authorized and approved payments of Kshs.7,998,880 towards hospitality and daily subsistence allowances for activities that were otherwise eligible to be held within the precincts of the County Headquarters. This is contrary to Regulation 210(1)(i) of the Public Finance Management (County Governments) Regulations, 2015 which requires a public officer employed by the county government or a county government entity not to, without lawful authority, incur a wasteful expenditure.

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

466. Non-Compliance with the Reporting Template

The financial statements presented for audit did not comply with the reporting template in that the cover page of the financial statements indicated that the financial statements were Transitional IPSAS financial statements / prepared in accordance with the accrual basis of accounting method under the International Public Sector Accounting Standards (IPSAS). However, this is the first year of preparing the financial statements and therefore there was no transition.

In the circumstances, the financial statements did not comply with the reporting template as prescribed by the Public Sector Accounting Standards Board.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

467. There were not material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

468. As required by the Credit Agreement IDA No. 7447 - KE and Participation Agreement, I report, based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME (KDSP II) (CREDIT NO. IDA-7447-KE) - COUNTY GOVERNMENT OF KIRINYAGA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

469. Inaccuracy and Misrepresentation of Financial Statements

Review of the annual reports and financial statements presented for audit revealed that the table of content had inconsistencies in the numbering and included two statements of management responsibilities. The financial statements also included instructions and guidelines for completion of the various section of the reports and was not customized to be specific to the Project.

Further, the statement of financial performance reflects Kshs.9,000,000 as revenue transfers and expenditure in respect of use of goods and services while the statement of financial position reflects receivables of Kshs.37,500,000. However, the corresponding disclosure notes to the financial statements were blank.

In addition, the funding summary on source of funds reflects commitment from GoK of Kshs.9,000,000 as not received yet the application of funds statement reflects the amount as paid from GoK counterpart funding.

In the circumstances, the accuracy and completeness in presentation of the financial statements could not be confirmed.

Emphasis of Matter

470. Budgetary Controls and Performance

The statement of comparison of Budget and Actual amounts reflects Kshs.9,000,000 as final budget and actual receipts in respect to revenue. However, the Kirinyaga County Executive approved budget reflects an amount of Kshs.25,100,000 as County Executive counterpart funding for the project and Kshs.37,500,000 as IDA World Bank credit both totalling to Kshs.62,600,000 resulting in unexplained difference of Kshs.53,600,000.

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

My opinion is not modified in respect of this matter.

Other Information

471. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

472. Late Submission of Financial Statements

The Management of the Kenya Devolution Support Program II - County Government of Kirinyaga submitted the financial statements for the year ended 30 June, 2025 to the Office of the Auditor General on 18 November, 2025, instead of the given deadline of 31 August, 2025. No explanation was provided for the non-compliance with The National Treasury Guideline Paragraph 1.8 Ref: No:AG.3/88 Vol. VII (41) of 4 December, 2024 which directed all public sector entities, for both National and County Governments, to prepare and submit annual financial statements by 31 August, 2025 to office of the Auditor-General with a copy to Controller of Budget, National Treasury and Commission on Revenue Allocation.

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

473. Delayed Release of Funds

The statement of financial position reflects Kshs.37,500,000 in respect to receivables which represents the amount of institutional grants that was expected to be transferred into the project account during the financial year. However, the amounts had not been received as at 30 June, 2025.

In the circumstances, the delayed transfer of funds may have negatively impacted in implementation of planned programs and service delivery to the public.

474. Failure to Develop Policy Documents

In Kirinyaga County, KDSP II programme was to run for a four (4) year period from 2023 to 2027. However, as at December 2025, the County had not developed Project

Management Committee Policy to reflect constitutional basis for public participation and engagement in project management, as set out in KDSP II guidelines; the Knowledge Management Policy to establish county systems and standards for capturing, storing, sharing, and using knowledge to improve decision-making and service delivery; and the Stakeholder Engagement Plan which was to provide a framework how the County will engage stakeholders throughout the program.

In the absence of the policy guidelines, there may be weaknesses in project governance and accountability, fragmented knowledge practices impairing decision-making and non-compliance with program requirements, potentially affecting KDSP II performance and access to program benefits.

475. Non-Compliance with the Reporting Template

The financial statements presented for audit did not comply with the reporting template as the cover page of the financial statements indicated that the financial statements were Transitional IPSAS financial statements/prepared in accordance with the accrual basis of accounting method under the International Public Sector Accounting Standards (IPSAS). However, this is the first year of preparing the financial statements and therefore there was no transition.

In the circumstances, the financial statements did not comply with the reporting template as prescribed by the Public Sector Accounting Standards Board.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

476. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

477. As required by IDA credit agreement No. IDA-7447-KE and the Participation Agreement, I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME (KDSP II) CREDIT NO: IDA 7447-KE - COUNTY GOVERNMENT OF ELGEYO MARAKWET

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

478. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

479. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Kshs.37,500,000 and Nil amount resulting into under-realization of Kshs.37,500,000 or 100% of the budget. The Project did not incur expenditure out of the budgeted funds.

The under-performance negatively affected the implementation of the Program and may have affected planned activities and delivery of services to the public.
My opinion is not modified in respect of this matter.

Other Information

480. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

481. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

482. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

483. As required by Financing Agreement, Project Grant/Credit No. P180935 dated 2 February, 2024 between the Republic of Kenya and the International Development Association (World Bank) (the "Financing Agreement"), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME (KDSP II) - CREDIT NO: IDA-7447-KE – COUNTY GOVERNMENT OF NANDI

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

484. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

485. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.57,500,000 and Kshs.19,941,400 resulting to an under-funding of Kshs.37,558,600 or 65% of the budget. In addition, the Project incurred total recurrent expenditure of Kshs.19,542,789 against actual receipts of Kshs.19,941,400 resulting into an under-expenditure of Kshs.398,611 or 2 % of the actual receipts.

The under-funding negatively affected the implementation of programmes and may have affected planned activities and delivery of services to the public.

My opinion is not modified in respect of this matter.

Other Information

486. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

487. Non-Disbursement of Funds

The statement of financial performance reflects a revenue transfers amount of Kshs.57,500,000 as disclosed in Note 6 to the financial statements. Included in the amount is Kshs.37,500,000 in respect to transfers from Development Partners. However, review of the bank statement revealed that the Development Partners did not transfer the amount, contrary to Part F2 of the Financing Agreement. Further, there was no evidence whether the Project's accounting officer made requisition for funds from the Development Partner contrary to Regulation 43(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that accounting officers provide the County Treasury with annual cash flow plans as requisition for funds needed for that financial year.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

488. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SECOND KENYA DEVOLUTION SUPPORT PROGRAM (KDSP II) PROJECT GRANT/CREDIT NUMBER IDA – 7447-KE - COUNTY GOVERNMENT OF NAKURU

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

489. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

490. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total receipts budget and actual on a comparable basis amounts of Kshs.52,500,000 and Kshs.15,000,000 respectively resulting to an under-funding by Kshs.37,500,000 or 71% of the budget. Further, the Project made payments against actual receipts of Kshs.15,000,000 resulting to an under-utilization of Kshs.15,000,000 of the actual receipts.

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

My opinion is not modified in respect of this matter.

Other Information

491. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

492. Late Submission of Financial Statements

The financial statements for the Project for the year ended 30 June, 2025 were submitted to the Office of the Auditor-General on 04 November, 2025 more than two (2) months after the submission deadline of 31 August, 2025. This was contrary to Paragraph 1.8 of The National Treasury and Economic Planning Circular Ref. No: AG.3/88 Vol. VII (41) dated 04 December, 2024 on Annual Financial Statements Reporting Date Submission

Guidelines for all Public Sector Entities that directed all public sector entities, for both National and County Governments, to prepare and submit annual financial statements by 31 August, 2025.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

493. There were no material issues relating to internal controls, risk management and governance.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMCREDIT NO. IDA-7447-KE - COUNTY GOVERNMENT OF BUNGOMA

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

494. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

495. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.42,500,000 and Kshs.5,000,000 respectively, resulting to an under-funding of Kshs.37,500,000 or 88% of the budget.

The under-funding affected the Project's planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

496. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

497. Late Submission of Financial Statements

The financial statements for the Program for the year ended 30 June, 2025 were submitted to the Office of the Auditor-General for audit on 31 October, 2025 two (2) months after the submission date of 31 August, 2025. This was contrary to The National

Treasury Circular No AG.3/88 Vol. VII (41) which required all public sector entities for both National and County Governments to prepare and submit financial statements for the year ended 30 June, 2025 to the Office of the Auditor-General by 31 August, 2025.

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

498. Delayed Funding of Program Activities

Audit review of program documentation revealed that the financing agreement was signed on 2 February, 2024, while the participation agreement was signed on 22 May, 2024. However, as at November 2025, no funding had been disbursed by the donor to support the implementation of planned Program activities. Consequently, Program operations remained dormant pending release of funds.

In the circumstances, the effectiveness of the Program in implementation of key project activities could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

499. Failure to Review Operations of the Program by the Internal Audit Unit

Review of the documents and general operations of the Program revealed that the Program was not reviewed and appraised the by the Internal Audit Unit with a view to giving assurances on overall governance and internal controls of the Program.

In the circumstances, the effectiveness of the internal controls in the Program could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

500. As required by Financing Agreement No IDA-7447-KE, I report, based on my audit, that 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. Further, adequate accounting records have been kept by the Programme so far as appears from the examination of those records and the Programme's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME CREDIT NO. IDA-7447-KE - COUNTY GOVERNMENT OF BUSIA

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

501. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

502. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.75,000,000 and Kshs.37,000,000 respectively, resulting to an under-funding of Kshs.38,000,000 or 51% of the budget.

The under-funding affected the Project's planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

503. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

504. Late Submission of Financial Statements

The financial statements for the Project for the year ended 30 June, 2025 were submitted to the Office of the Auditor-General for audit on 7 November, 2025 more than two (2) months after the submission deadline of 31 August, 2025. This was contrary to The National Treasury Circular No AG.3/88 Vol.VII (41) dated 4 December, 2024, which required all public sector entities for both National and County Governments to prepare and submit financial statements for the year ended 30 June, 2025 to the Office of the Auditor-General by 31 August, 2025.

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

505. Delayed Funding of Program Activities

Audit review of the Program documentation revealed that the financing agreement was signed on 2 February, 2024, while the participation agreement was signed on 31 March, 2024. However, as at November, 2025, no funding had been disbursed by the donor to support the implementation of planned Program activities. Consequently, Program operations remained dormant pending release of funds.

In the circumstances, the effectiveness of the Program in implementation of key project activities could not be confirmed.

506. Non-Compliance with the Reporting Template Requirements

Review of the Program's annual report and financial statements revealed that the page numbering in respect of Other Information is inconsistent.

In the circumstances, the annual report and financial statements did not comply with the requirements of the reporting template prescribed by the Public Sector Accounting Standards Board.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

507. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

508. As required by the Financing Agreement No. 1DA-7447-KE, I report, based on my audit, that 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. Further, adequate accounting records have been kept by the Programme, so far as appears from the examination of those records and the Programme's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME II CREDIT NO. IDA-7447-KE – COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

509. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

510. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual amounts on a comparable basis of Kshs.74,100,000 and Kshs.14,463,000, respectively resulting to an under-funding of Kshs.59,637,000 or 80% of the budget. Similarly, the Project expended Kshs.6,750,400 against actual receipts of Kshs.14,463,000 resulting to an under-expenditure of Kshs.7,712,600 or 53% of the actual receipts.

The under-funding and under-expenditure affected the implementation of the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

511. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

512. Late Submission of Financial Statements

Management submitted the Project's financial statements for the year ended 30 June, 2025, to the Office of the Auditor-General on 5 November, 2025 more than two (2) months after the submission deadline of 31 August, 2025. This was contrary to The National Treasury's Circular Ref No. AG.3/88 Vol. VII (41) dated 04 December, 2024 which directed Accounting Officers to prepare and submit annual financial statements for the year ended 30 June, 2025, by 31 August, 2025.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

513. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

514. As required by the World Bank (International Development Association-IDA), Financing Loan Agreement No. Credit No.IDA-7447-KE, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME CREDIT NO. IDA 7447-KE - COUNTY GOVERNMENT OF MIGORI

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

515. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

516. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.47,500,000 and Kshs.10,000,000 respectively, resulting in underfunding of Kshs.37,500,000 or 79% of the budget. Similarly, the Project spent Kshs.6,132,402 out of the actual receipts of Kshs.10,000,000, resulting in underutilization of Kshs.3,867,598 or 39% of actual receipts.

The underfunding and underutilization affected the Project's planned activities and may have negatively impacted service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

517. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

518. Failure to Publish and Publicize Contracts and Use E-Procurement

The statement of financial position reflects property, plant and equipment balance of Kshs.2,399,003 being acquisition of assets whose procurement were not undertaken through e-procurement module in IFMIS. This was contrary to Executive Order No 2 of 2018 on Procurement of public goods, works and services by public entities Ref No. OP/CAB39/1A that requires all procurement to be undertaken through e-Procurement. This was also contrary to Regulation 52 of the Public Procurement and Asset Disposal Regulations, 2020, which states that where the e-procurement system is in place, procuring entities shall requisition all the procurement and asset disposal requirements through the approved system.

Further, there was no evidence that the Project published and submitted awarded contracts to the Public Procurement Regulatory Authority, contrary to Section 138(1) and (2) of the Public Procurement and Asset Disposal Act, 2015, which stipulates that the Accounting Officer of a procuring entity shall publish and publicize all contract awards on their notice boards at conspicuous places, and website if available within a period as prescribed and report all contract awards to the Authority as prescribed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

519. Lack of a Risk Management Policy Framework

Although the Migori County Executive had an approved Risk Management Policy, there was no evidence that the Policy was being implemented. The Project lacked key risk mitigation activities, including risk registers, risk assessment reports, documented risk mitigation measures, future risk mapping and forecasts, and a disaster recovery plan.

In the circumstances, the effectiveness of risk management system at the Project could not be confirmed.

520. Non-Implementation of Audit Recommendations

During the audit, it was noted that the County Government Internal Audit Unit issued only one audit report for the Project, covering Quarter 4 of the financial year under review. However, the Unit did not table the report before the Audit Committee as required. As a result, the Committee was not afforded the opportunity to deliberate on the report, issue recommendations, or provide oversight on the identified issues.

Further, it was observed that Management failed to implement the audit recommendations arising from the report.

In the circumstances, the effectiveness of internal controls, risk management and governance in the Program could not be confirmed.

SECOND DEVOLUTION SUPPORT PROGRAM (KDSP II) CREDIT NUMBER- IDA-7447- KE - COUNTY GOVERNMENT OF KISII

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

521. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

522. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted receipts and actual on comparable basis of Kshs.44,500,000 and Kshs.7,000,000 resulting in an underfunding of Kshs.37,500,000 or 84% of the budget. Similarly, the Project's expenditure amounted to Kshs.6,968,360 resulting in an under-utilization by Kshs.31,640.

In the circumstances, the underfunding may have impacted negatively on the planned activities of the Program and may have affected service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

523. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

524. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

525. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SECOND KENYA DEVOLUTION SUPPORT PROGRAMME II CREDIT NO. IDA-7447-KE - COUNTY GOVERNMENT OF NYAMIRA

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

526. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

527. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.42,500,000 and Kshs.5,000,000 respectively resulting in under-funding of Kshs.37,500,000 or 88% of the budget.

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

My opinion is not modified in respect of this matter.

Other Information

528. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

529. Late Submission of Financial Statements

Management submitted the Project's financial statements for the year ended 30 June, 2025, to the Office of the Auditor-General on 30 October, 2025 two (2) months after the submission deadline of 31 August, 2025. This was contrary to The National Treasury's Circular Ref No. AG.3/88 Vol. VII (41) dated 04 December, 2024 which directed Accounting Officers to prepare and submit annual financial statements for the year ended 30 June, 2025, by 31 August, 2025.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

530. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR THE ARID AND SEMI-ARID LANDS AND REGIONAL DEVELOPMENT – VOTE 1036

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

531. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

532. Long Outstanding Trade and Other Payables

The statement of financial position reflects a balance of Kshs.74,748,283 in respect of trade and other payables due to suppliers, service providers, and other third-party obligations. Out of the balance, an amount of Kshs.14,324,389 remained outstanding for more than one year.

Failure to settle the payables bills during the year to which they relate distorts the financial statements and adversely affect the budgetary provisions for the subsequent year as they form a first charge.

533. Undisclosed Contingent Liabilities

Note 24 to the financial statements indicates that the State Department had contingent liabilities amounting to Kshs.2,428,746,025 as at 30 June, 2025 relating to pending bills with the Pending Bills Verification Committee. However, Annex VI to the financial statements indicates that there were twelve (12) active litigation matters which had not been determined and whose outcome and likely liabilities was uncertain.

In the circumstances, the likely effect and contingent liabilities arising from the outcome of the court cases could not be confirmed.

My opinion is not modified in respect of these matters.

Other Matter

534. Unresolved Prior Year Matters

In the prior year audit report, the issue of non-compliance with one third basic salary rule was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources while the issue of lack of a Risk Management Policy was raised under the Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the matters remained unresolved.

Other Information

535. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

536. Non-Compliance with the Law on Affirmative Action

Review of the payroll records as at 30 June, 2025 revealed that 21% of employees were aged below 35 years, 40% were between 36 and 49 years, while 39% were aged 50 years and above. This composition indicates uneven youth representation within the workforce compared to the national demographic profile, which is predominantly youthful. Although staff recruitment was undertaken in line with Public Service Commission procedures, the overall staffing pattern reflects an aging workforce with no deliberate framework to attract, develop, and retain young professionals. This was contrary to Article 232(1)(h) of the Constitution of Kenya, 2010 and Section B.4(1) of the Human Resource Policies and Procedures Manual for the Public Service (2016), which require fairness, inclusivity, and age diversity in public service recruitment and staffing.

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

537. Lack of an Approved Staff Establishment

Review of employee records and the staffing structure revealed that the State Department did not have a current approved staff establishment. Instead, it continued to operate under the staff establishment approved in 2020, which has not been updated to reflect changes in organizational functions, growth, or staffing needs. Although a draft revised staff establishment had been prepared, it had not been approved and operationalized by the relevant authorities. This was contrary to Section B.5 of the Public Service Commission Human Resource Policies and Procedures Manual for the Public Service (2016), which requires every public service organization to maintain an approved and regularly reviewed staff establishment aligned to its mandate and strategic objectives.

In the circumstances, Management was in breach of the Public Service Commission manual.

538. Weak Asset Management

Review of fleet and asset management practices revealed weaknesses in the control and safeguarding of public assets. The State Department owns thirty-three (33) motor vehicles. However, logbooks for seventeen (17) motor vehicles were not provided for audit, while eleven (11) motor vehicles were serviceable but grounded, indicating underutilization of available transport resources. In addition, fifteen (15) computers donated by a Development Authority during the financial year 2023/2024 were not tagged for identification. Further, physical verification revealed that office furniture and fittings of undisclosed value including both newly procured and long-held items, were not tagged, making it difficult to track, verify, and account for them. This was contrary to Section 79

of the Public Finance Management Act, 2012 and Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015, which require Accounting Officers to ensure proper control, custody, and safeguarding of public assets.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

539. Lack of Formal Policy Framework Guiding Relief Food Operations

Review of processes at the State Department revealed that the Directorate for Special Programmes, which oversees national relief food operations, does not have a formally approved and published policy framework to guide the end-to-end management of relief food and non-food item distribution. As a result, key operational areas such as beneficiary identification and targeting, composition and mandate of distribution committees, documentation of stock movements and field returns, oversight and reporting responsibilities, training of field-level officers, and criteria for activating emergency response remain undefined. The absence of these standardized procedures has led to inconsistencies in county-level implementation, disputes over roles, weak documentation, and inadequate accountability for distributed relief items.

In the circumstance, the effectiveness, transparency, and accountability of relief food operations could not be assured.

540. Lack of Monitoring and Evaluation Framework for Relief Food and Non-Food Items

Review of relief distribution processes and inquiries from departmental staff revealed that the State Department lacked a structured Monitoring and Evaluation (M&E) framework to assess the impact of relief food and non-food item distribution. There were no documented Key Performance Indicators (KPIs), baseline targets, or outcome-oriented evaluation tools to determine the reach, effectiveness, or timeliness of interventions. Consequently, relief assistance was distributed without measurable objectives or mechanisms to assess whether the interventions effectively addressed food insecurity, drought vulnerability, or beneficiary needs.

Further, the State Department had not developed or implemented feedback mechanisms such as post-distribution surveys, complaints handling systems, or community validation processes to gauge beneficiary satisfaction or identify targeting errors. As a result, field operations were implemented with minimal accountability to beneficiaries and limited institutional learning for future interventions.

In the circumstances, the management effectiveness in the relief interventions to achieve the intended objectives could not be confirmed.

DONOR FUNDED PROJECT

KENYA DEVELOPMENT RESPONSE TO DISPLACEMENT IMPACTS PROJECT (KDRDIP) IDA CREDIT NO.6021-KE AND GRANT NO. TFOA 7762-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

541. Unaccounted Project Assets

The statement of financial position reflects nil balances in respect of property, plant and equipment. Review of the Project's closure report dated April, 2024 indicated that Project assets were distributed between the State Department for ASALs and Regional Development and the County Governments of Wajir, Garissa and Turkana. However, the final signed asset transfer records and related approvals were not provided for audit. Further, in a letter dated 14 January, 2024, the National Project Coordinator instructed the County Project Coordinators for the three counties to surrender the six (6) project motor vehicles to the State Department for ASALs and Regional Development, being the implementing entity. However, audit verification conducted in September, 2025 established that only two (2) motor vehicles, from the County Government of Garissa, had been surrendered to the State Department out of which one (1) did not have ownership documents. The status of the remaining four (4) vehicles could not be verified. In addition, the current location of three (3) motorcycles indicated in the handover report for County Government of Turkana could not be confirmed.

In the circumstances, the existence, custody and ownership of the project assets could not be confirmed.

542. Unsupported Expenditure

The statement of financial performance and as disclosed in Note 11 to the financial statements, reflects transfers to other government entities amounting to Kshs.61,203,443 in respect of funds transferred to Turkana County. However, review of records provided for audit revealed that the amount, which had been erroneously transferred from the County Integrated Project Implementation Unit (CIPIU) account to the National Project Implementation Unit (NPIU), was intended for the payment of outstanding commitments. The expenditure includes an amount of Kshs.20,400,000 paid to three contractors for the supply and delivery of biomass cooking stoves and medical equipment which exceeded the approved budget allocation of Kshs.6,000,000 resulting to an unauthorised expenditure of Kshs.14,400,000. Further, an amount of Kshs.34,292,000 was incurred on six (6) projects for which Management indicated were related to pending bills. However, the pending bills were neither reflected in the approved annual work plan and budget, nor disclosed in the previous years' financial statements.

In the circumstances, the completeness, accuracy and regularity of payments amounting to Kshs.48,692,000 incurred outside the approved project budget and work plan could not be confirmed.

Other Information

543. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

544. Irregular Award of Drilling and Equipping Tender

Review of payment documents provided in respect of pending bills for Turkana County revealed that a tender for drilling and equipping of a borehole, valued at Kshs.5,500,000, was awarded to a local contractor. However, the firm was not included in the official register of Qualified Water Resource Contractors and did not possess a valid license as required under Regulation 129(1) of the Water Resources Regulations, 2021 which states that the Cabinet Secretary shall keep a register as set out in the thirteenth schedule of licences for qualified contractors issued under these Regulations.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

545. There were no material issues relating to internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

546. As required by International Development Association, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements agree with the accounting records and returns.

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR THE ARID AND SEMI-ARID LANDS AND REGIONAL DEVELOPMENT

KENYA SOCIAL AND ECONOMIC INCLUSION PROJECT NO. P164654 IDA CREDIT NO.63480-KE AND GRANT NO.TF0A9527 – NATIONAL DROUGHT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

547. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

548. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budgeted and actual receipts on comparable basis of Kshs.319,759,822 and Kshs.262,945,603 respectively, resulting to an underfunding of Kshs.56,814,219 or 18% of the budget. Similarly, the Project spent Kshs.248,404,523 against actual receipts of Kshs.262,945,603 resulting to an under-utilization of Kshs.14,541,080.

The underfunding and under-utilization may have negatively impacted on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

549. Undrawn Project Funds

As disclosed in Paragraph 2.7 on funding summary, the Project duration was five (5) years from 2019 to 2023 but was later extended to 31 December, 2024. Further, the funding summary indicates that the Donor had made commitments amounting to Kshs.1,084,111,514 (USD 9,100,000) and Kshs.362,587,827 (EUR 2,600,000) for Grant and credit respectively. However, the total receipts as at 30 June, 2025 amounted to Kshs.598,552,402 (USD 5,342,800) and Kshs.257,762,797 (EUR 1,908,770) leaving undrawn balances of Kshs.485,559,112 (USD 3,757,200) and Kshs.104,825,030 (EUR 691,230) of the expected funding for the Grant and Loan respectively.

Failure to draw the committed funds may have impacted negatively on achievement of project objectives.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

550. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

551. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

552. As required by the International Development Association (IDA), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements agree with the accounting records and returns.

MINISTRY OF DEFENCE - VOTE 1041

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

553. There were no material issues noted during the audit of the financial statements of the Ministry.

Other Matter

554. Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. These include pending accounts payable, stalled infrastructure modernization and development projects, Agency funding and enhancement of governance systems for security related expenditures. Review of the status during audit of the Ministry in 2024/2025 revealed that the issue on stalled infrastructure modernization and development projects and issue on enhancement of governance systems for security related expenditures remained unresolved.

Other Information

555. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

556. Stalled Infrastructure Modernization and Development Project

Review of project progress and implementation status reports indicated that the Ministry initiated construction of a level six (6) Referral Hospital in Kabete-Nairobi in January 2022 at a contract sum of Kshs.18,889,083,433. However, the project stalled at 20% completion level and is past the expected completion date of January 2025. Cumulative certified works and payments as at 30 June, 2025 amounted to Kshs.2,902,054,096. Physical verification carried out in the month of June 2025 revealed that the contractor was not on site and no work was ongoing. Further, Management did not disclose measures and strategies put in place to revive and complete the stalled project.

In addition, evidence that the contractor renewed the performance bond was not provided for audit. This was contrary to Section 72(l) of the Public Finance Management Act, 2012 which states that the Accounting Officer for a national government entity shall be responsible for the management of the entity's assets and liabilities, manage those assets

in a way which ensures that the national entity achieves value for money in acquiring, using or disposing those assets.

In the circumstances, the value for money for the expenditure of Kshs.2,902,054,096 incurred on the stalled project could not be confirmed.

557. Construction of Talanta Sports City at Jamhuri Sports Ground

The Ministry entered into a two (2) year contract with a foreign contractor on 26 May, 2024 for the design, building and equipping of Talanta Sports City at a contract sum of USD 344,514,966 (Kshs.45,848,051,675). The Ministry of Sports Culture and Social Services transferred the procuring responsibility and a total of Kshs.2,009,756,437 to the Ministry of Defence. Review of documentation provided for audit revealed the following unsatisfactory matters;

i. The contract was awarded through direct procurement method which did not meet competitive procurement and direct procurement criteria demanded by Section 91(1) and Section 103(2) of the Public Procurement and Disposals Act, 2015.

ii. The National Treasury had approved project funding of Kshs.35 billion which was to be drawn from the Sports and Arts Social Development Fund over a six (6) years payment plan against a contract amount of Kshs.45,848,051,675 resulting to an unsupported price variation of Kshs.10,848,051,675.

iii. The project implementation report as at 1 June, 2025 indicated that the project was at 44.54% completion level with 15 months to expected contract completion date while cumulative payments to the contractor amounted to Kshs.2,000,000,000 or 4.5% as at June, 2025. However, late payments will attract an interest at 3% (above the Central Bank of Kenya average rate for base lending prevailing as of the first day the payments becomes overdue) in accordance with Article 3.5 of the contract agreement resulting in additional avoidable project expenditure.

iv. Clearance from the Attorney General for the award of the contract was not provided for audit.

Subsequent information indicates that a Deed of assumption of payment obligations was signed on 22 July, 2025 between the Government of Kenya represented by the Principal Secretary Ministry of Defence, Sports Kenya and a Trustee transferring the duty and obligation of making subsequent payments to the Trustee. Similarly, the contractor signed a consent agreeing to the transfer of duty and obligation of making subsequent payments to the Trustee on behalf of the Ministry of Defence. The changes in funding model were aimed at ensuring that the project was fully funded to completion. However, full details of the new funding model have not been provided, hence the need for a special audit to determine value for money in achievement of the project.

558. Construction and Equipping of Bomas International Conference Center

The Ministry entered into a contract with a foreign contractor on 18 March, 2025 for the construction and equipping of Bomas International Convention Complex (BICC) at a

contract sum of USD 324,090,561.49 (Kshs.41,904,909,600) for a contract period of twenty-four (24) months. The State Department for Culture, Arts and Heritage transferred to the Ministry of Defence the procuring responsibility for design, construction and equipping of BICC. However, review of documents provided for audit revealed the following unsatisfactory matters;

i. The Accounting Officer approved request for authority for direct procurement on 17 February, 2025 while the procurement proceedings had already commenced as evidenced by the tender invitation documents and site visit certificate dated 13 and 14 of February, 2025. This was contrary to Section 69(2) of the Public Procurement and Asset Disposal Act, 2015 which states that no procurement approval shall be made to operate retrospectively to any date earlier than the date on which it is made except on procurements in response to an urgent need.

ii. The contract agreement provided for a repayment plan of nine (9) instalments payable within a period of 24 months while The National Treasury approved financing provided for ten (10) years deferred payment plan which was not consistent with contract agreement.

iii. Review of the budget for the State Department for Culture, Arts and Heritage for 2024/2025 financial year does not include development budget allocations towards design, construction and equipping of BICC.

iv. As at 30 June, 2025, the Ministry had received cumulative disbursements of Kshs.1,730,000,000 from the State Department for Culture, Arts and Heritage, out of which Kshs.1,450,000,000 or 3.46% was paid, being partial payment for the 10% (USD 32,409,056.15 approximately Kshs.4,190,490,960) advance payment. The project progress report dated 02 July, 2025 indicated 12.9% completion level while payment was at 3.46%.

In the circumstances, Management was in breach of the law and the Government is likely to incur penalties and charges where there is delay in making payments.

559. Proposed Development of Residential Houses Project

The Ministry entered into a contract with a foreign contractor on 17 January, 2024 for design, building, developing and financing of residential accommodation for the Kenya Defence Forces with a local company financing the project. The project was approved by The National Treasury and the Public Private Partnership (PPP) Directorate. Clearance from the Attorney General was also obtained. A deed of novation was signed by the Ministry, the contractor and the financing company. The financing company and the contractor signed a contract on 19 March, 2024 at a contract sum of Kshs.4,346,784,538 inclusive of VAT to construct 3,069 residential units in five sites deliverable in two years. The company and the Ministry were to contribute Kshs.3,346,784,538 and Kshs.1,000,000,000 respectively towards cost of the project.

Further, the Ministry was to make post construction additional payments of Kshs.6,500,000,000 in fifty-two (52) quarters at Kshs.125,000,000 per quarter from

Ministry's rent Appropriations-In-Aid. However, the following unsatisfactory matters were noted;

i. The Ministry (contracting authority) did not undertake mandatory feasibility study of the project under the direction of the PPP Directorate to determine the project's viability including; technical, legal and land requirements, social, economic and environmental impact and affordability and value for money as required by Section 32 of the Public Private Partnership Act, 2021.

ii. The Ministry's cumulative rent collection amounted to Kshs,1,035,199,000 as at 30 June, 2025. The Ministry, with initial available capital of over Kshs.1,035,000,000 and yearly average rent collection of over Kshs.500,000,000, had enough capacity to finance and complete the same project in a phased-out approach within a period of five (5) to seven (7) years considering increased rent collection from completed housing unit.

iii. The contracting authority will incur cumulative financing charges of Kshs.3,153,215,462 on financing company's contribution of Kshs.3,346,784,538. However, no evidence was provided on whether the contracting authority considered the strategic and operational benefits of the public private partnership arrangement compared to the development of the facility or provision of the service by the contracting authority. This was contrary to Section 30(2) of the Public Private Partnerships Act, 2021.

iv. Review of land ownership documents revealed that the land ownership in one of the sites in Nairobi had previously been disputed with a court ruling delivered on 19 May, 2025 in favour of the Ministry. However, the Ministry is yet to obtain official title for the land under its name. Further, land ownership of the five sites is not specified in the project agreement in accordance with third schedule of the Public Private Partnerships Act, 2021.

v. An agreement between Ministry of Defence and an independent expert was signed on 27 May, 2024 pursuant to Section 73(2) of the Public Private Partnerships Act,2021 providing for payment of Kshs.26,000,000 inclusive of VAT shared equally between the contracting Authority and financing company. This was contrary to Section 73(3) of the Public Private Partnerships Act, 2021 which states that the cost of hiring an independent expert under subsection (2) shall form part of the project cost to be borne by the private party.

In the circumstances, Management was breach of the law.

560. Non-Compliance with One-Third of Basic Salary Rule

During the year under review, three hundred and forty-two (342) employees earned net salaries of less than a third (1/3) of the basic salary. This was contrary to Section19(3) of the Employment Act, 2007 which states that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two thirds of such wages or salaries.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

561. Enhancement of Governance Systems for Security Related Expenditures

During the year under review, the Ministry incurred some expenditures on confidential security operations. A certificate of confidential expenditure was issued, supported by a declaration from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures through review of the Regulations to clearly define entities eligible for confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in November 2025, no action had been taken to implement the audit recommendations.

RECEIVER OF REVENUE STATEMENTS - MINISTRY OF DEFENCE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

562. There were no material issues noted during the audit of the Receiver of Revenue financial statements of the Ministry.

Other Information

563. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

564. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

565. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR FOREIGN AFFAIRS – VOTE 1053

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

566. Unsupported Trade and Other Payables

The statement of financial position reflects a balance of Kshs.1,946,651,857 under trade and other payables. However, supporting documents for payables totalling Kshs.470,378,783 which includes an amount of Kshs.429,034,527 described as Missions pending bills were not provided for audit verification. Further, Management did not maintain a record of suppliers' statements and reconciliations to determine the status of the balance for the suppliers.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.1,946,651,857 could not be confirmed.

567. Inaccuracies in Use of Goods and Services

The statement of financial performance reflects an expenditure of Kshs.7,799,007,742 under use of goods and services which, as disclosed in Note 10 to the financial statements, includes an adjustment of Kshs.2,344,559,397 relating to paid pending bills for 2023/2024 financial year and Kshs.1,563,285,392 in respect of trade payables for 2024/2025 financial year respectively. However, the adjustments were not supported with documentary evidence.

In the circumstances, the accuracy and completeness of uses of goods and services expenditure of Kshs.Kshs.7,799,007,742 could not be confirmed.

568. Long Outstanding Unreconciled Cash and Bank Transactions

The statement of financial position reflects a balance of Kshs.3,575,290,181 under cash and cash equivalents as disclosed in Note 15 to the financial statements. However, review of the Mission's bank reconciliations statements as at 30 June, 2025 revealed long-outstanding unreconciled items, some of which have remained unresolved for over one year. There was no evidence of efforts made to investigate and clear the long outstanding items. The details are as indicated in the table below;

Particulars	Amount (Kshs.)
Payments in Cash Book not in Bank Statements	289,640,932
Receipts in Bank Statements not in Cash Book	73,192,438
Payments in Bank Statement not in Cash Book	380,645,371
Receipts in Cash Book not in Bank Statement	21,699,480
Total	**765,178,221**

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,575,290,181 could not be confirmed.

Emphasis of Matter

569. Failure to Budget for Exchange Losses

The statement of financial performance reflects total payments of Kshs.19,590,116,733 which includes an amount of Kshs.276,139,242 being foreign exchange losses incurred by Missions. The foreign exchange losses were attributed to the fact that the budget was in Kenya shillings while the expenditure at the Missions was in the currency of the country where the Missions were located. No special consideration was made for the State Department for Foreign Affairs to absorb the losses and disburse funds intact in line with Section 47 of the Foreign Service Act, 2021 which states that The National Treasury shall compensate the Ministry for any loss incurred resulting from foreign exchange adjustment, from monies sent to its Missions abroad. This negatively affected the liquidity of the Missions resulting into trade and other payables totalling Kshs.429,034,527 in some of the Missions.

570. Contingent Liabilities

Note 25 to the financial statements reflects contingent liabilities amounting to Kshs.47,781,025 as at 30 June, 2025. The contingent liabilities related to legal cases against the State Department which were still on going as at the time of audit in December, 2025. The significant amount of contingent liabilities poses a potential risk of loss of Public Funds.

571. Unutilized Development Funds

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,575,290,181 which as disclosed in Note 15 to the financial statements, includes an amount of Kshs.2,649,907,845 in respect of unutilized development funds in Kenya Missions abroad. The balance has been built up over the years as a result of failure to surrender the unutilized development funds at the end of the financial year. However, Management did not explain how the amount would be utilized without factoring the same in the budget process.

My opinion is not modified in respect of these matters.

Other Matter

572. Unresolved Prior Year Matters

In the prior years' audit reports, 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. Review of the status during the audit of the State Department in 2024/2025 revealed that the matters remained unresolved as detailed below:

No.	Audit Issue
1.	Variances Between Balances in the Financial Statements and Balances in the Supporting Schedules
2.	Cash and Cash Equivalents – Long Outstanding Unreconciled Items
3.	Discrepancies in Bank Balances
4.	Discrepancies in Appropriations-In-Aid
5.	Pending Accounts Payable
6.	Budgetary Control and Performance
7.	Failure to Budget for Exchange Losses
8.	Contingent Liabilities
9.	Long Outstanding Payables
10.	Non-Compliance with the Minimum Net Salary
11.	Non-Compliance with National Social Security Fund (NSSF) Tier 2 Deductions
12.	Incomplete Disclosure of Acquisition of Fixed Assets
13.	Delayed Disbursement to Missions Abroad
14.	Deficiencies in Procurement Processes in Mission Abroad
15.	Assets Management in Missions Abroad
16.	Delays in Presentation of Letters of Credentials to Accredited Nations
17.	Enhancement of Governance Systems for Security Related Expenditures

Other Information

573. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

574. Non-Compliance with One-Third of Basic Salary Rule

During the year under review, one hundred and six (106) employees received a net salary of less than one-third (1/3) of their basic salary. This was contrary to Section 19(3) of Employment Act, 2007 which states that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two-thirds (2/3) of such wages or salaries.

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

575. Fleet Management

The State Department owns sixty-two (62) motor vehicles. However, ownership documents for eighteen (18) motor vehicles were not provided for audit. As at the time of audit in November 2025, twelve (12) motor vehicles were in garages out of which seven (7) had been in the garage for more than one year, increasing the risk of vandalism.

In addition, eighteen (18) motor vehicles located in various sites had been identified for disposal but remained in the Department's custody for more than two (2) years, during which time they deteriorated further leading to a reduction in their value. This was contrary

to Section 79 of the Public Finance Management Act, 2012 and Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015, which require Accounting Officers to ensure proper control, custody, and safeguarding of public assets.

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

576. Irregular Payment of Allowances While on Posting

Review of the Department's payroll revealed that Officers on posting continued to be paid allowances in addition to their basic salary. In the month of June, 2025 nine (9) officers on posting were paid responsibility, entertainment, non-practicing domestic allowance, special legal and salary market adjustment allowances totalling to Kshs.987,480. This was contrary to Section D.1 (1) of the administrative rules governing the service of Kenya Missions' which states that an Officer posted to serve at a Mission outside Kenya will be paid a monthly Foreign Service Allowance at prevailing rates as may be reviewed from time to time in addition to their basic salary. Further, Section D.23 provides the circumstances for payment of entertainment allowance.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

577. Challenges in Procurement Processes in Missions Abroad

Review of the Mission's procurement processes for sampled procurements carried out during the year revealed that most Missions did not have a list of registered suppliers, lacked standardized procurement documents and did not adhere to procurement requirement such as issuing quotations to suppliers. Further, the use of standard tender and prequalification documents in the host countries was found challenging due to the different and unique legal, regulatory and business environments. The Missions therefore lacked guidelines to effectively undertake procurements in the host countries. Lack of Missions' specific guidelines may have affected the efficiency of procurement processes hence impacting negatively on service delivery by the Missions.

The State Department in collaboration with the Public Procurement Regulatory Authority (PPRA) should develop procurement guidelines for use by foreign missions where it may not be possible to comply fully with the Kenyan procurement laws and regulations.

In the circumstances, the effectiveness of management in complying with the Public Procurement Regulatory Authority guidelines could not be confirmed.

578. Inadequate Security and Safety Measures

578.1. Kenya Mission in Havana, Cuba

Physical inspection of the Chancery building and the Ambassador's residence revealed that the buildings lacked smoke detectors, alarm system and fire extinguishers. Further,

the Ambassador's residence lacked CCTV cameras and some of the walls at the Ambassador's residence had been infested with molds and there were leakages in the wing that houses the guest bedrooms. In addition, majority of the wooden doors and windows have been destroyed and were falling apart.

578.2. Kenya Mission in Muscat, Oman

Physical verification revealed that the Embassy did not have security guard, hence there is no vetting, clearance or registering of visitors. There was no barrier between the reception and the main door and the reception area and offices were easily accessible.

578.3. Kenya Mission in Brasilia, Brazil

Review of records provided for audit revealed that despite the provision in the staff establishment of five (5) security guards for the Chancery, Management had not recruited any security guard. As at the time of audit, some construction works was going on at an adjacent compound increasing security risk to the unguarded chancery.

578.4. Kenya Mission in Algiers, Algeria

Physical verification carried out in Algiers (Algeria) on 28 June, 2025 revealed that the Chancery had limited parking space for only two (2) motor vehicles despite the Mission being in possession of four (4) motor vehicles. Further, the furniture and office equipment at the Chancery which had been donated from the Kenya consulate in Libya in the year 2009 were worn out and in deplorable state which may taint the image of the Embassy. In addition, there were no fire extinguishers and smoke detectors in the Chancery and the Embassy may not be able to handle emergencies in case of fire.

In the circumstances, the absence of an adequate security and safety measure in the above-mentioned missions exposed to the Missions' staff and properties to risk of harm and loss.

579. Unclear Roles and Status of the Honorary Consul

Review of records indicated that before the establishment of the Kenya Embassy to Morocco in Rabat, the Republic was Kenya was represented by Honorary Consul General appointed on 19 February, 2010. Inquiries from the Mission Management and web search carried out during the audit in July 2025 revealed that, the Honorary Consul continued to perform the consular roles in Morocco. However, the review of the Mission's organizational Chart did not clearly indicate the roles and status of the Consul. In addition, review of the records maintained at the Mission did not specify the terms under which the Honorary Consul continues to serve or transitions upon the appointment of the Ambassador.

In the circumstances, the lack of clarity on the role of the Honorary Consul raises concerns about potential overlaps in representation, undefined reporting lines, and continued use of diplomatic privileges.

580. Enhancement of Governance Systems for Security Related Expenditures

During the year under review, the State Department incurred some expenditure on confidential security operations. A certificate of confidential expenditure was issued, supported by a declaration from the Accounting Officer affirming proper use of funds in compliance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015.

As previously reported, there is need to enhance accountability of confidential expenditures, which has increased over the years, through review of the Regulations to clearly define entities eligible for confidential security related expenditures and to specify what constitutes security related operations. Further, entities should establish internal oversight mechanisms and processes that include detailed budget projections and post-operation financial summaries to address risks and ensure responsible use and accountability of the funds, beyond the certificate.

The measures are aimed at strengthening governance, fostering trust, and ensuring funds are utilised responsibly without compromising State security. However, as at the time of audit in November 2025, no action had been taken to implement the audit recommendations.

In the circumstances, the effectiveness of management implementation of audit recommendations could not be confirmed.

581. Delays in Presentation of Letters of Credentials to the Accredited Nations

Audit of twenty-six (26) sampled Kenya Missions abroad undertaken in the month of June and July 2025 revealed that as at the time of audit in July, the Heads of Mission (HOM) in Washington, Madrid, Bangkok, Algiers, Accra, Brasilia and Havana had not presented their credentials to the accredited nations. Delay in presentation of credentials limits the activities of the Heads of Mission and diplomatic representation in the countries of accreditation.

In the circumstances, the effectiveness of management implementation of activities through Heads of Mission in the countries of accreditation could not be confirmed.

582. Lack of an Updated Asset Register

The statement of financial position reflects a balance of Kshs.167,862,866 under property, plant and equipment as disclosed in Note 19 to the financial statements. However, Management did not provide an updated fixed asset register to include the assets acquired during the year under audit.

In the circumstances, the effectiveness of internal controls on maintenance of the fixed assets register could not be confirmed.

583. Inadequacies in Management of Buildings in Missions Abroad

583.1. Kenya Mission in New York

The Government of Kenya owns five (5) properties in New York. During the financial year, the Mission was allocated an amount of Kshs.6,233,902 for routine maintenance – other

assets in the budget. However, with the Mission's five properties the allocation may not have been sufficient for the maintenance. Further, inspection of the properties revealed the following;

a) Chancery

During the financial year 2022/2023, the Chancery underwent major renovations at a cost of USD 2,493,209 (Kshs.321,623,961). Following the completion of renovation works, the Mission engaged an Architect at a contract sum of USD 31,500 (Kshs.4,063,500) to provide consultancy services for the design of furniture for the Chancery. Review of documents at the Mission indicated that a total of USD 23,500 (Kshs.3,031,500) had been paid to the consultant up to the procurement design phase. However, the Mission had not received any budgetary allocation to implement the consultant's recommendations for the procurement phase.

In addition, despite the renovations, the conference room had been furnished with plastic chairs and tables which undermined the Mission's image and credibility during high-level bilateral and multilateral engagements.

b) New York House

During the financial year, the Mission was allocated Kshs.6,000,000 for renovation of the kitchen which was 99% complete at the time of physical verification. However, review of documentation and physical verification confirmed that the property required urgent renovations especially on the garage area, gutters, drain pipes, master bathroom and boiler area. No additional financing was provided to address the broader refurbishment needs of the house.

c) Kenya House

Physical verification carried out in July 2025 revealed that the house had not been occupied for the last thirteen (13) years. Further, the drainage to the flat roofs of the buildings was blocked and trapped water had leaked down onto the ceiling and to the floor, causing the ceiling and the walls of the buildings to remain wet and damp most of the time. The carpet on the floor was completely water logged and dripping all the way to the ground floor in the garage and the heating, ventilation, and air conditioning and other mechanical systems like firefighting systems, were faulty.

Review of documents indicated that the house had pending utility bills as at 30 June, 2025 amounting to USD 45,348.41 (Kshs.5,849,945) consisting of USD 39,348.41 (Kshs.5,075,945) and USD 6,518.36 (Kshs.840,868) for water and electricity respectively. However, despite minimal maintenance, the house had remained desolate.

In addition, review of the Mission's financial records revealed that by 30 June, 2025, the Mission had an outstanding payment of USD 186,087.27 (Kshs.24,005,258) owed to the condominium management. The amount included late penalty charges of USD 2,226.47 (Kshs.287,215).

583.2. Kenya Mission in Washington DC

Inspection of the properties carried out in July 2025 revealed the following;

a) Chancery

Review of documents indicated that renovations at the chancery was awarded to a construction firm at a contract price of USD 7,743,254 (Kshs.998,879,766). Construction commenced in May, 2019 and completed in September, 2021. Inspection of the property indicated revealed peeling paint in various areas of the Chancery, absence of guard rails on the rooftop, posing a potential safety hazard. The conference room was furnished with plastic chairs and tables, which is inconsistent with the formal setting required for high-level diplomatic engagements and undermines the Embassy's image. Further, despite the completion of recent renovations, the Embassy had already requested for additional repairs to the Chancery annex wall and washrooms casting doubt on the credibility of the works done.

b) Kenya House

Review of records provided for audit revealed that the Embassy had split the renovation works of the property and awarded them to three different contractors at a cumulative contract sum of USD 355,465 (Kshs.45,854,985). However, the inspection revealed that some components of the renovation particularly those relating to the exterior were not awarded or undertaken. This had negatively affected the overall visual appeal of the property. For instance, while new windows were installed, the wooden structures above the windows were left unattended; the tiles around the pool were replaced but the swimming pool was not renovated, this resulted in a noticeable mismatch.

c) Residential House

Physical inspection of the property indicated deteriorated exterior of the house which indicated lack of frequent repairs and maintenance, overgrown weeds in the compound, there was a condemned servant quarter posing a structural risk, two large trees hanging precariously over the property, presenting a danger of falling branches or uprooting during adverse weather. In addition, the clogged gutters were filled with decomposing leaves and damaged drain pipes which can lead to water damage and further structural issues. The basement was flooded suggesting poor drainage or water leakage problems that could result in mold and long-term damage.

583.3. Kenya Mission in Harare

The Mission had five (5) Government owned properties comprising of Chancery and four (4) residential properties. However, these properties were very old and required constant repairs and maintenance. The Chancery building roof was leaking and required urgent repair. The State Department for Foreign Affairs disbursed an amount of USD 41,755 (Kshs.5,386,395) to the Embassy on 21 March, 2024 for the repair of the roof. However, the roof had not been repaired as at the time of the audit in July 2025 despite an amount of Kshs.4,396,453 being held idle in the bank account. Further, there was severe shortage of water at the Chancery while power outage was also common in the country. In addition,

the Chancery had no CCTV cameras despite an attempted breakage in February 2025. Three (3) residential properties were also experiencing water shortage.

The Mission had also leased out some space at the Chancery. However, the Lease Agreements for some tenants were still in draft form awaiting approval by the State Department.

583.4. Kenya Mission in Brussels

Management did not provide title deeds for the Chancery and the residence of the Ambassador. Further, there was no evidence that the title deeds were forwarded to the State Department for Foreign Affairs. In addition, physical inspection of the Chancery Building and the Ambassador's residence revealed that there was need for renovations which include change of the heaters. Management explained that the heaters used obsolete technology and very expensive to maintain during winter. Further there were no close circuit surveillance cameras for the purpose of enhancing security.

583.5. Kenya Mission in The Hague

a) The Chancery Building

The Chancery Building required major repairs, especially of the roof. In addition, a report issued by the firm responsible for maintaining the lift indicated that the lift needed to be upgraded since the software running the lift was obsolete and spares were out of stock.

b) Repairs of Staff Residences

Physical verification of the residences of the Ambassador indicated that the residence needed critical repairs. During winter season, Management sought for accommodation for staff in a hotel to allow for the repairs and incurred an approximate amount of Kshs.1,340,907. Further, physical inspection of the Deputy Head of Mission, revealed that the house needed major renovations in plumbing, electricity, bathrooms, roofing, gate among others. There was evidence of water that had flooded the basement that was attributed to leaked pipes. The residence had unused furniture that had been stored in the basement.

In addition, the Mission had one house that was not occupied and Management did not explain reasons why it was vacant. During the year under review Management paid an amount of Kshs.1,290,375 that was claimed by a neighbor for damages to property caused by lack of maintenance of the Mission house but the insurance dishonored the claim due to Management negligence.

In the circumstances, lack of adequate maintenance of the properties poses a risk of accelerated deterioration of the properties if not addressed in a timely manner.

584. Delayed Development of Chancery - Bujumbura

The Government of Burundi granted a plot to the Government of Kenya in 2012 measuring approximately 3.17 acres for the purpose of construction of the Embassy chancery. However, physical verification of the donated land conducted on 3 July, 2025

revealed that the land was still unutilised. Further, the land has not been fenced and management has not taken measures to safeguard the public land from encroachment. The signage to indicate the ownership of the land had been vandalised.

In addition, review of records provided for audit revealed that the Government of Burundi had made repeated follow ups to the Government of Kenya on the delayed construction with no success. A proposal for development of Embassy Chancery in Burundi under Swap arrangement with Kenya Airways blocked funds in the Republic of Burundi had also not been successful since the Airline had continued to utilize the blocked funds for their operational expenses in Burundi.

In the circumstances, the delayed development of the chancery exposes the Government of Kenya to avoidable rentals payment and risk loss of the granted plot.

585. Management of Motor Vehicles in Missions Abroad

585.1. Kenya Mission in Jeddah

Review of the motor vehicle records revealed that the Mission owns one motor vehicle, which was acquired during the startup process of the Mission and served as the representational and utility vehicle. However, due to the nature of the Mission's operations one vehicle was not enough. Officers of the Mission travelled across Jeddah which is expansive and to other parts in the western part of the Kingdom to attend to cases of distressed Kenyans in police stations, safe houses and deportation centers as well as attend court cases.

585.2. Kenya Mission in Gaborone

Review of motor vehicle records revealed that the Mission has only three (3) motor vehicles including the representational car registration No. 25CD001 (Mercedes Benz E400) which is more than eleven (11) years old and is not suitable for work due to mechanical problems. The Mission, on 21 June, 2022, requested the Ministry of Foreign Affairs to allocate funds to the Mission for the purchase of a representational car. However, no allocation has been made forcing the High Commissioner to use the utility vehicle for official assignments.

585.3. Kenya Mission in Kuala Lumpur

Review of records and payments details relating to maintenance of motor vehicles revealed that the High Commission had five (5) motor vehicles, one of which was unserviceable and had been approved for disposal due to old age. Further, there were two motor vehicles (representative and utility cars) which were more than nine (9) years old and whose condition was attracting high costs of repair which were uneconomical.

At the time of the audit in June 2025, there was an estimated repair cost from the dealers amounting to equivalent Kshs.740,340 and Kshs.392,271 for the representative and utility cars respectively totalling Kshs.1,132,611 against an annual budget of Kshs.800,000. This was worsened by the weather conditions which causes regular corrosions due to

extreme hot conditions and hence requiring regular interior cleaning and replacement of most parts.

585.4. Kenya Mission in Muscat

Review of the motor vehicles' register and physical verification of the motor vehicles conducted in July, 2025 revealed that the mission has three (3) motor vehicles including the representation vehicle, but only two (2) were serviceable.

The unserviceable motor vehicle, that served as the Mission's utility vehicle, was procured in 2016 and has an accumulated mileage of 144,560 kilometers. During the financial year 2024/2025, the vehicle underwent repairs amounting to OMR 1,194(Kshs.406,139). Despite the repairs, it was only operational for a period of two months before being grounded again in November 2024, as indicated in the official work ticket. The book value of the vehicle stood at OMR 1,300(Kshs.436,401) as at 30 June, 2025. Due to continued mechanical challenges and escalating maintenance costs, the motor vehicle has been deemed uneconomical to repair and was parked outside the Mission premises.

The Mission attends to many cases of distressed Kenyans all over the Country and the two motor vehicles were not sufficient.

585.5. Loss of Logbook - The Hague

Management reported a case of a lost logbook and a lost number plate. However, Management did not provide a comprehensive report on the findings of the same and mitigation measures taken to prevent future occurrence.

In circumstances, lack of adequate motor vehicles the Missions may not have effectively achieved the planned objectives and the effectiveness in the management of the Missions motor vehicles could not be confirmed.

STATE DEPARTMENT FOR DIASPORA AFFAIRS – VOTE 1054

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

586. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

587. Inadequate Budgetary Provisions to Undertake Diaspora Activities in Foreign Missions

During the year under review, the State Department did not have staff to implement diaspora activities in Foreign Missions despite having an approved staff establishment of twenty-six (26) staff for Foreign Missions. The State Department depended on staff from the State Department for Foreign Affairs to carry out diaspora activities in the Foreign Missions. Management indicated that non-deployment of staff to implement diaspora activities in Foreign Missions was due to lack of a budget.

Further, physical verification carried in sampled Missions indicated challenges in implementing diaspora functions due to limited budgetary provisions. Some of the Missions abroad incurred emergency costs, rescue operations, provision of temporary hosting of victims and coordinated repatriation efforts of affected individuals. However, these critical interventions were severely constrained by limited or non-dedicated funding.

The lack of adequate budgetary provision to undertake diaspora functions and activities in Foreign Missions may have negatively impacted on the achievement of the objectives of the State Department.

588. Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the following four (4) of the issues remained unresolved.

No.	Audit Issue
1.	Pending Accounts Payable
2.	Non-Compliance with National Social Security Fund Tier II Deductions
3.	Irregularities in Recruitment of Foreign Service Cadets
4.	Enhancement of Governance Systems for Security Related Expenditures

Other Information

589. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

590. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

591. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND TRAINING – VOTE 1064

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

592. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

593. Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during the audit of the State Department in 2024/2025 revealed that the following matters remained unresolved:

No.	Audit Issue
1.	Collapse of Chepareria Technical Training Institute
2.	Long Outstanding Unresolved Contract Variations
3.	Delay in Construction of New Technical and Vocational Colleges
4.	Construction of Ngeria Technical and Vocational College
5.	Construction of Mount Elgon Technical and Vocational College
6.	Failure to Operationalise the Technical and Vocational Education and Training Fund

Other Information

594. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

595. Un-Surrendered Authorities to Incur Expenditure

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.1,055,677 relating to an un-surrendered Authority to Incur Expenditure (AIE) as disclosed in Note 16 to the financial statements. The AIE remained unsurrendered as at year end. This was contrary to the Regulation 117 of the Public Finance Management (National Government) Regulations, 2015 which states that 'where an AIE holder observes that it will not be possible to utilize all the funds allocated for a particular project in a given financial year, the Accounting Officer will then surrender the resources to project for re-budgeting'.

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

596. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.17,642,369 as disclosed in Note 18 to the financial statements. Included in the balance was an amount of Kshs.15,365,569 or (87%) of the payables which has been outstanding for more than one (1) year. This was contrary to Regulation 42(1) of the Public Finance Management (National Government) Regulations, 2015 which states that; (a) debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible that the government does not default on debt obligations.

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

597. Staff Earning Net Pay of Less than One Third of Basic Salaries

Review of the payrolls for the year under review, revealed that on monthly basis an average of ninety-nine (99) employees received net salaries of less than a third of their basic salary. This was contrary to the provisions of Section C.1(1) of the Human Resources Policies and Procedures Manual for Public Service, 2016 which states that public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries. It is the responsibility of Heads of Human Resource departments to ensure compliance.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

598. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

SUPPORT TO TECHNICAL VOCATIONAL EDUCATION AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT PROJECT – TVET PROJECT PHASE II (ADF LOAN NO.2100150033295)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

599. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

600. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on the Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues or given any explanation for failure to implement the recommendations.

Other Information

601. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

602. Failure to Maintain a Separate Project Bank Account

The statement of financial performance reflects a revenue transfers amount of Kshs.354,019,526 as disclosed in Note 6 to the financial statements. Included in the amount is GoK counterpart funding amounting to Kshs.104,813,139. However, Management did not maintain a designated project account but instead Project funds were channeled through the development bank account for the State Department without separation. Further, receipt vouchers to confirm actual receipt of funds and notification from The National Treasury indicating the amount disbursed for the Project were not provided for review.

This was contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into

which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

603. Payment of Commitment Charge on Undrawn Portion of the Loan

Review of the funding summary under the project information and overall performance as disclosed on page xiv to the financial statements reflects Development Partner commitment and received amounts of Kshs.6,269,188,111 and Kshs.5,980,885,202, respectively, resulting to an undrawn balance of Kshs.288,302,909 at the time of project closure on 31 December, 2024. As a result, the undrawn funds attracted commitment fee as provided for under Section 3.03 of the Loan Agreement which states that, the borrower shall pay a commitment charge at the rate of one half of one percent (0.5%) per annum on the undisbursed portion of the Loan which shall begin to accrue one hundred and twenty (120) days after the date of signature of this Agreement.

In the circumstances, value for money was not realized from the commitment fee paid on the undrawn portion of the loan.

604. Delay in Completion of Construction Works at Nyang'oma Technical Training Institute for the Deaf

The statement of financial performance reflects an amount of Kshs.249,206,387 in respect of other transfers and grants as disclosed in Note 9 to the financial statements. Included in the transfers is an amount of Kshs.2,176,300 paid for the construction of electrical and electronics department and dormitories at Nyang'oma Technical Training Institute. The contract was signed on 11 May, 2018 at a contract sum of Kshs.231,186,828 and the site handed over to the contractor on 30 May, 2018. The contractor was to complete the works within fifty-two (52) weeks by June, 2019. Records provided for audit indicated that payments for certified works to date amounted to Kshs.213,081,185. However, the project completion delayed by six (6) years, despite approval of five (5) extensions.

Further, field verification of the Project carried out in July, 2025 revealed that installation of a solar system, supply of a motor vehicle, supply and installation of water tanks were still pending. In addition, the water supply from the lake had a burst pipe and the administration block and hostels had leaking roofs, an indication of poor workmanship.

In the circumstances, value for money may not be realized from the expenditure on the Project due to incomplete and poor workmanship.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

605. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

606. As required by African Development Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (EASTRIP) IDA LOAN CREDIT NO. 6334-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

607. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

608. Delays in the Implementation of Regional Flagship TVET Institutes

The summary of overall project performance indicates the following physical project progress at the Regional Flagship TVET Institutes (RFTIs): Kisumu National Polytechnic 95%, Kenya Coast National Polytechnic 86%, Meru National Polytechnic 51%, KenGen 96%, Kenya Institute of Highways and Building Technology (KIHBIT) 94%. The construction at Meru National Polytechnic has stalled since 2023 after termination of the contract in April, 2023 and total payment of the contract full sum of Kshs.172,889,017 to the contractor. Further, the contract for the completion tender to other contractor is yet to be awarded. With the Project end date of 31 December, 2026, the construction of Meru National Polytechnic may not be completed which may impact on meeting the Project objectives by the project end date.

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 USE OF PUBLIC RESOURCES

Basis for Conclusion

609. Failure to Conduct Training Needs Assessment

The statement of financial performance reflects use of goods and services amount of Kshs.146,066,329 as disclosed in Note 7 to the financial statements. Included in the expenditure is an amount of Kshs.28,600,375 in respect of training payments. However, the trainings were conducted without a training needs assessment being carried out

pursuant to Paragraph 11.3.2 (235) of the EASTRIP Operation Manual, 2019 which requires that; a capacity building and training program shall be developed for all the environmental and social safeguards focal points at the Ministry of Education and TVET institutions levels, and other stakeholders that will be involved directly in the implementation of this project.

In the circumstances, the effectiveness of the trainings carried out in absence of training needs assessment could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

610. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

611. As required by International Development Association, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL TRAINING IN KENYA (TVET I & II) REFERENCE: LOAN NO. BMZ NO. 2016 67 211 & BMZ NO. 2016 65 298 AND PROJECT GRANT REFERENCE: NO.1930 05 527

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

612. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

613. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.642,960,000 and Kshs.508,484,815 respectively, resulting to an under-funding of Kshs.134,475,185 or 21% of the budget.

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

My opinion is not modified in respect of this matter.

Other Matter

614. 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 had not resolved the issues as at 30 June, 2025.

Other Information

615. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

616. Slow Absorption of Funds

Review of the funding summary under the project information and overall performance as disclosed on page viii to the financial statements reflects Development Partner commitment and received amounts of Kshs.2,683,120,000 and Kshs.1,111,884,497 respectively, resulting to undrawn balance of Kshs.1,571,235,503. Further, the Government of Kenya may incur commitment charges on the undrawn portion of the Loan as per Section 3.1 of Loan Agreement between the Republic of Kenya and KfW I Germany on Promotion of Youth Employment and Vocational Training in Kenya (Loan No. 2016 67 211, 2016 65 298).

As a result, value for money on the commitment fees payable on the undrawn portion of the loan could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

617. Effectiveness of the Internal Audit Unit

During the year under review, the Internal Audit Unit did not perform its function of internal performance appraisal as required by Regulation 166 (1) and (2) of the Public Finance Management (National Government) Regulations, 2015 which states that, 'the internal audit unit of a National Government entity to assess effectiveness of the Project through an internal performance appraisal commenting on its effectiveness in the annual report to The National Treasury'.

In the circumstances, the Project did not benefit from the oversight role and advice from the internal audit.

REPORT OF OTHER LEGAL AND REGULATORY REQUIREMENTS

618. As required by the Kreditanstalt fur Wiederaufbau (KfW), I report based on the audit 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. Further, adequate accounting records have been kept by the Project Management, so far as appears from examination of those records and the Projects financial statements are in agreement with the accounting records and returns.

PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL TRAINING IN KENYA (PHASE II) PROJECT LOAN NO.BMZ 2018 65 120

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

619. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

620. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.50,000,000 and Kshs.35,584,036 respectively, resulting to an under-funding of Kshs.14,415,964 or 29% of the budget.

The under-funding affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

621. Unresolved Prior Year Matter

In the audit report of the previous year, an issue was raised under Report on Lawfulness and Effectiveness in use of Public Resources. However, Management had not resolved the issue as at 30 June, 2025.

Other Information

622. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

623. There were not material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

624. Lack of Audit Committee and Failure to Assess Effectiveness of the Project

During the year under review, Management did not constitute an Audit Committee to oversight the Project contrary to Regulation 174(1) Public Finance Management (National Government) Regulations, 2015, which requires each national government entity to establish an audit committee. Further, the internal audit unit did not assess effectiveness of the Project as required by Regulation 166(1) and (2) of the Public Finance Management (National Government) Regulations, 2015 which states that, 'the internal audit unit of a National Government entity to assess effectiveness of the Project through an internal performance appraisal commenting on its effectiveness in the annual report to The National Treasury'.

In the circumstances, the Project did not benefit from the oversight role and advise from the Audit Committee and the internal audit function.

REPORT ON OTHER LEGAL REQUIREMENTS

625. As required by Kreditanstalt fur Wiederaufbau (KfW), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

PROMOTION OF YOUTH EMPLOYMENT THROUGH SCHOLARSHIPS PHASE II ("WINGS TO FLY IV") PROJECT GRANT NUMBER BMZ NO. 2018 67 399

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

626. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

627. Budgetary Control and Performance

The statement of of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.160,000,000 and nil amount respectively, resulting to an under-funding of Kshs.160,000,000 or 100% of the budget.

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

My opinion is not modified in respect of this matter.

Other Matter

628. Unresolved Prior Year Matters

In the audit report of the previous year, two issues were raised under the Report on Financial Statements and the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues on budgetary control and performance and failure to supervise and authenticate beneficiaries or provided any explanation for failure to implement the recommendations as at 30 June, 2025.

Other Information

Basis for Conclusion

629. Failure to Drawdown Projects Funds for the Period

The State Department for Basic Education did not receive funds from the donor during the year despite having an approved budget amount of Kshs.160,000,000. Whereas the donor is ready to finance the project up to EUR 7,000,000 equivalent to an amount of Kshs.770,000,000 as per the financing agreement, the State Department had only drawn EUR 679,284 equivalent to an amount of Kshs.74,721,240 which is 10% of the total funding as at 30 June, 2025. No explanation was provided as to which conditions of the financing agreement were not met by the Management or any reasons for non-financing. With the Project start and end dates of 1 August, 2022 and 30 December, 2026 respectively, the objective of expanding access and equity by providing scholarships and support to vulnerable and deserving youths to pursue TVET objective may not be achieved by the Project's end date.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

630. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

631. Failure to Supervise and Authenticate Beneficiaries

As reported in the previous year, the summary of project information and overall performance reflects an amount of Kshs.74,721,240 in respect of placement and facilitation of eight hundred and five (805) scholars. However, although the summary of the overall project performance on page xi indicates the outputs, the status of the

students' education could not be confirmed as only returns for one hundred and ninety (190) out of eight hundred and five (805) or 24% were provided for audit. Further, it was noted that the Project did not have a budget line item for monitoring and evaluation.

In the circumstances, the effectiveness of supervisory role of the State Department in the implementation of the Project could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

632. As required by KfW Development Bank, Equity Group Foundation and the Government of the Republic of Kenya, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SUPPORT TO TECHNICAL AND VOCATIONAL EDUCATION TRAINING AND ENTREPRENEURSHIP (TVETE PROJECT PHASE III) (LOAN NO. 2100150042254)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

633. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

634. Low Absorption of Project Funds

Paragraph 2.2 of the Project Information indicates that the Project was to be implemented between 11 January, 2021 and 30 June, 2026. Further, Paragraph 2.7 on funding summary indicates a donor commitment of EUR 38,404,002 equivalent to an amount of Kshs.4,336,374,840. However, actual drawdown as at 30 June, 2025 amounted to EUR 15,013,031 equivalent of Kshs.2,174,669,488 or 50% of the commitment, resulting to an amount of Kshs.2,161,705,352 of undrawn funding. As a result of the low absorption of funds, the Project's objectives may not be achieved as the Project implementation window lapses in under one (1) year.

My opinion is not modified in respect of this matter.

Other Matter

635. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on the Effectiveness of Internal Controls, Risk Management and Governance. However,

Management had not resolved the issues which included low absorption of Project funds, under-funding of GoK component, failure to open a Project bank account, unauthorized over-expenditure, failure to issue notification for exchequer issues or given any explanation for failure to implement the recommendations.

Other Information

636. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

637. Failure to Open Project Bank Account

The statement of financial performance reflects revenue transfers amount of Kshs.1,042,859,446 as disclosed in Note 6 to the financial statements. Included in the amount is GoK counterpart funding amounting to Kshs.123,732,556. However, Management did not maintain a designated project account but instead project funds were channeled through the development bank account for the State Department without separation. Further, receipt vouchers to confirm actual receipt of funds and notification from The National Treasury indicating the amount disbursed for the Project were not provided for review.

This was contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

638. Delay in Execution of Contracts

The statement of financial performance reflects other transfers/subsidies/grants amount of Kshs.919,126,890 as disclosed in Note 8 to the financial statements. However, the following issues were noted;

638.1. Delay in Completion of Proposed Construction of Hospitality Block - Siala Technical Training Institute

Included in the expenditure is an amount of Kshs.15,530,887 spent on the construction of hospitality block at Siala Technical Training Institute. The contract was signed on 14 August, 2023 at a contract sum of Kshs.86,848,072 with an amount of Kshs.37,617,034 paid to date. The contractor was to complete the works within twenty-four (24) months, ending August, 2025. However, physical inspection in the month of July, 2025 revealed that the project had stalled and signs of vandalism observed as the site was not secured.

638.2. Non-Delivery of Electrical Equipment and Electronics Engineering Equipment

The State Department signed contracts for the supply of laboratory equipment, ordinary office items and electrical equipment at Wangari Maathai Institute for Peace and Environmental Studies at a total contract sum of Kshs.93,627,070 and electrical and electronics engineering equipment at Kibwezi West Technical and Vocational College and Samburu North Technical and Vocational College at a total contract sum of Kshs.110,823,458.

However, the contracts start date was 16 January, 2023 with end date of 16 January, 2024. Further, the contractor failed to deliver the goods under the contract as per the contract timelines and requested for extension of the contracts due to delays in manufacturing.

In addition, the contractual period for Wangari Maathai Institute for Peace and Environmental Studies, Kibwezi West Technical and Vocational College and Samburu North Technical and Vocational College were further extended to 16 April, 2025 and 6 May, 2025 respectively. However, the contractor had not yet delivered the goods as at 30 June, 2025.

638.3. Incomplete Works at Siaya National Polytechnic

Included in the expenditure of Kshs.919,126,890 is an amount of Kshs.18,893,311 paid for the construction of building and civil engineering workshop at Siaya National Polytechnic. The construction contract was awarded at a contract sum of Kshs.71,439,338. Physical inspection in the month of July, 2025 revealed that the Project was complete and in use with taking over certificate already issued. However, the snag list did not include faulty fire alarm panel, faulty CCTV system, missing internet connection and unlabeled distribution boards.

In the circumstances, value for money on the investments in the construction and supply and delivery of electrical and electronics engineering equipment valued at Kshs.919,126,890 has not been realized.

639. Commitment Charge on Undisbursed Portion of the Loan

Review of the funding summary under the project information and overall performance as disclosed on page x to the financial statements revealed Development Partner commitment and amounts received to date of Kshs.3,753,168,700 and Kshs.1,894,101,052 respectively, resulting to an undrawn balance of Kshs.1,859,067,648. As a result, the undrawn funds attracted commitment fee as provided for under Section 3.03 of the Loan Agreement which states that "the borrower shall pay a commitment charge at the rate of one half of one percent (0.5%) per annum on the undisbursed portion of the Loan which shall begin to accrue one hundred and twenty (120) days after the date of signature of this Agreement".

In the circumstances, value for money may not be realized from the commitment fee paid on the undrawn funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

640. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

641. As required by African Development Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND TRAINING

EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (EASTRIP) (IDA LOAN NO. 6334-KE) - MERU NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

642. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

643. Slow Absorption of Project Funds

The statement of comparison of budget and actual amounts reflects final receipt budget and actual on comparable basis of Kshs.110,649,039 and Kshs.13,110,906 respectively, resulting into underfunding of the budget by Kshs.97,538,133 or 88%. Similarly, the statement reflects actual expenditure and actual receipts of Kshs.79,252,474 and Kshs.13,110,906 respectively, resulting into over-expenditure of the actual receipts by Kshs.66,141,568 or 504%. Although, Management attributed the under expenditure to achievement of low Eligibility Expenditure Programs (EEPs), reasons and measures implemented towards ensuring high EEPs were not provided for audit review.

As disclosed under Paragraph 2.2 on the Project information and overall performance, the Project was earmarked to close in December, 2026. Further, the Projects' funding summary indicates that the Donor had made commitments amounting to

Kshs.1,415,107,200 equivalent of EUR 9,280,000 as at 30 June, 2025. However, actual drawdowns during the Project's life amounted to Kshs.876,607,993 equivalent to EUR 6,478,414 leaving an undrawn balance of Kshs.538,499,207 or EUR 2,801,586.

Considering the credit lapse period, the Project's planned deliverables earmarked before completion of the Project may not be realized.

My opinion is not modified in respect of this matter.

Other Matter

644. Unresolved Prior Year Matters

In the audit report of the previous year, one issue was raised under the Report on Financial Statements and several issues under Report on Lawfulness and Effectiveness in Use of Public Resources. The issues related to unreconciled transfers from Government entities, slow absorption of Project funds, delay in construction of buildings, technology flagship centre and delay in supply testing, commissioning and training of trainers. However, the Management had not explained how these issues were addressed.

Other Information

645. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

646. Delay in Construction of the Building Technology Flagship Center

The statement of financial position and as disclosed in Note 21 to the financial statements reflects property, plant and equipment balance of Kshs.460,061,982, which includes work in progress balance of Kshs.449,246,097. The latter balance incudes Kshs.172,889,017 in respect of construction of the Building Technology Flagship Center (EASTRIP Project) at the Meru Polytechnic.

As previously reported, the contract for the construction of the Project was awarded on 8 October, 2021 at a contract sum of Kshs.444,473,290 with a project duration of eighteen (18) months. The initial project completion date was May, 2023. The project completion date was extended by a period of three (3) months which at the time of audit had since lapsed without completion of the Project due to unresolved conflicts resulting to stoppage of works and termination of the contract in September, 2023 by the Institution. Following the termination of the contract, the Institution and the contractor underwent an adjudication process that was concluded on 27 December, 2023 where the contractor was awarded an amount of Kshs.46,488,948 which was further disputed by the Institution. This resulted in appointment of an arbitrator in an arbitration process which was ongoing as at the time of the audit.

Review of records provided revealed that the Office of the Attorney General and Department of Justice on 9 April, 2024, advised the institution to proceed with the works with a different contractor upon obtaining the requisite approvals including the World Bank

and or its designated representatives even as the arbitration proceedings were underway. However, as at the time of the audit in August, 2025, no evidence of approval by the World Bank for the Polytechnic to procure or engage a new contractor to complete the works had been provided for audit review which could further delay the conclusion of the project.

Further, the Polytechnic in the month of April, 2024 requested the contractor to initiate the demobilization process from the construction site in accordance with the contractual obligations outlined in the agreement. The contractor indicated that issue is pending for hearing before the High Court and as such parties have to wait the determination of court before taking any step. However, Management has not disclosed the details of the court case, stage of determination, cost incurred to date and steps taken to ensure that the process is not frustrated further.

As at the time of conclusion of the audit in August, 2025 the matter had not been addressed by the respective parties.

In the circumstances, the quality of work and value for money of the project may be compromised with possibility of project stalling due to delay in resolving the cost escalation claims.

647. Delay in Supply, Installation, Testing, Commissioning and Training of Trainers for the Building Technology Flagship Centre

The statement of financial position reflects property, plant and equipment balance of Kshs.460,061,982 which, as disclosed in Note 21 to the financial statements, includes work in progress balance of Kshs.449,246,097 which further includes specialized plant, equipment and machinery amount of Kshs.236,273,788.

Review of records provided shows that the tender was awarded to an international company on 23 March, 2021 with a project duration of six (6) months and completion planned for September, 2021. The Project terms were amended by addendum no.1 on 11 February, 2022 with completion date extended by a period of six (6) months. However, as at the time of the audit in August, 2025, the project completion date had lapsed, the equipment and tools delivered to the institution in the month of July, 2024 had not been installed, tested, commissioned and users had not been trained.

In addition, no evidence of extension of the contract was provided for audit review which may expose the institution in regard to enforcing rights in case the supplier fails to comply with their obligations. Further, the completion of the contract may be further delayed due ongoing disputes in respect to the contract on Building of Technology Flagship Centre that has resulted in stalled works for an inordinately long period before completion.

In the circumstances, value for money in the purchase of specialized plant, equipment and machinery amount of Kshs.236,273,788 could not be confirmed

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

648. There were no material issues relating to effectiveness of internal controls, risk management and governance.

EAST AFRICA SKILLS TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (EASTRIP) GRANT/CREDIT NO. IDA 6334-KE – KISUMU NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

649. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

650. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.264,192,246 and Kshs.272,576,202 respectively resulting to an overfunding of Kshs.8,383,956 or 3% of the budget. Similarly, the Project expended an amount of Kshs.184,438,405 against actual receipts of Kshs.272,576,202 resulting to an under-expenditure of Kshs.88,137,797 or 32% of the actual receipts. Management attributed the under-expenditure to delayed provision of power supply by the Kenya Power, which was a requirement for the installation and commissioning of the project.

Non-implementation of the planned activities may result in failure to achieve all the Project planned deliverables.

My opinion is not modified in respect of this matter.

Other Information

651. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

652. Delay in Completion of Regional Flagship TVET Institute for Textile Technology Project

The statement of financial position and as disclosed in Note 17 to the financial statements reflects property, plant and equipment balance of Kshs.605,794,186 which includes capital work-in-progress (WIP) balance of Kshs.392,034,811. The balance relates to

construction works of the Regional Flagship TVET Institute for Textile Technology (RFTITT) Project which includes an amount of Kshs.60,147,748 paid to the project contractor in the year under review. However, review of records revealed that the contract was awarded for a sum of Kshs.394,053,615 effective 9 February, 2022 for a period of seventy-two (72) weeks with expected completion date of 8 June, 2023. Further, the Project records indicate the contractor had requested for six (6) extensions which were all granted with the last addendum granted on 21 December, 2024 pushing completion date to 31 March, 2025.

Review of interim certificate number 14 dated 22 October, 2024 revealed that total works done were at 95% completion and valued at Kshs.383,956,173. Further, the Project Status Report and physical inspection held on 5 September, 2025 revealed that the Project was incomplete after the lapse of the five (5) months revised completion date. Management explained that the contractor requested for a termination of the contract on 25 March, 2025. Records revealed that the contractor was yet to complete all outstanding works which included lift installation, supply and distribution of power as per clauses 57 and 38 of the contract, installation and commissioning of equipment and settling compensation due to the estate of a deceased worker.

In the circumstances, delay in completion of the Project may lead to cost escalations and value for money for resources expended on the Project may not be realized.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

653. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

654. As required by International Development Association and Financing Agreement Grant/Credit No. IDA 6334-KE dated 18 December, 2018, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (CREDIT NUMBER 6334-KE) - KENYA COAST NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

655. Misstatement of Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.875,359,161 as disclosed in Note 7 to the financial statements. The balance includes work-in-progress additions-payables of Kshs.222,380,993 in respect of work in progress which includes construction of civil works valued at Kshs.185,436,898. However, the construction of civil works balance was not supported by way of certificates for works done or invoices by the Contractor indicating the value of the measured works.

In the circumstances, the accuracy, valuation and fair statement of work in progress of Kshs.222,380,993 could not be confirmed.

Emphasis of Matter

656. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.624,356,215 and Kshs.427,056,327 respectively, resulting to an under-funding of Kshs.197,299,888 or 32% of the budget. Similarly, the Project expenditure amounted to Kshs.382,601,675 against actual receipts of Kshs.427,056,327 resulting to an underutilization of Kshs.44,454,652 or 10% of the receipts.

The underfunding and underutilization affected the planned Project activities and programmes, which may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

657. Unresolved Prior Year's Audit Matters

In the audit report for the previous year, several issues were raised in respect of the Report on Lawfulness and Effectiveness in Use of Public Resources as indicated below. However, Management had not resolved the issues as of 30 June, 2025.

No.	Audit Issues
1.	Late Requisition of Funds
2.	Irregular Contracts Variation
3.	Slow Pace of Project Implementation
4.	Irregular Payment for Materials on Site as Part of Certified Works
5.	Lack of Value for Money in Procurement of Marine Equipment

Other Information

658. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

659. Value for Money in Procurement of Marine Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.875,359,161 as disclosed in Note 7 to the financial statements. Included in the balance is Kshs.219,159,133 in respect of marine equipment. As reported in the previous year, Management entered into a contract with a firm for the supply, delivery, installation, testing and commissioning of maritime lab equipment, software and simulators including training on use of equipment at a contract sum of Kshs.211,070,160 (USD 1,675,160). The contract was signed on 4 July, 2022 for a contract period of eight (8) months and the equipment were to be delivered on diverse dates starting July 2023 and to be installed at the marine laboratories under construction in Kwale County.

However, the equipment was delivered to the Kenya Coast National Polytechnic along Kisauni road in Mombasa town and not at Kenya Coast National Polytechnic Waa campus, Kwale County as indicated in the contract through tender addendum number one (1) dated 3 November, 2021 which clarified on the place of delivery.

Further, the marine laboratories where the equipment was to be installed were still under construction as at the time of audit inspection carried out on 28 August, 2025. In addition, the lifeboat and davit, which form part of the hardware delivered, were kept outdoors in the open field which exposed the equipment to the risk of damage or theft.

Although the tender was for delivery, installation, testing and commissioning, the machines and equipment had not been installed as at the time of audit on 28 August, 2025 except for the software that was installed for testing and training of the trainers.

No evidence was provided to show that the equipment was insured by Management to cover for any risks that may arise while under storage.

In the circumstances, value for money on the procurement of the marine equipment could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

660. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

661. As required by International Development Association, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR HIGHER EDUCATION AND RESEARCH - VOTE 1065

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

662. Misstated Appropriation-In-Aid

The statement of financial performance reflects rendering of services (AIA collection) amount of Kshs.48,709,095,717 as disclosed in Note 9 to the financial statements. However, the amount varies with total collection of Kshs.69,750,415,846 disclosed in Appendix V to the financial statements, resulting to an understatement of Kshs.21,041,320,129. Management attributed the understatement to the Integrated Financial Management Information System platform which is configured to restrict the processing of journals that exceed the approved budgetary provisions.

In the circumstances, the accuracy and completeness of the rendering of services (AIA collection) amount of Kshs.48,709,095,717 could not be confirmed.

Emphasis of Matter

663. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.139,647,759,781 and Kshs.135,981,893,348 respectively resulting to an underfunding of Kshs.3,665,866,433 of the budget.

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

My opinion is not modified in respect of this matter.

Other Matter

664. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the following seven (7) issues remained unresolved as of 30 June, 2025.

No.	Audit Issue
1.	Misstated Appropriation-In-Aid
2.	Misstated Grants and Transfers to Other Government Entities
3.	Unconfirmed Deposits and Retentions
4.	Budgetary Control and Performance

No.	Audit Issue
5.	Staff Over and Under Establishment
6.	Unsupported Expenditure Commitments
7.	Stalled Project on Science & Technology Parks

Other Information

665. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

666. Long Outstanding Retention Monies

The statement of financial position reflects refundable deposits balance of Kshs.105,537,364 as disclosed in Note 17 to the financial statements. Included in the balance was Kshs.16,695,559, being retention monies held for a contractor. However, this retention has been outstanding for more than two (2) years. Management did not explain why the retention monies have not been released to the contractor.

In the circumstances, there is risk of incurring penalties and interest with the continued undue holding to the retention monies.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

667. Lack of a Risk Management Framework/Policy

Management did not have a risk management framework in place. This was contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 that requires the Accounting Officer to develop risk management strategies which include fraud prevention mechanism and a system of risk management and internal control.

In the circumstances, the State Department risk management processes may not be effective.

DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR HIGHER EDUCATION AND RESEARCH

AFRICA CENTER OF EXCELLENCE IN SUSTAINABLE USE OF INSECTS AS FOOD AND FEEDS PROJECT (IDA CREDIT NO.5798-KE) - JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

668. Unreconciled Movement in Deferred Income Balance

The statement of financial position and as disclosed in Note 15 to the financial statements reflects deferred income balance of Kshs.66,834,329 and a comparative balance of Kshs.68,906,240. However, no explanation was given for the movement in deferred income balance by Kshs.2,071,911.

In the circumstances, the accuracy and completeness of the deferred income balance of Kshs.66,834,329 could not be confirmed.

669. Unconfirmed Depreciation and Amortization Expenses

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects an amount of Kshs.19,597,356 in respect of depreciation and amortization expenses. However, Management did not disclose under the summary of significant policies, the applicable deprecation rates for the various classes of assets.

In the circumstances, the accuracy and completeness of the depreciation and amortization expenses of Kshs.19,597,356 could not be confirmed.

Emphasis of Matter

670. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.242,122,771 and Kshs.51,188,642 respectively resulting to an under-funding of Kshs.190,934,129 or 79% of the budget. Similarly, the Center spent Kshs.37,473,746 against actual receipts of Kshs.51,188,642 resulting to an under-expenditure of Kshs.13,714,896 or 27% of the receipts.

The under-funding and under-expenditure affected implementation of the planned Project activities and programs and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

671. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Reports on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance. Review of the implementation status during the current period's audit revealed the following matters that remained unresolved.

No.	Audit Issue
1.	Unsupported Field Activities under Research Expenses
2.	Budgetary Control and Performance
3.	Low Absorption of Public Funds
4.	Purchase of Goods and Services Expenditure
5.	Non-Project Related Expenditure
6.	Non-Compliance with Procurement Procedures on Request for Quotation
7.	Irregular Use of Direct Procurement Method
8.	Cash Procurements Beyond Allowable Limits
9.	Failure to Surrender Imprests in Due Time
10.	Irregular Engagement of Casual Employees Beyond the Stipulated Period

672. Sustainability of the Project After the End of Donor Funding

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.300,403 in respect of miscellaneous revenue, which includes sales of goods and services amounting to Kshs.246,903 in respect of sale of biscuits and rental income. The statement also reflects expenditure of Kshs.8,447,770 and Kshs.17,609,633 in respect of employee costs and use of goods and services respectively, all totalling to Kshs.26,057,403. The Project was envisaged to officially close on 31 December, 2023. Although the Management has made concerted effort including registering "Juster Food" the brand for the product and the installation of a temperature-controlled room to facilitate mass production of cricket for commercialization purposes, the revenue reported in the financial statements remains low compared to the operating expenses being incurred casting doubt on the future sustainability of the Project without donor funding.

Further, Management stated that the Project had initiated development of online self-paced short courses on cricket and black solder flies farming and value addition in partnership with other donors, focused on revenue generation. However, no revenue was reported from this activity.

Without immediate action to address the financial gaps, there is a significant risk that the Project's positive impact will diminish over time.

Other Information

673. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

674. Delay in Delivery of Project Motor Vehicles

The statement of financial position and as disclosed in Note 13 to the financial statements reflects a balance of Kshs.10,771,343 in respect of prepayments made for purchase of Toyota Hiace high roof bus and an ambulance as part of improving the infrastructure of the University.

However, review of the payment records and supporting documents revealed the following anomalies:

i. On 15 May, 2025, a contract was signed between Jaramogi Oginga Odinga University of Science and Technology and M/S Isuzu for supply and delivery of an Isuzu minibus (diesel) with a capacity of 25-29 passengers at a contract price of Kshs.6,343,000. According to the negotiation minutes dated 4 March, 2025 between the University's Management and the contractor, it was agreed that an upfront payment of 50% be made by the procuring entity to initiate the body installation of the bus. It was also indicated that the minibus would be ready for collection after two (2) months once the LPO was issued and 50% payment made.

   However, review of the payment records revealed that the Project took one and a half months to make the down payment after signing the contract agreement. No explanation was given to support the delay. Although the advance payment of Kshs.3,117,801 or 50% of the price was made on 4 July, 2025, during the audit exercise carried out on 17 September, 2025, it was noted that the van had not been delivered two months after the down payment was made.

ii. On 15 May, 2025, a contract was signed between Jaramogi Oginga Odinga University of Science and Technology and M/S CFAO Motors Kenya Limited for supply and delivery of a 2400-2800cc microbus ambulance at a contract price of Kshs.8,772,920 and the supply of a 14 passengers diesel microbus at a contract price of Kshs.6,802,712.

   According to the negotiation minutes dated 5 March, 2025 between the University Management and the Contractor it was agreed that an upfront payment of 50% be made by the procuring entity to commence assembling the ambulance structure. It was also indicated that it took 45 days to put up an ambulance structure. The upfront payment of Kshs.4,310,831 or 50% was made on 4 July, 2025 and the forty-five days lapsed on 19 August, 2025. During the audit, one month later after

the lapse of forty-five (45) days, it was noted that the ambulance and the microbus van had not been delivered. No explanation was given to justify the delay.

In the circumstances, value for money had not been realized from the down payments made while management was in breach of the contract agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

675. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

676. As required by International Development Association (IDA), I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

AFRICA CENTRE OF EXCELLENCE (ACEII) IN PHYTOCHEMICALS, TEXTILES AND RENEWABLE ENERGY (PTRE) PROJECT (IDA CREDIT NO.5798-KE) - MOI UNIVERSITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

677. Doubtful Recovery of Funds Advanced to University and Unauthorized Reallocation of Funds to Non-Project Activities

The statement of financial position reflects receivables from exchange transactions balance of Kshs.12,931,644 as disclosed in Note 14 to the financial statements. Included in the balance is Kshs.12,000,000 representing 93% of receivables from exchange transactions that was due from Moi University. The amounts were to be utilized by the University towards payment of contract staff salaries for June, 2024, with a commitment to refund once the University received funds from the Universities Fund and HELB under the New Funding Model. This payment constituted a reallocation of funds earmarked for other activities without evidence of donor condition compliance or prior approval. In addition, the amount had not been recovered as at the time of audit in September, 2025.

In the circumstances, the valuation, recovery, validity and legality of receivables from exchange transactions of Kshs.12,931,644 could not be confirmed.

678. Understatement of Work in Progress Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.188,195,609 as disclosed in Note 15 to the financial statements. Included in the balance is additional work in progress of Kshs.12,881,584 for construction of an office block. However, review of supporting documents provided for audit revealed that a payment of Kshs.342,596 was omitted from the work in progress balance of Kshs.12,881,584 leading to a misstatement by the same amount.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.188,195,609 could not be confirmed.

Emphasis of Matter

679. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.262,525,910 and Kshs.29,461,990 resulting to underfunding of Kshs.233,063,920 or 89% of the budget. Similarly, the Project spent an amount of Kshs.78,517,241 against actual receipts of Kshs.29,461,990 resulting to an over-expenditure of Kshs.49,055,250 or 166% of the actual receipts.

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

My opinion is not modified in respect of this matter.

Other Matter

680. Unresolved Prior Year Audit Matters

In the audit report of the previous year, three paragraphs were raised under Other Matter. The issues related to budget control and performance, delayed completion of studies under the scholarship program and lack of audit committees. However, Management had not resolved the issues by 30 June, 2025.

In the circumstances, the issues remain outstanding.

Other Information

681. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

682. Delayed Completion of Studies Under the Scholarship Program

The Project offers scholarship program which aims to admit and train 30 PhD students and 60 Master's students in areas of manufacturing involving analytical chemistry, textiles and renewable energy.

A total of Kshs.53,781,400 and Kshs.28,987,985 had been disbursed as at the time of the audit for tuition fees and research funding, respectively. These scholarships were awarded for a maximum period of two (2) years for Master's degrees and three (3) years for PhDs. However, review of the academic progress of the scholarship beneficiaries revealed significant delays, with 67% of the PhD students and 50% of the Master's students yet to complete their studies. Further, seventy-four (74) students who included twenty-eight (28) students for PhD and forty-six (46) students for Master's Degree had exceeded the expected completion period as stipulated by the scholarship terms.

In the circumstances, the delayed completion of scholarship courses may jeopardize future funding opportunities and achievement of the intended project objective of contributing to research and capacity building in the targeted fields of manufacturing.

683. Receipt of Goods and Services Beyond the Stipulated Period

The project procured goods and services amounting to Kshs.64,076,935 as disclosed at Note 10 to the financial statements. However, audit review revealed that the project received goods and services valued at Kshs,1,778,965 beyond the validity delivery period disclosed in local purchase orders and local service orders contrary to Regulation 53(1) of the Public Finance Management (National Government) Regulations, 2015 which states that a local purchase order or service order is valid for 30 days from the date of issue.

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

684. Failure to Surrender Imprest

Review of imprest management at the Project revealed that an amount of Kshs.895,644 had not been surrendered by the close of financial period and despite the amount being due, there was neither evidence on follow up nor recovery made from the defaulting officers contrary to Section 93(5)(6) of Public Finance Management (National Government) Regulations, 2012 that states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

685. Long Outstanding Creditors

The statement of financial position reflects trade and other payables balance of Kshs.10,367,466 as disclosed in Note 16 to the financial statements. However, a review of the aging analysis revealed that payables amounting to Kshs.6,706,498, for goods and

services delivered and works done, had been outstanding for a period of more than one year.

In the circumstances, the Project's ability to pay its debts as and when they fall due could not be confirmed.

686. Lack of an Audit Committee

During the year under review, it was observed that the Project did not have an Audit Committee to oversee the governance mechanism and promote transparency and accountability in the management of resources of the Project, contrary to Section 73(5) of the Public Finance Management Act, 2012 which states that every National Government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the Regulations.

In the circumstances, effectiveness of oversight on the Project's internal controls could not be confirmed.

687. Lack of an Updated Fixed Assets Register

The statement of financial position and as disclosed in Note 15 to the financial statements reflects a total fixed assets balance of Kshs.188,195,609 including additions of Kshs.15,106,689 made during the year. However, the fixed asset register provided for review did not conform with the format prescribed. The minimum requirements include identification of fixed assets, serial number, acquisition date, description of asset, location, class, cost of acquisition, accumulated depreciation, net book value and identification codes with which assets were tagged. In addition, fixed assets were not tagged and therefore it was not possible to confirm ownership.

In the circumstances, the effectiveness of management and control of assets in the Project could not be confirmed.

688. Failure to Use Treasury Approved Chart of Accounts

During the year under review, the project management did not maintain financial records in accordance with the Treasury approved chart of accounts as prescribed by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the effectiveness of Management compliance with the PSASB guidelines could not be confirmed.

689. Failure to Submit Annual Climate Change Performance Reports

Review of the Project's operations revealed that Management did not submit the annual climate change performance report to the Climate Change Council. This was contrary to the requirements of Section 15(5)(f) of the Climate Change Act, 2016. In the absence of the required annual report, the effectiveness of this expenditure in contributing to the Authority's climate change mandate could not be confirmed.

In the circumstances, the effectiveness of Management compliance with the Climate Change Act, 2016 could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

690. As required by loan agreement between Republic of Kenya and International Development Association (IDA Credit No.5798 - KE), I report based on my audit, that; 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

KENYA RURAL TRANSFORMATION CENTERS DIGITAL PLATFORM PROJECT (FUND FOR AFRICAN PRIVATE SECTOR ASSISTANCE PROJECT ID.NO.P-KE-AA0-022) - THE CO-OPERATIVE UNIVERSITY OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

691. Inaccuracies in the Financial Statements

Review of annual report and financial statements revealed that the statement of financial performance reflects revenue totalling Kshs.37,110,080 as disclosed in Note 6 and Note 7 to the financial statements while the statement of cash flows reflects receipts totalling Kshs.31,830,551 resulting to an unreconciled variance of Kshs.5,279,529.

Further, the statement reflects employee costs and use of goods and services amounts of Kshs.990,000 and Kshs.22,151,937 respectively as disclosed in Note 8 and Note 9 to the financial statements. However, the statement of cash flows reflects Nil amount and Kshs.20,070,483 resulting to variances of Kshs.990,000 and Kshs.2,081,454 respectively which were not explained or supported.

In addition, the statement of financial position and Note 15 to the financial statements reflects trade and other payables balance of Kshs.3,071,454. The payables include an amount of Kshs.2,825,454 owing to the Cooperative University of Kenya for cash advanced during the year under review. However, the amount was not disclosed as a receivable in the Cooperative University financial statements.

Further, the statement of financial position reflects deferred income balance of Kshs.3,595,406 which as disclosed in Note 16 to the financial statements is adjusted for additions and transfers to statement of financial performance as revenue amounts of Kshs.6,666,860 and Kshs.11,988,829 respectively which were not supported.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

Emphasis of Matter

692. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final expenditure amount of Kshs.26,114,611 against actual receipts of Kshs.37,110,880 resulting to an under-utilization of Kshs.10,996,269 or 30% of actual receipts.

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

My opinion is not modified in respect of this matter.

Other Matter

693. Unresolved Prior Year Audit Matters

In the audit report of the previous year, an issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources on irregular recruitment of the project manager. Management has, however, not resolved the issue or provided explanation for failure to resolve it.

Other Information

694. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

695. Lack of Annual Procurement Audit

During the year under review, the Project Management did not carry out procurement audit as required by the Letter of Agreement between African Development Bank and The Republic of Kenya which requires that the recipient shall cause the Public Procurement Regulatory Authority (PPRA) to carry out a procurement audit in accordance with the recipient's Procurement System on an annual basis. The annual procurement audit report shall be submitted to the Bank no later than six (6) months after the end of each calendar year.

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

696. Irregular Procurement of Conference Facilities and Services

The statement of financial performance and Note 9 to the financial statements reflects an amount of Kshs.22,151,937 for use of goods and services. However, examination of sampled payment vouchers amounting to Kshs.654,700 revealed that user requisition was dated 30 August, 2024, invites for quotation were done between 6 to 9 August, 2024, evaluation was dated 9 August, 2024 and the local purchase order was dated

3 August, 2024. This was an indication that the procurement may have been done retrospectively.

Further, examination of documents provided amounting to Kshs.982,100 relating to workshops, stakeholder engagement expenses and operational expenses revealed there were less than three (3) bidders who submitted their quotations prior to evaluation which is in breach of procurement laws.

In addition, review of documents provided revealed that Management procured conference facilities for the project amounting to Kshs.2,226,500 relating to workshops, stakeholder engagement expenses and operational expenses. However, the professional opinion did not disclose or indicate the name of the winning bidder on the recommendation to the Accounting Officer.

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

697. Failure to Deduct Public Procurement Capacity Building Levy

The statement of financial performance and Note 9 to the financial statements reflect an amount of Kshs.22,151,937 in relation to use of goods and services. Review of a sample of payment vouchers provided revealed that Kenya Rural Transformation Centers Digital Platforms Project made payments amounting to Kshs.9,268,541 to various suppliers under public procurement contracts. However, these payments were not subjected to the mandatory Public Procurement Capacity Building Levy as required by Public Procurement Regulatory Authority Circular No. Ref: PPRA/6/5/VOL.II (224) dated 30 August, 2024.

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

698. Non-Submission of Financial Quarterly Reports

During the year under review, the first (1st), second (2nd) and third (3rd) quarter reports had not been submitted to The National Treasury and African Development Bank contrary to requirements of the Financing Agreement and Regulation 77 of the Public Finance Management (National Government) Regulations, 2015, which requires the accounting officer of a project to compile and maintain recordings, and make quarterly financial management returns to The National Treasury not later than fifteen (15) days after end of every quarter.

In the circumstances, Management was in breach of law.

699. Failure to Adhere to Guidelines on Transition from Cash to Accrual Basis of Accounting

Review of the Project's preparedness to transition from cash to accrual basis of accounting revealed that there is no evidence of appointment of Asset Management Officer to support the transition to accrual accounting for assets and there was no proof provided on training in preparation of financial statements on an accrual basis. This was in violation of Section 2.0 of Treasury Circular No.03/2025 dated 14 April, 2025 on

Guidelines on Transition from Cash to Accrual Accounting by The National Government, County Government and their respective entities.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

700. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

701. As required by the Letter of Agreement between the African Development Bank, I report based on my audit, that except for the matters described in the Basis for Qualified Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

USAID BORESHA JAMII PROJECT NO. (72061521CA00004) - JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

702. Late Submission of Financial Statements

The financial statements for USAID Boresha Jamii Project were submitted to the Office of the Auditor-General on 3 October, 2025. This was contrary to The National Treasury's circular dated 4 December, 2024 reference number: AG.3/88 Vol. VII (41) directing all public sector entities, for both national and county governments, to prepare and submit annual financial statements by 31 August, 2025.

In the circumstances, late submission of financial statements is contrary to the issued National Treasury circular.

703. Irregularities of the Financial Statements

Review of the financial statements revealed the following irregularities;

i. It was noted that the USAID Boresha Jamii Project's financial statements were prepared on cash basis of accounting instead of IPSAS Accrual, contrary to Treasury Circular No.03/2025, which requires all National Government entities, County Governments, and their respective entities to transition from Cash to Accrual Accounting.

ii. The numbering in the table of contents does not agree to what is provided by the template that was issued by the Public Sector Accounting Standards Board (PSASB). The non-financial information section should be numbered using roman numbers while the financial statements should begin with number 1.

iii. Balances reported in the statement of receipts and payments were missing some digits hence misleading. Proceeds from domestic and foreign grants are reported at Kshs.313,550 instead of Kshs.313,550,043; total receipts are reported at Kshs.315,298 instead of Kshs.315,298,274; total for compensation of employees is reported at Kshs.198,878 instead of Kshs.198,878,100; purchase of goods and services is reported at Kshs.210,463 instead of Kshs.210,463,129.

iv. Opening balances in the statement of receipts and payments were missing some digits hence misleading.

v. The financial years in the statement of receipts and payments were missing some digits hence misleading.

vi. The cumulative balances reported in the statement of receipts and payments do not agree to the balances reported in the funding summary disclosed in page 6 of the financial statements.

vii. The statement of financial assets, reflects a net financial position of Kshs.1,400,710. However, recalculation of the same leads to an amount of Kshs.(2,802,420).

viii. The statement of cash flows reflects, cash and cash equivalents at the beginning of the year of Kshs.95,369,179 instead of the closing balance of Kshs.90,655,049. Also, cash and cash equivalents at the end of the year is reported at Kshs.1,400,710 while in the statement of financial assets an amount of Kshs.888,710 is reported.

ix. The statement of comparison of budget and actual amounts reflects actual amounts that do not agree with the balances reported in the statement of receipts and payments yet the financial statements were reported using cash basis of accounting. No explanation was given to explain the variances between the reported balances.

In the circumstances, failure to comply with the applicable law on entities to transition from cash basis to IPSAS accrual accounting is in breach of the law.

704. Unconfirmed Cash and Cash Equivalents Balance

The statement of financial assets and as disclosed in Note 5 A to the financial statements, reflects a balance of Kshs.888,710 in respect of cash and cash equivalents. The balance includes Kshs.612,885 for a bank account held at Equity Bank Ltd and an M-pesa balance

of Kshs.275,825. However, Management did not support the balance with M-pesa statements, cash book and monthly reconciliation statements.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.888,710 could not be confirmed.

705. Unsupported Expenditure on Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects purchase of goods and services of Kshs.210,463,129. The amount could not be confirmed because part of this expenditure was not supported as detailed below;

705.1. Domestic Travel and Subsistence

Note 4 to the financial statements includes an amount of Kshs.5,992,040 for domestic travel and subsistence out of which payment vouchers totalling to Kshs.2,147,605 were not provided for audit examination.

In the circumstances, the accuracy and completeness of the domestic travel and subsistence expenditure of Kshs.5,992,040 could not be confirmed.

705.2. Utilities, Supplies and Services and Indirect Costs

Note 4 to the financial statements discloses an amount of Kshs.204,471,089 in respect of utilities, supplies and services and indirect costs. However, sampled payment vouchers totalling Kshs.29,957,067 in respect of training expenses were not provided for review. Further, schedules provided to support stationery and supplies expenditure of Kshs.8,931,733 were incomplete and lacked details on payees, description and voucher number. In addition, accrued expenses amounting to Kshs.16,086,711 were not supported by ledger or payment vouchers.

Additionally, included in the amount is de-minimis charges of Kshs.31,828,560. Analysis of the Equity Bank statement for the USAID Boresha Jamii Project as at 30 March, 2025 confirmed total payments and bank transfers to Jaramogi Oginga Odinga University of Science and Technology (JOOUST) amounting to Kshs.54,800,110 for de-minimis charges resulting to unexplained variance of Kshs.22,971,550 between the bank transfers and the amount in ledger.

In the circumstances, the accuracy and completeness of Kshs.204,471,089 on utilities, supplies and services and indirect cost could not be confirmed.

705.3. Misclassification of ICT Expenses

Note 4 includes purchase of goods and services amounting to Kshs.210,463,129 which includes insurance expense. Review of insurance ledger provided for audit revealed that an amount of Kshs.1,372,820 related to supply of ICT equipment included as insurance expenses hence the expenses were misclassified.

In the circumstances, the disclosed expenditure on purchase of goods and services, amounting to Kshs.210,463,129 could not be confirmed.

706. Anomalies in Compensation to Employees

The statement of receipts and payments reflects compensation to employees of Kshs.198,878,100 as disclosed in Note 3 to the financial statements. However, the following unsatisfactory matters were observed:

i. Review of payroll records provided indicated that thirty (30) employees received a gross of salary accrual amounting to Kshs.27,768,942 in the month of February 2025. Information on rates and criteria used to pay the accrued salary to each grade or salary scale was not provided. Further, it was not stated from which activities in the budget the accrued salary was assigned as per the provision of Section 6.1.1(i) of UBJ Human resource manual which provides that during payroll allocation, the salary for each staff shall be assigned to specific activity areas from the budget.

ii. Review of the February 2025 payroll provided for audit revealed that five (5) employees were introduced into that month's payroll making a total of thirty employees. The payroll for January 2025, had a total of twenty-five (25) employees and the five were not included. Information and justification on how the five employees were added into the February payroll and earned a salary was not provided. Further, approval by the Chief of Party on the addition of the five employees into February payroll have not been provided.

iii. Ledgers provided to support the expenditure reflects an amount of Kshs.193,342,388 resulting to an unexplained variance of Kshs.5,535,712.

In the circumstances, the accuracy and completeness of compensation of employee expenditure of Kshs.198,878,100 could not be confirmed.

707. Imprest and Advances

The statement of financial assets and as disclosed in Note 6 A to the financial statements reflects imprest and advances of Kshs.512,000. Review of the imprest ledger revealed that the imprests were due for surrender way before year end. No explanation was given as to why the imprests remained outstanding as at year end. Further, the imprest register was not provided for audit review. This was contrary to regulation 93.(4 and 5) of Public Finance Management (National Government) Regulations, 2015.

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

708. Irregularities in the Procurement Procedures on Stationery and Supplies

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects an amount of Kshs.210,463,129 in respect to purchase of goods and services, out of which an amount of Kshs.204,471,089 relates to utilities, supplies and services and indirect cost. Review of the ledger/information provided indicated that a total of Kshs.1,980,680 was paid for stationery and supplies yet according to the Local Purchase Order (LPO), the item description is for latrine renovation and materials.

Further, there was no evidence that the head of the procurement unit submitted his recommendations for the award to the accounting officer through issuing a professional opinion as required by Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which states that the head of procurement function of a procuring entity shall, alongside the report to the evaluation committee as secretarial comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.

In the circumstances, Management breached the law.

709. Delay in Submitting the Final Progress Report and Financial Report

Review of records revealed that the Project management delayed to prepare the final report that covered the entire period of the award and financial report because the funds requested for close-out had not been disbursed by the donor as at the time of the audit. The funds (approx. Kshs.14,559,843) were requested on 27 May, 2025 and the same was not received. This may hinder Management's ability to close out the project within the 90-day timeline provided in the Termination Notice dated 26 February, 2025. The SF1034 voucher was submitted 3 months later after notice of termination which contributed to the delay of disbursement. This is contrary to the follow up Notice of Termination dated 13 March, 2025 paragraph D on Final Certification and Payment which required Management to prepare and submit any final payment request and certification/proof of milestone completion(s), in accordance with Schedule and additional terms and conditions of the award, as soon as possible, but by no later than the deadlines required in the award to allow the Agreement Officer to review the actual costs incurred by the Recipient with regard to partially completed milestones.

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

710. Lack of Status Report on Unrecovered VAT after DA1 Processing

As previously reported, USAID Boresha Jamii did not recover an amount of Kshs.5,607,509 through DA1 processing from a supplier. In addition, Management did not provide the status report for the DA1 processing forms approved but not yet recovered from the supplier. According to the finance manual, it states that if JOOUST encounters issues with a vendor refusing to refund the GOK taxes when presented with the GOK approved DA-1 form, JOOUST must immediately notify USAID in writing stating all the pertinent facts surrounding the refund denial by the vendor. However, the management has not provided any details and status concerning the unrecovered VAT especially during the close-out period.

In the circumstances, USAID may end up losing a lot of money to vendors who have refused to refund the VAT amount.

711. Non-Compliance with Executive Order Conditions

711.1. Delayed Final Close-Out Payments under USAID Boresha Jamii Award No. 72061521CA00004

The termination notice for Award No. 72061521CA00004 was issued to Jaramogi Oginga Odinga University of Science and Technology, (JOOUST) on 26 February, 2025. As

stipulated in the notice, JOOUST was required to cease all project activities, terminate all subawards and contracts, and refrain from incurring any further obligations chargeable to the award, except for unavoidable costs directly related to the termination. In line with the Award Agreement, the Recipient was entitled to submit a claim within ninety (90) calendar days from the date of termination for any costs incurred for unpaid or incomplete milestones.

However, as at the time of audit, the final close-out payment had not yet been processed by USAID, although the closure period—scheduled to end on 26 May, 2025—had already lapsed by an additional month. This was contrary to the Award Agreement, which requires that final vouchers and close-out payments be completed within the ninety (90) day period following termination. The current status revealed the unpaid invoices fully signed with certificate of completion with the request for payment totalling USD 225,734 (approximately Kshs.29,119,686) remained un-honoured.

In the circumstances, delayed close-out payments may result in non-compliance with the Award Agreement, possible accumulation of unliquidated obligations, strained relationships with subrecipients and vendors, and potential disallowance of legitimate costs due to missed deadlines.

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

712. I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

713. I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

714. As required by U.S Agency for International Development (USAID), I report based on my audit that I did not obtain all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

STATE DEPARTMENT FOR BASIC EDUCATION – VOTE 1066

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

715. Non-Adherence to Cut Off Procedures on Disbursement of Infrastructure Grants

The statement of financial performance reflects transfers to other Government entities of Kshs.35,585,067,048 as disclosed in Note 11 to the financial statements. Included in the transfers are infrastructure grants disbursement of Kshs.1,395,500,000 to two hundred and ninety-five (295) primary and secondary schools as per the approved budget made in July, 2025. However, disbursements were made in July, 2025 outside the reporting period for the financial year 2024/2025 resulting in violation of cut off procedures.

In the circumstances, the transfers to other Government entities amount are overstated by Kshs.1,395,500,000.

716. Unconfirmed Students Enrolment for Capitation Disbursements

The statement of financial performance reflects transfers to other Government entities of Kshs.35,585,067,048 as disclosed in Note 11 to the financial statements. Included in the transfers is Kshs.7,606,873,521 in respect of Free Primary Education (FPE) capitation. The statement also reflects other grants and subsidies of Kshs.85,380,699,783 as disclosed in Note 13 to the financial statements. Included in this amount is subsidies to public entities Kshs.85,363,199,873 which further includes transfers for Junior Secondary Education (JSE) and Free Day Secondary Education (FDSE) of Kshs.30,443,329,679 and Kshs.54,756,266,042 respectively.

The disbursement of these funds is based on the students' enrolment data captured in National Education Management Information System (NEMIS). However, Management did not provide for audit review evidence of the students' enrollment data in NEMIS having been verified by the respective Sub-County Directors of Education before the funds are transferred to the individual schools.

In the circumstances, the accuracy, completeness, and regularity of transfers of Free Primary Education (FPE), Junior Secondary Education (JSE) and Free Day Secondary Education (FDSE) of Kshs.7,606,873,521, Kshs.30,443,329,679 and Kshs.54,756,266,042 respectively totalling to Kshs.92,806,469,242 could not be confirmed.

717. Unsupported Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.293,486,564 as disclosed in Note 15 to the financial statements. Included in the balance was an amount of Kshs.39,919,131 in respect of foreign attaché which was outstanding as of the close of the financial year. However, as at the time of audit there

was no evidence of the balance having been refunded to the State Department casting doubt as to existence.

In the circumstances, the accuracy and completeness of receivables from non-exchange transactions balance of Kshs.293,486,564 as at 30 June, 2025 could not be confirmed.

718. Inaccuracy in Receivables from Non-exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.293,486,564 as disclosed in Note 15 to the financial statements. However, eCitizen revenue accountability statement for the year ended 30 June, 2025 reflects amount transferred to the State Department of Kshs.10,310,270 and balance payable of Kshs.274,883,700 totalling to Kshs.285,193,970. However, the State Department has not incorporated the amount in the financial statements.

In the circumstances, the income and receivables from non-exchange transactions is understated by Kshs.285,193,970.

719. Unrecorded Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.325,948,503 as disclosed in Note 17 to the financial statements. However, the balance excludes amounts owed to Postal Corporation of Kenya of Kshs.1,482,472.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.325,948,503 could not be confirmed.

Emphasis of Matter

720. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.136,763,090,656 and Kshs.133,505,635,036 respectively, resulting to under-funding of Kshs.3,257,455,620 of the budget. Similarly, the statement reflects acquisition of assets final budget and actual on comparable basis of Kshs.406,221,871 and Kshs.619,251,314 respectively, resulting to an unbudgeted expenditure amounting to Kshs.213,029,443 or 52% of the budget. This was contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which provides that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

The underfunding affected the planned activities and may have impacted negatively on service delivery to the public while Management was in breach of the law.

My opinion is not modified in respect of this matter.

Other Matter

721. Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the State Department in 2024/2025 revealed that the following eight (8) issues remained unresolved as at 30 June, 2025:

No.	Audit Issue
1.	Unsupported Imprests Balance
2.	Unconfirmed Capitation for Free Primary Education, Junior Secondary School Education and Free Day Secondary Education
3.	Budgetary Control and Performance
4.	Pending Accounts Payables
5.	Unconfirmed Other Non-Financial Information
6.	Lack of Ownership and Weak Internal Controls Over Management of NEMIS
7.	Lack of Fixed Assets Register, Land Ownership Documents and Internal Audit Function in Public Secondary Schools
8.	Understaffing and Overstaffing of the State Department

Other Information

722. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

723. Unauthorized Re-allocations of Infrastructure Grants

Included in the infrastructure grants transfers of Kshs.1,395,500,000 is Kshs.672,500,000 disbursed to one hundred and six (106) schools that were not in the State Department approved budget list. As a result, two hundred and nine (209) schools in the approved list with total approved budget of Kshs.756,500,000 were only funded to the tune of Kshs.84,000,000. Further, comparison of the approved infrastructure grants budget with actual disbursement schedules revealed that eleven (11) schools were funded to the tune of Kshs.381,000,000 against their approved budget of Kshs.97,000,000, resulting in underfunding to fifty-seven (57) schools which received Kshs.181,500,000 instead of the approved budget amount of Kshs.377,500,000. This was contrary to Section 43 (1) (a) of the Public Finance Management Act, 2012 which states that "An accounting officer may reallocate funds from the authorized use but may not reallocate funds where the funds are appropriated for transfer to another government entity or person".

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

724. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.325,948,503 as disclosed in Note 17 to the financial statements. However, included in the balance and as disclosed in ageing analysis at Note 17, is a balance of Kshs.70,711,912 which had been outstanding for over three (3) years. Management has not rendered satisfactory explanation for the delay in settlement of the liabilities.

Failure to settle payables during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge while the State Department is at risk of incurring penalties and interest with the continued delays in settlement.

725. Failure to Deduct and Remit Public Procurement Capacity Building Levy

During the year under review, the State Department procured goods, works and services amounting to Kshs.1,824,083,215. However, the State Department did not deduct and remit the public procurement capacity building levy amounting to Kshs.547,225. This was contrary to the Public Procurement Regulatory Authority (PPRA) Circular No.01/2024 referenced PPRA/6/5 VOL.11(224) dated 30th August 2024 provides that all procuring entities are required to remit a 0.03% Capacity Building Levy for each procurement transaction conducted from September 2024 onwards. This levy is to be remitted to PPRA by the twentieth (20th) day of the subsequent month failure to which a penalty of 5% of the outstanding levy amounts shall apply for each and every month the levy amount remains unpaid. Further, the penalty of 5% of the outstanding levy amounts remains unpaid. Failure to pay the levy attracts a penalty of 5% of the outstanding levy amount, which is unbudgeted.

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

726. Irregular Procurement of Media Live Event Coverage

The statement of financial performance reflects use of goods and services expenditure of Kshs.8,684,870,443 as disclosed in Note 10 to the financial statements. The amount includes hospitality supplies and services of Kshs.43,451,136 which includes Kshs.7,375,000 incurred on live coverage of the National Conversation Forum on curriculum-based education by four (4) media firms in Nairobi on 24 April, 2025.

However, review of the procurement proceedings revealed that an Ad-Hoc Evaluation Committee was not established. This was contrary to Section 46 of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer shall ensure that an Ad Hoc Evaluation Committee is established in accordance with this Act and Regulations made thereunder and from within the members of staff, with the relevant expertise;

Further, no contract was signed, contrary to Section 104(d) of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer of a procuring entity shall ensure the resulting contract is in writing and signed by both parties; and

In addition, there was no notification to the Public Procurement Regulatory Authority, contrary to Regulation 90(1)(b) of the Public Procurement and Disposal Regulations, 2020 which provides that an Accounting Officer shall, within fourteen days after the notification of the award of the contract, report any direct procurement of a value exceeding five hundred thousand shillings to the Authority in a format provided by the Authority.

Further, the use of direct procurement without proper justification limits competition and may result in the loss of value for money.

In the circumstances, it was not possible to confirm if value for money was realized from the expenditure of Kshs.7,375,000 on live coverage of the National Conversation Forum and Management was in breach of the law.

727. Failure to Reserve Procurement for Special Groups

During the year under review, the State Department procured goods, works and services amounting to Kshs.1,824,083,215. However, review of the reports on preferences and reservation schemes revealed payments amounting to Kshs.334,560,897 to enterprises owned by the youth, women and persons living with disability, which is approximately 18% of the procurement budget. This was contrary to the requirements of Sections 53(6) and 157(5) & (10) of the Public Procurement and Asset Disposal Act, 2015 which provide for at least 30%.

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

728. Nugatory Interest Expenditure

The statement of financial performance reflects use of goods and services amount of Kshs.8,684,870,443 as disclosed in Note 10 to the financial statements. Included in the amount was other operating expenses of Kshs.8,333,546,215, which further includes interest on court fines of Kshs.10,445,098 which are avoidable costs and hence nugatory.

In the circumstances, value for money has not been realized on the expenditure of Kshs.10,445,098 on interest on court fines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

729. Understaffing and Overstaffing in Various Positions

The approved staff establishment reflects staff in-post of four thousand eight hundred and ninety (4,890) staff against an approved establishment of nine thousand five hundred and eighty-seven (9,587), resulting to understaffing of four thousand six hundred and ninety-seven (4,697). Further, the approved staff establishment reflects staff in-post for various positions totalling four hundred and thirty-six (436) staff against an approved

establishment of one thousand and fifty-two (1,052), resulting to overstaffing by six hundred and sixteen (616) positions.

In the circumstances, the understaffing affected the performance of the State Department and the Management was in the violation of the staff establishment.

DONOR FUNDED PROJECTS

KENYA PRIMARY EDUCATION EQUITY IN LEARNING PROJECT IDA GRANT NO. D991-KE AND CREDIT NO. 7067-KE AND GRANTS NOS. TF C306-KE AND TF C307-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

730. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

731. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.761,842,254 and Kshs.485,842,254 respectively, resulting to an under-funding of Kshs.276,000,000 or 36% of the budget.

The under-funding affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

732. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

733. Delayed Draw Down of Loan and Remittance of Counterpart Funds

The Funding Summary under the Project Information and Overall Performance reflects Donor commitment amount of Kshs.4,947,445,150 over the Project life from 05 August, 2022 to 31 December, 2026 which included Government of Kenya commitment of Kshs.1,233,500,000. However, only Kshs.1,494,989,899 had been drawn as at 30 June, 2025, resulting to undrawn balance of Kshs.3,452,455,251 or 70% of the funding. Further, during the year under review, there was no counterpart funds contribution by the Government of Kenya. This was contrary to the Disbursement and

Financial Information Letter which requires IDA Credit, IDA Grant and Government of Kenya to finance 38.5%, 16.5% and 45% of expenditure.

In the circumstances, the low absorption may affect the planned Project activities and may have impacted negatively on service delivery to the public while the Government of Kenya is in breach of the agreement.

734. Irregular Procurement of Motor Vehicles

The statement of financial position reflects Kshs.84,612,384 in respect of property, plant and equipment as disclosed in Note 11 to the financial statements. Included in the balance is Kshs.68,790,244 in respect of five (5) motor vehicles procured during the year under review. However, review of procurement records provided for audit revealed that Management requested for bids for the supply and delivery of the Project's vehicles. The advertisement was made on 21 January, 2025 and closed on 20 February, 2025 and three firms responded, out of which two firms were recommended for award by the Tender Evaluation Committee. However, the following observations were made; -

i. The estimated cost of the five (5) vehicles in the Project Procurement Strategy for Development was USD.290,909 or Kshs.33,745,444. However, the procurement plan provided for audit reflected an estimated cost of USD.650,407 or Kshs.83,902,503, resulting to unexplained difference of USD.359,498 or Kshs.50,157,059 representing 124% change in the estimate. Management did not provide justification for the significant change in the estimate and the basis of the revised estimate. Management explanation that a market survey was done, was not supported with market survey report/results. Further, no documentary evidence was provided to confirm that market prices were not exceeded prior to notification of tender award;

ii. The Project Procurement Strategy for Development (PPSD) recommended Request for Quotations (RFQ) as the procurement method. However, the Project Management used Request for Bids (RFB). No explanation and documentary evidence/justification was provided to support the change in the planned procurement method;

iii. There was no evidence that the budget for the five (5) vehicles was approved by the National Steering Committee in contravention of the financing agreement;

iv. No evidence was provided to confirm that the advance payment guarantee, and the performance security provided were furnished to the Bank as required by paragraph 7.2 of the World Bank Procurement Regulations for IPF borrowers, 2023, which provides that one conformed copy of the contract, and of the advance payment security and the performance security if they were requested, shall be furnished to the Bank promptly after its signing and prior to the making of the first payment. Further, the guarantees provided were not authenticated by the respective issuing financial institutions.

In the circumstances, the Project Management was in breach of the provisions of the financing agreement.

735. Delay in Implementing Procurement Activities Identified in the Project Procurement Strategy for Development

Review of the recommended procurement arrangements for the Project activities under Investment Project Financing (IPF) component in the Project Procurement Strategy for Development, 2022 revealed schedule delays for most of the procurement activities for the Project as shown below; -

Procurement Activity	Expected Date of Contract Award	Status
Technical Assistant to Strengthen supply chain for sanitary towels and accountability	30 October, 2023	Not Done
Technical Assistant to undertake an assessment of school grants intervention	15 March, 2024	Not Done
Technical Assistance for CBC/CBA	15 August, 2023	Not Done
Technical Assistant to develop a robust teacher management system	01 August, 2023	Not Done
Technical Assistance (TA) for Competency Based Assessments - International Firm	01 December, 2023	Not Done
Motor Vehicles-5 Vehicles	30 April, 2023	Contract signed on 15 May, 2025 resulting to two years delay.
IT (laptops, Desktops, Projectors and Scanners)/Office equipment	31 March, 2023	Contract signed on April, 2025 resulting to two years delay.
Procurement of selected learning devices for learners with special needs and disabilities (SNE)	15 October, 2023	Not done
Procurement of Energy saving cooking stoves and or a steam cooking stove system in 5 of the target schools for the school meals program under the Pilot clean energy initiative	30 September, 2024	Not Done
Computer Assisted Personal Interview CAPI Platform for Realtime data collection and filed management	30 January, 2024	Not Done
Specialized equipment for transcription and production of print learning materials into braille format for learners with Visual Impairment	30 October, 2023	Contract signed on 30 August, 2024, resulting to ten (10) months delay.
Procurement of mobile science lab kits to support implementation of the CBC and CBA, particularly in teaching of sciences	30 November, 2023	Not Done

Procurement Activity	Expected Date of Contract Award	Status
Procurement of IEC materials	01 December, 2023	Not Done
Printing of the Teacher Education and Training Policy	30 October, 2023	Not Done
Printing of the Education Sector Plan	30 October, 2023	Not Done
Printing of hand books for BOMs	15 August, 2023	Not Done
Printing and distribution of 300 copies of Gender Training Module	15 November, 2023	Not Done
Production, Repair and Maintenance of Specialized Learning Resources, Assistive Devices and Technologies to enhance learning.	30 October, 2023	Not Done

In the circumstances, the Project's planned objectives were not fully realized and the public may have been denied the benefits that may have accrued from the un-utilized funds. In addition, Management was in breach of the terms of the financing agreement.

736. Irregular Procurement of Consultancy Services

The statement of financial performance reflects use of goods and services amounting to Kshs.319,577,919. Included in this amount is training expenses amounting to Kshs.24,807,734. Review of procurement records revealed that, the Project procured consultancy services to undertake training for Senior and lower cadre officers. The proposal was awarded to a Consultancy firm at a contract sum of Kshs.15,528,000. However, Management did not provide the notification of intention to award, the overall technical scores, scores assigned for each criterion and sub-criterion to each consultant by each panelist, the final combined scores and the final ranking of the consultants. Further, the consultancy services were not contained in the procurement plan and was not identified as an activity in the Project Procurement Strategy for Development. This was contrary to Section 53(2) of the Public Procurement and Asset Disposal Act, 2015, which provides that an Accounting Officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

737. Failure to Hold Quarterly Meetings

During the year under review, the National Steering Committee held only one meeting contrary to the Paragraph (2)(b) of Section 2 of the Financing Agreement which provides that the National Steering Committee shall meet quarterly, and shall be responsible for approving the Annual Work Plan and Budget ensuring that activities are aligned with any

changes in policy and reform and that there is adequate staff to support the operations, facilitating interventions with the relevant directorates and agencies, following up on the implementation of key fiduciary and safeguard actions.

In the circumstances, the Project did not benefit from the oversight role and advice from the Committee.

738. Lack of a Depreciation Policy

The statement of financial position reflects Kshs.84,612,384 in respect of property plant and equipment as disclosed in Note 11 to the financial statements. The balance was net of the annual depreciation amount of Kshs.7,899,210. However, the policy on depreciation was not disclosed under the summary of significant accounting policies.

In the circumstances, the effectiveness of internal controls on management of property, plant and equipment could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

739. As required by International Development Association (IDA), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

KENYA PRIMARY EDUCATION EQUITY IN LEARNING PROJECT IDA GRANT NO. D991-KE AND CREDIT NO. 7067-KE AND GRANTS NOS.TF C306-KE AND TF C307-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

740. Unreconciled Special Deposits Balances

Note 17 to the financial statements discloses special deposit accounts DLI account balance of Kshs.4,325,501,281 while the special deposit accounts statements reflect a balance of Kshs.4,306,961,432, resulting to an unreconciled variance of Kshs.18,539,849.

In the circumstances, the accuracy and fair statement of the special deposit account balance of Kshs.4,306,961,432 could not be confirmed.

Other Matter

741. Unresolved Prior Years 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 as indicated below. Although Management indicated that the issues had been resolved, evidence to that effect was not provided for review.

No.	Audit Issue
1.	Inaccurate Receipt Amount
2.	Unsupported Bank Balance
3.	Unsupported Deposits and Retentions
4.	Unsupported Budget and Under-Funding
5.	Failure to Maintain Separate Banking Arrangements
6.	Undrawn Loan Balances and Delays in Remittance of Counterpart Funds
7.	Overdrawn Bank Account

Other Information

742. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

743. Unapproved Budget

The statement of comparison of budget and actual amounts reflects final receipts and expenditure budget amounts of Kshs.13,914,157,746 and Kshs.13,423,191,094 respectively. However, there was no evidence of the budget having been approved by the National Steering Committee, contrary to the requirement of article 1(A)(2) of Schedule 2 of the Financing Agreement dated 14 April, 2022, thus casting doubts on the authenticity of the budget amounts.

In the circumstances, Management was in breach of the Financing Agreement.

744. Slow Draw of Projects Funds

The Funding summary at page x under the Program Information and Overall Performance reflects total Donor Commitment of Kshs.35,338,664,850 and Government of Kenya commitment of Kshs.14,604,640,000 all totalling Kshs.49,943,304,850 over the Program's life ending on 31 December, 2026. However, only Kshs.28,261,094,723 had been drawn as at 30 June, 2025 resulting to an undrawn balance of Kshsh.21,682,210,127 or 43% of the total commitment. This is indicative of low absorption of funds and the Project may not fully implement the planned activities within the project life.

In the circumstances, the slow draw down of funds may negatively impact on the service delivery to the public.

745. Irregularities in the Supply, Delivery, Installation and Commissioning of ICT Equipment in Public Teacher Training Colleges

As previously reported, the Program Management procured for the supply, delivery, installation and commissioning of ICT equipment in thirty-five (35) public teacher training

colleges through framework contracts valued at Kshs.1,042,287,068. However, the Program initiated Programs on the installation and commissioning of ICT equipment in thirty (30) public teacher training colleges. The contracts were signed on 27 October, 2023 and were to run for a duration of three (3) months with expected completion date of 27 January, 2024. However, the contract extensions ended on 02 September, 2024, eleven months after the initial contract date resulting to eight months delay. This was contrary to Regulation 137 (e) of the Public Procurement and Asset Disposal Regulations, 2020 which provides that the requirements of the contract shall be closely monitored to ensure that there are no deviations or risks and those identified dealt with in time.

Further, Management did not impose liquidated damages on the suppliers as required by Section 140 of the Public Procurement and Asset Disposal Act, 2015. In addition, Field inspection at Kibabii Teachers Training College revealed that ten (10) laptops supplied to the College had been stolen and the matter reported to the police.

In the circumstances, value for money may not have been realized from the contracts while Management was in breach of the law.

746. Lack of a Procurement Plan

The statement of financial performance reflects use of goods and services amounting to Kshs.538,898,424 as disclosed in Note 8 to the financial statements. However, during the year, Management did not prepare an annual procurement plan as part of the annual budget preparation process. This was contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which states that "all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity through an annual procurement plan".

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

747. Failure to Hold Quarterly Meetings

During the year under review, the National Steering Committee held only one meeting contrary to the Paragraph (2)(b) of Section 2 of the Financing Agreement which provides that the National Steering Committee shall meet quarterly, and shall be responsible for approving the Annual Work Plan and Budget ensuring that activities are aligned with any changes in policy and reform and that there is adequate staff to support the operations, facilitating interventions with the relevant directorates and agencies, following up on the implementation of key fiduciary and safeguard actions.

In the circumstances, the Program did not benefit from the oversight role and advice from the committee.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

748. As required by International Development Association (IDA), I report based on my audit that 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. Further, adequate accounting records have been kept by the Program, so far as appears from the examination of those records and the Program's financial statements are in agreement with the accounting records and returns.

GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

749. Unsupported Cash Adjustment

The statement of financial position reflects a nil cash and cash equivalents balance as disclosed in Note 8 to the financial statements which agrees with the board of survey report and the cash book balance. However, the statement of net changes in assets reflects negative adjustment of Kshs.503,350 in respect of July, 2024 brought forward balances for which supporting documents were not provided for audit review.

Further, bank reconciliation statement, bank statement and certificate of bank balance as at 30 June, 2025 were also not provided for audit review. Although Management attributed the lack of documents to the closure of the project account by the bank for being dormant, a letter confirming the closure was not provided for audit review.

In the circumstances, the accuracy and fair statement of cash and cash equivalents balances as of 30 June, 2025 could not be confirmed.

Other Matter

750. Unresolved Prior Year Matter

In the audit report of the previous year, an issue was raised under the Report on the Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issue or given any explanation for failure to implement the recommendations.

Other Information

751. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

752. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

753. Dormant Status of the Project

As previously reported, the annual report and financial statements indicate that the Programme started in September, 2006 with the objective of expanding and improving early childhood development and education for the most vulnerable and disadvantaged children. The Government of Kenya was required to contribute 10% while UNICEF was to provide 90% of the funds. However, it was observed that for over two (2) years, the Programme had not been budgeted within the State Department budget with the last expenditure being incurred in the financial year 2019-2020. Further, there was no status report on the Programme implementation and details on the program grant/credit number therefore the extent of UNICEF contribution and Government of Kenya contribution could not be confirmed. In addition, the Statement of Performance Against Programme's Predetermined Objectives states that "the objectives are not clear as the Programme has stalled since the financial year 2015/2016".

In the circumstances, the status of the Programme as at 30 June, 2025 could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

754. The GoK/UNICEF Country Programme Action Plan, 2014-2016 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 Programme'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.

SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT (CREDIT NO.6138-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

755. Unsupported Consultancy Payments

The statement of financial performance reflects expenditure on use of goods and services of Kshs.569,786,741 as disclosed in Note 7 to the financial statements. The amount includes consultancy services expenditure of Kshs.369,594,074, out of which Kshs.96,096,584 relates to consultancy works for design, clerks of works and supervision of projects in thirty (30) Counties. However, Management could not confirm the payments were made based on the percentage of works completed as stipulated in the contract documents.

In the circumstances, the validity and value for money on consultancy services expenditure of Kshs.96,096,584 could not be confirmed.

Other Matter

756. 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 as indicated below. However, Management had not resolved the issues as at 30 June, 2025.

No.	Audit Issue
1.	Unsupported Consultancy Payments
2.	Improper Constitution of Contract Implementation Committee
3.	Unsupported Revision of Contract Durations
4.	Projects not Commenced
5.	Delay in Completion of Infrastructure Projects
6.	Stalled Construction Projects
7.	Poor Workmanship and Incomplete Works

Other Information

757. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

758. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

759. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

760. As required by the International Development Association, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

PROMOTION OF YOUTH EMPLOYMENT THROUGH SCHOLARSHIPS PHASE II ("WINGS TO FLY IV") PROJECT NO. BMZ - NO. 2018 67 399

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

761. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

762. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.120,000,000 and Kshs.52,983,793 respectively, resulting to an under-funding of Kshs.67,016,207 (or 56%) of the budget.

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

My opinion is not modified in respect of this matter.

Other Information

763. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

764. Unsupported Procurement of Consultancy Services

Records provided for audit indicate that a Foundation was engaged by the State Department to provide Consultancy Services for the Wings to Fly Program. However, documentary evidence of how the Foundation was procured and other documents including needs assessment report, procurement plan, request for proposal, financial and technical proposal and prior approval by KfW – Development Bank to offer the services were not provided for audit review. Management explained that direct award was used because the Foundation had previously been engaged on a competitive basis to provide scholarships. However, functional description and a specification or terms of reference as required by Article 2.1.5 of the Procurement Guidelines of July 2024 were also not provided for audit review.

Further, the State Department did not provide a report on the suitability of the Foundation, contrary to Article 2.1.5 of the Procurement Guidelines which states 'that the Project Executing Agency shall verify the appropriateness and competitiveness of the offer as well as the contract to be concluded and demonstrate the qualification of the selected Bidder'.

In the circumstances, the regularity of procurement process of the Foundation could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

765. Weak Controls Over Scholarship Awards

As previously reported, the statement of financial performance reflects other transfers (scholarship grants) of Kshs.52,983,793 as disclosed in Note 7 to the financial statements. The summary of overall project performance at page viii indicates that the payment was in respect of three hundred and fifteen (315) learners. However, Management did not provide for audit review evidence that measures were taken to ensure that the scholarships were for the intended beneficiaries. Instead, Management relied on information obtained from the consultant (Foundation) before approving disbursement of funds. Further, Management did not provide current status report of the beneficiaries. In addition. during the year under review, there were no counterpart funds appropriated to implement the Project within the State Department, contrary to Regulation 72(6) of the Public Finance Management (National Government) Regulations, 2015 which provides that national government shall ensure grants are factored in the budgets and counterpart funds appropriated accordingly.

In the circumstances, the effectiveness of internal controls over the award of scholarships could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

766. As required by the KfW Development Bank, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

DEVELOPMENT OF SCHOOLS INFRASTRUCTURE IN NYAMIRA COUNTY PROJECT, CREDIT NUMBER: KF LOAN 853

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

767. Expired Performance Bank and Advance Payment Guarantees

The statement of financial position reflects contractors advance payments of Kshs.24,264,383 as disclosed in Note 11 to the financial statements. Included in the balance are advance payment guarantees for two contractors totalling Kshs.10,149,477.

However, the guarantees had expired on 29 April, 2025 and 18 July, 2025 and had not been renewed contrary to Regulation 136(2c) of Public Procurement and Asset Disposal Regulations, 2020 which requires the head of a procuring entity to ensure that the bank guarantee does not lapse unless the contractor has done commensurate work or has supplied goods of equivalent value to the guarantee. Further, one of the contractors had failed to mobilize after receiving the advance payment amounting to Kshs.4,203,550.

In addition, Management did not recover the advance payments from certified works of four contractors paid a total amount of Kshs.75,791,839. This was contrary to Regulation 136(2)(d) of the Public Procurement and Asset Disposal Regulations, 2020 which requires any payments made to the contractor to be done in a manner to reduce the advance payment progressively.

In the circumstances, Management was in breach of the law while the recoverability of the contractors' advance payments of Kshs.24,264,383 could not be confirmed.

Emphasis of Matter

768. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.474,000,000 and Kshs.290,511,393 respectively, resulting to an under-funding of Kshs.183,488,607 or 39% of the budget.

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

My opinion is not modified in respect of this matter.

Other Information

769. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

770. Stalled and Slow Progress of Works

The statement of financial performance, reflects certified works of Kshs.220,841,473. However, review of the documents provided for audit revealed that the project had a start date of 22 July, 2024 and an end date of 22 January, 2025 which was extended to 31 December, 2025. Further, the Project had a budget amount of Kshs.2,121,599,462, out of which only Kshs.303,639,393 had been utilized as at 30 June, 2025. Review of the project consultant status report for the period of May-June, 2025 revealed that implementation of project activities was at 30% as at 30 June, 2025 with only six (6) months left to the Project's closure. The report further showed that the consultant had certified works of Kshs.411,987,267 or 28% of the Project's contract sum of Kshs.1,479,095,475. According to the consultant's report, nine (9) contractors were not

on site, one (1) never mobilized after signing the contract, two (2) had stalled projects while four (4) showed slow progress. Management did not indicate action taken to terminate contracts undertaken by contractors who never mobilized, or whose works were slow, contrary to Section 139(1)(b) of the Public Procurement and Asset Disposal Act, 2015 which provides that a procuring entity may terminate a procurement contract if the supplier or contractor fails to meet the contractual obligations or does not perform as required.

In addition, the audit established that processing of payments to contractors took a minimum of three (3) months, thereby delaying implementation of activities and risking increased project cost and extended completion periods.

In the circumstances, value for money may not be achieved on Kshs.220,841,473 spent on the Project. Further, the Project may not be completed on time and attain its objectives.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

771. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

772. As required by the Kuwait Fund for Arab Economic Development I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR MEDICAL SERVICES - VOTE 1082

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

773. Undisclosed Appropriations-In-Aid

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects proceeds of sale of assets amount of Kshs.22,400,215,346 being Appropriations-In-Aid (AIA). Included in the amount is AIA of Kshs.7,179,906,683 for three (3) entities under the State Department. However, the amount differs with the AIA amount in the respective entity financial statements as tabulated below:

No.	Agency	AIA as per Entity FS (Kshs.)	AIA as Per State Department FS (Kshs.)	Variance (Kshs.)
1.	KEMSA	6,305,164,755	220,000,000	6,085,164,755
2.	KEMRI	7,959,032,765	2,684,837,380	5,274,195,385
3.	KUTRRH	4,269,791,755	4,275,069,303	5,277,548

Further, Appropriations-in-Aid for the Social Health Authority (SHA) has not been determined and incorporated in the financial statements.

In the circumstances, the accuracy and completeness of Appropriations-In-Aid amount of Kshs.22,400,215,346 for the period could not be confirmed.

774. Undisclosed Receivables

The statement of financial position reflects Nil receivables from exchange transactions. However, analysis revealed claims totalling to Kshs.359,103,427 due from the Social Health Authority and the defunct National Health Insurance Fund which have not been disclosed in the financial statements. In addition, receivables amounting to Kshs.33,514,805 from six (6) other entities were also not disclosed in the financial statements.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance could not be confirmed.

775. Inaccuracies in Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 16 to the financial statements reflects cash and cash equivalents balance of Kshs.375,029,542. However, the balance excludes funds held in the Equalisation Fund account, one project account, and three hospital accounts, with balance totalling to Kshs.134,152,978. Further, seven (7) dormant bank accounts with nil balances had not been closed. In addition, review of bank account register revealed one donor funded research project account which received

Kshs.30,112,048 in the 2023/2024 and Kshs.10,577,253 in 2024/2025 totalling to Kshs.40,689,301 but its operations have not been incorporated in the financial statements.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.375,029,542 could not be confirmed.

776. Failure to Prepare Financial Statements

The statement of financial performance reflects revenue from non-exchange transactions amount of Kshs.94,054,037,542 which includes proceeds from foreign borrowings amount of Kshs.3,634,913,195. However, analysis revealed four (4) Loan and Grants funded Projects namely construction of Kisii Cancer Centre, upgrading maternal and new born care units, Kenyatta National Hospital (KNH) Burns and Paediatrics Centre and NASCOP TLC-1DU Research Project whose financial statements were not prepared and presented for audit.

In the circumstances, the accuracy and completeness of proceeds from foreign borrowings amount of Kshs.3,634,913,195 could not be confirmed.

Emphasis of Matter

777. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final expenses budget amount of Kshs.102,723,906,351 and actual on comparable basis amount of Kshs.94,101,223,671. However, analysis of the budget revealed that the actual expenditure includes Kshs.4,353,754,695 in relation to forty-one (41) programmes whose budget amount was Kshs.3,263,754,640 resulting to over expenditure of Kshs.1,090,300,055.

Expenditure above the budget implies weak budgetary control and poor fiscal discipline.

My opinion is not modified in respect of this matter.

Other Matter

778. Unresolved Prior Year Matters

In the prior year audit report, the following 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, respectively. Review of the status during audit of the State Department in 2024/2025 revealed that the following matters remained unresolved.

No.	Audit Issue
1.	Failure to Undertake Assets Valuation
2.	Budgetary Control and Performance
3.	Budget Credibility
4.	Long Outstanding Deposits

No.	Audit Issue
5.	Failure to Operationalize the Emergency Medical Treatment Fund
6.	Unbudgeted Pending Bills
7.	Stalled Equalization Fund Projects
8.	Underfunding of Maternity Programme
9.	Stock Out of Vaccines at the Central Vaccine Store
10.	Delayed Completion of Pediatric Emergency Centre and Burns Management
11.	Inadequate Patients Beds at Mathari Hospital
12.	Delayed Construction of Kisii Cancer Centre
13.	Budget In-Adequacy for Community Health Promoters Kits
14.	Delayed Installation of Medical Gases
15.	Unconfirmed Testing of Health Products
16.	Encroachment of Land at Mathari Teaching and Referral Hospital
17.	Proposed Establishment of a NEURpsychiatric National Teaching and
18.	Procurement of the Healthcare Information Technology Digitization System
18.1	Unbudgeted Procurement
18.2	Uncompetitive Procurement
18.3	Undefined Scope of Works
18.4	Payment Arrangement Agreement
18.5	Unfavorable Contract Clauses
18.6	Project's Financing and Payment Model
19.	Non-Compliance with the One-Third Rule of Basic Salary
20.	Non-Compliance with Staffing of Persons with Disabilities
21.	Inconsistencies in Vaccine Immunization Data
22.	Inadequate Transition Planning from GAVI Vaccine Support

779. Avoidable Expenditure - Court Awards

Note 22 to the financial statements reflects court awards of Kshs.68,421,740,034. Review of the case files revealed that the State Department entered into contract for the supply of anti-malaria drugs and equipment on 14 July 1995 for Kshs.1,157,846,150. However, payment was not made to the supplier in a timely manner resulting in a suit for which the contractor was awarded an amount of Kshs.1,862,302,792 for breach of contract. The amount had escalated to Kshs.15,250,000,000 as at 30 June, 2025 due to accrued interest. Further, a payment of Kshs.360,000,000 was made after the courts determined that Management failed to perform contractual obligation of paying for the delivered supplies. In addition, review of case files revealed that only Kshs.17,316,763,761 was supported by way of advisory letters from the Attorney General while the rest of the balance of Kshs.51,104,976,273 was unsupported.

In the circumstances, State Department incurred avoidable costs by failing to honor the provisions of the contract and the court awards.

Other Information

780. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

781. Development Expenditure Below 30% Percent Threshold

The statement of comparison of budget and actual amounts reflects final budget of amount of Kshs.102,723,906,351. However, analysis of the budget revealed that the State Department received Exchequer of Kshs.67,780,783,111 out of which Kshs.17,138,891,616 or 25% was utilized for development programmes while Kshs.50,641,077,626 or 75% was incurred on recurrent expenditures. This was contrary to Regulation 26 (1) (f) of the Public Finance Management (National Government) Regulations, 2015 which requires development expenditure to be at least thirty percent.

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

782. Deficiencies of the Vaccination Programme

The statement of comparison of budget and actual amounts reflects final budget of Kshs.102,723,906,351 out of which Kshs.5,530,000,000 was allocated to the vaccination programme. However, the following unsatisfactory matters were noted;

i. Analysis of the budget revealed that only Kshs.2,930,000,000 was used to procure vaccines resulting to underutilization of Kshs.2,600,000,000 or 47% of the allocated funds. Further, Kshs.200,000,000 earmarked for vaccine production was reallocated through a supplementary budget to other uses.

ii. Review of vaccine utilization ledgers of three (3) vaccines of BCG, Measles Rubella and Yellow Fever revealed a wastage rate of 75%, 57% and 51% respectively which was higher than the allowable rate of 15%. For instance, out of the 8,602,303 doses of BCG issued to various health facilities, only 2,113,091 doses were administered resulting to 6,489,212 or 75% wasted doses. This was contrary to Paragraph 8 of the World Health Organization Monitoring Vaccine Wastage at Country Level Guidelines for Programme Managers 2005 which requires countries receiving GAVI support to reduce their wastage rates to 15% for 10-dose and 20-dose presentations within three years.

iii. The State Department received 35,651,824 doses of various vaccines of undetermined value which were funded by Global Alliance for Vaccine Immunization (GAVI) and Government of Kenya but the GAVI grant portion was not disclosed in the financial statements.

In the circumstances, these deficiencies may indicate significant shortfall and gaps in implementation planning, procurement inefficiencies, or delays, potentially undermining the effectiveness of the vaccination programme.

783. Delayed Upgrading of Maternal and New-born Units

During the year under review, it was noted that the project of upgrading of twenty (20) Maternal and New-born Units to enhance maternal healthcare services through

construction, installation of medical equipment, testing, training, and financial handover at EUR 24,000,000 was scheduled for completion within twenty-four (24) months. However, as at 30 June, 2025 approximately nine (9) months past the expected completion date only six (6) health facilities had been completed, while the remaining fourteen (14) were still under construction. Further, an expenditure of Kshs.1,127,146,064 was incurred for shipment of materials but the Bill of Quantities and details of the value of work done were not provided for audit and the financial statements for the project were not prepared. This was contrary to Regulation 74(6) of the Public Finance (National Government) Regulations, 2015, which requires accounting officers to maintain proper books of accounts and records for all projects and donations.

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

784. Irregular Payment of Intangible Preliminaries

The statement of financial position and as disclosed in Note 17 reflects property, plant and equipment balance of Kshs.736,370,806. However, review of Bill of Quantities and payment vouchers revealed that intangible preliminaries amounting to Kshs.17,103,333 covering security, site sanitation, and project management expenses were paid to contractors for various construction projects. This was contrary to Section VIII Bill of Quantities Paragraph 3.0(a) of the Public Procurement Oversight Authority Guidelines, 2007 which requires the number of preliminary items to be priced by the tenderer be limited to tangible items such as site office and other temporary works, otherwise items such as security for the works which are primarily part of the contractor's obligations should be included in the Contractor's rates.

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

785. Unapproved and Undisclosed Waiver of Patient Bills

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects Appropriations in Appropriation-In-Aid (AIA) amount of Kshs.22,400,215,346 from Semi-Autonomous Government Agencies (SAGAs) which includes Kshs.458,535,663 from Mathari National Teaching and Referral Hospital. However, review of Hospital records revealed waived patients bills amounting to Kshs.41,764,443 which were not approved by the Accounting Officer or disclosed in the financial statements. This was contrary to Section 66 (2) and (3) of the Public Finance Management Act, 2012 states that, 'An Accounting Officer shall obtain approval from The National Treasury for the proposed tariff structure. Information on the tariff structure shall be disclosed in the annual report, including information on exemptions, discounts, free services and any other aspect of material influence on the revenue yield.

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

786. Stalled Projects

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects use of goods and services amount of Kshs.5,516,080,179. However, review of project status report revealed that twenty (20) Equalisation fund projects

intended for marginalized areas valued at Kshs.484,048,098 have stalled despite disbursements of Kshs.333,037,912. Further, the construction of Pediatric Emergency Centre and Burns Management Unit at Kenyatta National Hospital at a contract amount of Kshs.2,959,511,555 commenced on 02 August, 2018 and was scheduled for completion by 10 November, 2020. The project is incomplete despite payments amounting to Kshs.1,099,686,586. In addition, The National Treasury approved the establishment of a NEURpsychiatric National Teaching and Referral Hospital at Ngong, Kajiado County at a cost of Kshs.5,000,000,000 over a two-year period with an initial budget allocation of Kshs.2,500,000,000 in the financial year 2021/2022. The project has not commenced since Kshs.579,150,000 disbursed for its implementation was subsequently refunded to The National Treasury on 29 March, 2023.

In the circumstances, value for money incurred on the projects could not be confirmed.

787. National Equipment Service Programme

The State Department jointly with the Council of Governors entered into a fixed fee for service contracts with seven (7) suppliers under the National Equipment Service Program. Review of tender documents and contract agreement revealed that the program involved the installation of medical equipment, maintenance services, training and provision of consumables to health facilities. These services were to be financed through a fixed fee-for-service model over a seven-year period, with a possible extension of three additional years. However, the following unsatisfactory matters were noted;

787.1. Unapproved National Equipment Service Programme

It was noted that there was no evidence of approval from the Public Private Partnership Committee before implementation of the programme. This was contrary to Sections 2 and 59 of the Public Private Partnership Act, 2021 which requires any arrangement in which a private entity performs a public function and receives compensation through fees or charges qualifies as a public-private partnership and such arrangements together with its financial risk assessment report require prior approval from the Public Private Partnership Committee.

787.2. Unfavorable Revenue Sharing Arrangements

Review of the contract documents revealed that revenue generated will be shared between the suppliers and health facilities for each service rendered. However, 80% to 255% of revenue generated from one hundred and twenty (120) Social Health Authority (SHA) insured services will be paid out to the suppliers leaving the health facilities with little or no funds for operation. For instance, the pay-out ratio to suppliers for nine (9) services is above 100% forcing health facilities to compensate suppliers over the SHA approved rates. This was contrary to the affordability principle as outlined under Section 2(b) of the Public Private Partnership Act, 2021 since the programme imposes unreasonable financial burden to the health facilities and the end users.

787.3. Technical Incapability of Suppliers

Examination of the tender evaluation criteria outlined in the contract documents revealed that bidders were required to demonstrate a minimum average annual turnover of

Kshs.1,000,000,000 over the past three years, along with evidence of having successfully completed at least five (5) similar hospital equipment maintenance contracts within the last five years. However, it was noted that three (3) of the firms had been operational for less than two (2) years, while one (1) had only been in existence for seventy-four (74) days at the time of bidding. This was contrary to Section 47(2)(a) and (b) of the Public Private Partnership Act, 2021 which states that, 'A private party or consortium is eligible to respond to a request for qualification if the party or consortium (a) satisfies the criteria specified in the request for qualification issued by the contracting authority and (b) has the technical capability and financial capacity to undertake the project'.

787.4. Risks in the Programme Implementation

The following risks were identified in the programme implementation;

i. The services to be offered under the programme include three hundred and twenty-eight (328) tests at various prices which had not been discussed and agreed on by the various health facilities and exposes hospitals to higher prices.

ii. In addition, the health facilities are required to remit the funds due to the suppliers to a special purpose account to be managed jointly by the State Department and the Council of Governors on or before 15th of the following month. Funds from insured services will directly be disbursed from Social Health Authority while health facilities will deposit funds for uninsured services to the special purpose account. However, there is a risk of delayed release of funds by Social Health Authority and the health facilities which may affect the sustainability of the program.

iii. Further, no feasibility study was conducted indicating whether the funds to be paid out are commensurate to the expenses incurred and whether the retained amount will be adequate to sustain health facility operations. This may affect the operations of the health facilities contrary to Section 7 (a) of the Facility Improvement Fund Act, 2023 which requires the finances be retained by health facilities to support the optimal operations for effective service delivery throughout the financial year.

In the circumstances, the sustainability of program could not be confirmed.

788. Unbudgeted Procurement of Medical Equipment on Lease

During the year under review, Management floated open tenders for the provision of medical equipment on lease for seven (7) years in public health facilities. However, review of tender documents revealed that procurement process was completed and five (5) bidders were recommended for award on 1 August, 2024 but the contract had not been signed as at 30 June, 2025 due lack of budgetary provisions. This was contrary to Section 53(8) of the Public Procurement and Asser Disposal Act 2015 states that, 'Accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

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

789. Delayed Construction of Kisii Cancer Centre

The statement of financial performance and as disclosed in Note 13 to the financial statements reflects transfers to other government entities amount of Kshs.76,675,762,000 out of which Kshs.134,531,199 was a direct payment for the construction of Kisii Cancer Centre. The construction of the main civil works was awarded on 31 January, 2024 a sum of USD.9,237,105 (Kshs.1,479,668,715) for a period of seventy-eight (78) weeks. However, as at 30 June, 2025 approximately seventy-seven (77) weeks later, the value of work done was USD.967,275(Kshs.154,945,364) equivalent to 10%. In addition, the advance payment of Kshs.283,032,102 had not been fully recovered.

Further, the construction of the main civil works was awarded alongside with other five (5) contracts for the supply, installation, commissioning, operation and maintenance of various medical equipment at Kshs.155,467,261 but the period was not specified. However, according to the site meeting minutes held on 1 August, 2025 the medical equipment was already at warehouse waiting completion of the main civil works.

In the circumstances, value for money on expenditure incurred could not be confirmed and warehousing of medical equipment exposes to the risk of becoming obsolete before they are put into use.

790. Irregular Procurement of Community Health Promoters Kits

The statement of financial performance and as disclosed in Note 12 reflects use of goods and services amount of Kshs.5,516,080,179 which includes specialized materials and services amount of Kshs.1,572,689,346. The following unsatisfactory matters were observed on the purchase of Community Health Promoters kits;

i. During the year under review, the State Department procured Community Health Promoters' (CHP) phones at the cost of Kshs.650,000,000 which were not included in the annual procurement plan. This was contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act 2015 which requires that all procurement processes be within the approved budget and through an annual procurement plan.

ii. On 13 September, 2023 Management procured community health promoters kits on a three-year at a contract cost of Kshs.24,760,791,759 through Specially Permitted Procurement Procedure. However, there was no evidence that the partner incurred the initial investment. This was contrary to Section 114(A)(2)(d) of the Public Procurement and Asset Disposal Act, 2015 which requires the partner would incur the initial investment.

iii. The contract was awarded to a foreign company which was not registered in Kenya. This was contrary to Section 974(1) of the Company's Act, 2015 which prohibits a foreign company carrying on business in Kenya unless it is registered or it has applied to be so registered and the application has not been dealt with within the period prescribed.

iv. The kits were procured using a three-year contract out of which Kshs.10,226,991,917 was for year one, Kshs.6,892,000,519 for year two and Kshs.7,641,799,323 for year three. However, the first-year portion of the contract exceeded the approved budget of Kshs.5,000,000,000 by Kshs.5,226,991,917 while there was no budget and procurement plan for the second year. This was contrary to Section 53(7) of the Public Procurement and Asset Disposal Act, 2015 which requires multi-year procurement plans be prepared for projects or contracts that go beyond one year'.

v. Review of tender documents and contract agreement revealed that the contract was awarded without evidence of Health Cabinet Secretary informing the Cabinet and The National Treasury. This was contrary to Section 134(3) of the Public Procurement and Asset Disposal Act, 2015 which requires each Cabinet Secretary to regularly inform the Cabinet and national treasury of all government contracts exceeding Kenya shillings five billion.

In the circumstances, value for money on expenditure incurred could not be confirmed.

791. Unconfirmed Testing of Health Products

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects use of goods and services amount of Kshs.5,516,080,179 which includes specialized materials and services amount of Kshs.1,572,689,346. However, review of purchase orders revealed that Management procured medical drugs amounting to Kshs.86,594,830 and delivered to hospitals managed by the State Department without evidence of testing. This was contrary to Section 35D (1) (c) of the Pharmacy and Poisons Act, 2012 which requires the National Quality Control Laboratory to test on behalf of the Government all locally manufactured and imported drugs or medicinal substances to determine whether they comply with the set rules.

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

792. Non-Compliance with Persons with Disabilities Staffing Requirements

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects employee costs amount of Ksh.7,993,113,605. However, analysis of the muster roll revealed that the State Department had nine thousand one hundred and forty-one (9,141) staff out of which only sixty-nine (69) or 0.75% were persons living with disabilities. This was contrary to Section B.23(1) of Human Resource Policies and Procedures Manual for the Public Service May, 2016 which states that the government shall appoint at least five (5) percent of persons with disabilities.

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

793. Non-Compliance with One Third of Basic Salary Rule

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects employee costs amount of Kshs.7,993,113,605. However, analysis of payroll data revealed that one hundred and eighty-one (181) employees earned a net

salary of less than a third of their basic pay. This was contrary to Section 19(3) Kenya Employment Act, 2007 which requires that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

794. Irregularities in the Supplementary Budget Estimates

The statement of comparison of budget and actual amounts reflects final budget of Kshs.102,723,906,351. Analysis of the budget revealed that an allocation of Kshs.231,000,000 for the construction of five (5) health facilities and the upgrading of laboratories at the Kenya Medical Research Institute was introduced through supplementary estimates. However, these items did not satisfy the criteria of being unforeseen or unavoidable, as required under the regulations for supplementary budgeting. In addition, the supplementary budget includes pending bills amount of Kshs.360,000,000 which should have been in the original budget. Further, budget allocations for one hundred and eleven (111) programmes amounting to Kshs.36,633,270,914 were revised beyond the allowable 10% variation from their original approved budgets while an entire budget allocation of Kshs.1,722,963,426 for fifteen (15) programmes was reallocated through supplementary budget revision.

In the circumstances, effectiveness of internal controls on preparation of the supplementary budget could not be confirmed.

795. Unmet Targets on Blood Collection

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects use of goods and services amount of Kshs.5,516,080,179 which includes expenditure of Kshs.333,402,654 on blood transfusion services. However, the following unsatisfactory matters were noted;

i. Review of Kenya Blood Transfusion and Transplant Services monitoring and evaluation Unit's 2024/2025 report on blood collection and components preparation revealed that only 333,533 units of blood were collected against World Health Organisation (WHO) estimated annual demand of 500,000 resulting to 166,467 uncollected units of blood.

ii. In addition, the evaluation Unit's 2024/2025 report revealed that blood establishments received a total of 322,011 requests for blood and components from transfusing facilities out of which only 234,926 (73%) requests were fulfilled resulting to unfulfilled requests of 87,085.

iii. Further, the Kenya National Blood Transfusion Service's system (DAMU KE) lacks predefined reorder levels and hospitals place blood orders on an ad hoc basis, which adversely affects the timely availability of blood and blood components when needed.

iv. Similarly, analysis of blood collection data revealed that, out of the total of 196,531 blood donors who donated blood during the year only 6,904 (4%) were regular donors, 17,877 (9%) were repeat donors while majority of 171,750 (87%) were first time donors who may not be consistently available to support a stable and continuous blood supply. This was contrary to Section 5(g) of the Kenya National Blood Transfusion Service Act, 2020 which states that, 'The functions of the Service shall be to mobilize, educate and sensitize potential blood donors to foster a culture of voluntary blood donation, and build and maintain a safe and sustainable national voluntary non-remunerated blood donor base'.

In the circumstances, the effectiveness of internal controls on management of blood collection could not be confirmed.

796. Abandoned Patients at Mathari National Teaching and Referral Hospital

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects Appropriations-In-Aid (AIA) receipts amount of Kshs.22,400,215,346 from Semi-Autonomous Government Agencies (SAGAs), which includes Kshs.458,535,663 from Mathari National Teaching and Referral Hospital. However, review of the Hospital's billing records revealed an outstanding amount of Kshs.92,819,867 related to fifty (50) abandoned patients residing in the Hospital post-discharge. These patients continue to utilize limited hospital resources, contributing to increased healthcare costs and reduced bed availability for other patients in need.

In the circumstances, the effectiveness of internal controls on identification, hospitalization and discharging patients could not be confirmed.

797. High Mortality Ratios

Analysis of mortality data for eleven months revealed 292 health facilities recorded 913 maternal deaths out of 359,207 live births translating to a ratio of 254 per 100,000 live births. In addition, 120 health facilities recorded 3,692 neonatal deaths out of 80,120 live births translating into a ratio of 46 per 1,000 live births. These ratios are higher than the Sustainable Development Goal number 3.1 and 3.2 which targets to reduce global maternal mortality ratio by less than 70 per 100,000 live births and reduce death of children under five years to as low as 25 per 1,000 live births.

In the circumstances, the effectiveness of internal controls on managing mortality rates could not be confirmed.

DONOR FUNDED PROJECTS

EAST AFRICA'S CENTRE OF EXCELLENCE FOR SKILLS AND TERTIARY EDUCATION IN BIOMEDICAL SCIENCES PHASE 1 - PROJECT (LOAN NO.2100150031997 AND LOAN NO. 2100150043449)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

798. Undelivered Medical Equipment

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment balance of Kshs.3,030,103,780. Included in the balance is medical equipment valued at Kshs.508,758,854 and furniture, fittings, computer and Information Communication and Technology (ICT) equipment valued at Kshs.166,221,360 purchased during the year but were not delivered as at 30 June, 2025. As a result, the property, plant and equipment balance is overstated by Kshs.674,980,214.

In the circumstances, accuracy and fair statement of the reported property, plant and equipment balance of Kshs.3,030,103,780 as at 30 June, 2025 could not be confirmed.

799. Unsupported Expenditure

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services expenditure of Kshs.131,081,935. The amount includes hospitality expenses, domestic travel and subsistence, foreign travel and subsistence training expenses totalling Kshs.79,900,839. However, review of payment vouchers revealed an amount of Kshs.18,069,140 which was not supported by receipts, signed attendance registers, copies of certificates, work tickets and certificates of the training for the participants. Further, the expenditure included supervisory field allowances of Kshs.11,206,725 paid to officers for fifteen (15) days per month translating to one hundred and eighty (180) days for the year under review which was not supported.

In the circumstances, the accuracy and regularity of use of goods and services amounting to Kshs.29,275,865 could not be confirmed.

Emphasis of Matter

800. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.1,018,968,747 and Kshs.148,050,683 respectively resulting in an underfunding of Kshs.870,918,064 or 85% of the budget.

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

My opinion is not modified in respect of this matter.

Other Information

801. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

802. Idle Medical Equipment

The statement of financial position and as disclosed in Note 11 to the financial statements reflect property, plant and equipment balance of Kshs.3,030,103,780. Included in the balance is medical equipment valued at Kshs.290,979,389 delivered in the year 2023 but had not been put to use as at the time of physical verification in August, 2025. The delay lasting more than two (2) years had been occasioned by delays in completing the hospital building.

In the circumstances, the value for money has not been realized with the continued delay in utilization of the equipment.

803. Irregular Construction of Sports Field

Review of the additional financing agreement revealed an allocation of Kshs.32,000,000 for construction of additional sports fields while in the previous years, an amount of Kshs.9,990,135 was incurred in the construction of a football field next to the Hospital. However, the constructions were not part of project's objectives. This was contrary to Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 which states that an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.

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

804. Irregular Training of Healthcare Workers

The statement of financial performance and as disclosed in Note 8 to the financial statements, reflects use of goods and services amounting to Kshs.131,081,935 which includes Kshs.36,470,006 in respect to training expenses. The amount includes a total of Kshs.34,157,000 incurred to train one hundred and fifty-eight (158) healthcare workers for diploma in renal nursing which was approved by the lender. This was contrary to Paragraph H.9 (1) of the Public Service Commission (PSC) Human Resource Policies, 2016 which states that, 'The government shall not sponsor serving officers for undergraduate programmes. Where there is need for skills at this level, the government will procure the same from the labor market'.

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

805. Non-Compliance with Project Steering Committee Requirements

During the year under review, the Project Steering Committee was required to convene quarterly meetings to provide policy oversight but only met twice on 17 December, 2024

and on 1 February, 2025. This was contrary to the Donor's Appraisal Document which required that the Project Steering Committee (PSC) for the East Africa's Centre of Excellence for Skills and Tertiary Education in Biomedical Sciences (Phase 1) convene quarterly meetings to provide policy oversight.

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

806. Delayed Procurement of Additional Civil Works

Review of the additional loan financing (Phase 1) agreement revealed that it was signed on 03 April, 2023 with an amount of Kshs.2,163,280,000. However, the bids for the procurement of civil works for this additional financing were invited on 27 March, 2025 two (2) years after the signing of additional loan agreement. In addition, as at the time of audit in August, 2025, five (5) months after invitation of bids, the contract had not been signed. This exposed the Government to loan commitment fees as per Section 2.03 of the additional loan agreement which requires the borrower to pay commitment fees at a rate of 0.5% per annum of the undisbursed loan balance which accrue one hundred and twenty days after the loan agreement is signed.

In the circumstances, the value for money on the additional financing due to delayed procurement of civil works could not be confirmed.

807. Land Held Under Third-Party Title

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property plant and equipment balance of Kshs.3,030,103,780 which includes nil land balance. However, review of the lease title revealed that the land where the project is being developed is jointly owned by Kenyatta National Hospital, Kenya Medical Training College and the University of Nairobi and not by The National Treasury as the borrower. This was contrary to Section 5.01(d) of the loan agreement dated 17 December, 2014 which requires the borrower to provide evidence in writing that it owns the land under which any physical developments under the project will be made, free from all encumbrances and/or third-party claims.

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

808. Irregular Procurement of Scientific and Operations Research

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services amount of Kshs.131,081,935 which includes consultancy amount of Kshs.32,351,241 out of which Kshs.23,999,782 was scientific and operational research consultancy fee paid to the University of Nairobi whose total contract price was Kshs.59,999,454. Further, the University being a Government entity and one of the parties undertaking the project should not have qualified to offer consultancy services. In addition, the lead consultant was also the project's academic officer. This was contrary to Paragraph A.2.2.2 (b) of African Development Bank Operation Procurement Manual Part A, Volume 1: General conditions November, 2018 which prohibits a government owned institution depended on the borrower from participating in consultancy services.

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

809. Irregular Payment of Retention Fee

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment balance of Kshs.3,030,103,780. Included is building balance of Kshs.112,189,753 out of which Kshs.50,179,976 was retention money paid to a contractor for the construction of the East Africa's Kidney Institute Centre of Excellence. However, physical verification conducted in August, 2025 revealed incomplete works which were not valued despite a certificate of practical completion being issued on 19 February, 2024 and a handover certificate on 03 April, 2024. This was contrary to clause 14.9.2 of the general conditions of the contract between the Ministry of Health and the contractor which requires the engineer to withhold the certificate for any works which remain to be executed under the defect liability.

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

810. Budget Imbalance

The statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.1,018,968,747 and final expenditure budget of Kshs.708,000,000 resulting to unbalanced budget by Kshs.310,968,747. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that a budget shall be balanced.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

811. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

812. As required by African Development Fund, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

TRANSFORMING HEALTH SYSTEMS FOR UNIVERSAL CARE (THS-UC) PROJECT GRANT IDA CREDIT NO.5836-KE, TFOA2561, TFOA2792 AND CR. P152394

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

813. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

814. Unsurrendered County Disbursements

The statement of financial position and as disclosed in Note 8 to the financial statements reflects receivables balance of Kshs.35,010,523 which relates to un-surrendered County disbursements. Management did not offer satisfactory explanations as to why the imprests have remained outstanding for the prolonged duration despite the Project having ended on 30 September, 2023.

In the circumstances, the continued delay in surrender of disbursements may expose the project to penalties by the donor.

815. Unachieved Project Objectives

The financial statements under source of funds information at page vi reflects an amount of Kshs.1,360,032,632 in respect to undrawn balance. This is indicative of project objectives that may not have been fully realized since the project end date was 30 September, 2023.

In the circumstances, the objective of the project to improve the utilization and quality of Primary Health Care (PHC) services may not have been realized.

My opinion is not modified in respect of these matters.

Other Information

816. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

817. There were not material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

818. Failure to Handover Project Assets

The statement of financial position and as disclosed in Note 10 to the financial statements reflects property, plant and equipment balance of Kshs.124,104,474. However, there was no evidence of handing over assets to the State Department despite the Project having closed on 30 September, 2023.

In the circumstances, the internal controls over the management of the Project's assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

819. As required by the International Development Association, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

COVID-19 HEALTH EMERGENCY RESPONSE PROJECT CREDIT NO.6598 - KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

820. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

821. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget amount of Kshs.5,727,477,969 and actual on comparable basis of Kshs.4,459,988,387 resulting to underfunding of Kshs.1,267,489,582 or 22% of the budget. Similarly, the Project actual receipts were Kshs.4,459,988,387 while the actual expenditure was Kshs.4,446,079,310 resulting to an under absorption of Kshs.13,909,077.

The under-funding and under absorption affected the implementation of planned Project activities which may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

822. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal controls, Risk Management and Governance. However, the Management had not resolved the issues as at 30 June, 2025.

Other Information

Basis for Conclusion

823. Missed Project Performance Targets

Review of Project performance revealed that as at 30 June, 2025, only 40% of the population had been fully vaccinated against the national target of 54% resulting to a shortfall of 26%. Further, the male population vaccination coverage stood at 47% against a target of 50% resulting to a variance of 6%. In addition, the community engagement, outreach to vulnerable and marginalized groups in their indigenous languages achieved 79% against the target of 80%.

In the circumstances, the Project objectives may not be achieved.

824. Doubtful Sustainability of Accrued Project Gains

The source of funding summary indicates that the Project received loans from development partners amounting to Kshs.11,249,551,402 and grants amount of Kshs.585,090,282 from 31 March, 2022 to 30 June, 2025. Among the services financed by the project were the provision of medical supplies and equipment, capacity building and training to stakeholders, quarantine, isolation and treatment centres, medical waste management in hospitals, community discussions and information outreach, availability of safe blood and blood products and improving quality and capacity for gender-based violence response. However, the Management did not disclose the strategies it had put in place to safeguard the gains the project had made to date and to the Project end on 30 September, 2025.

In the circumstances, the gains made by the Project may not be sustained beyond the Project life.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

825. Imbalanced Project Budget

The statement of comparison of budget and actual amounts reflects total revenue budget of Kshs.5,727,477,969 and total expenditure budget of Kshs.5,395,569,269 resulting to

budget imbalance of Kshs.331,908,700. This is indicative of an imbalanced budget contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, which states that unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations the budget shall be balanced.

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

826. Unutilized Motor Vehicles

The statement of financial position and as disclosed in Note 21 to the financial statements reflects property, plant and equipment balance of Kshs.3,037,374,065. The balance includes additions of two motor vehicles valued at Kshs.19,428,691 during the year under review. However, physical verification in the month of August 2025 revealed that the vehicles were parked and had not been put to use since their delivery in March 2025. This was contrary to Section 68(1) of the Public Finance Management Act, 2012 which states that an "accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is—(a) lawful and authorized; and (b)effective, efficient, economical and transparent."

In the circumstances, Management was in breach of the law and value for money has not been realized on the unutilized vehicles.

827. Delayed Disbursement of Project Funds

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects revenue transfers amount of Kshs.4,614,775,692. However, review of the bank statements and cashbook revealed that disbursements amounting to Kshs.1,581,529,027 were received in the third and fourth quarters of the financial year outside the original project closure date of 31 March, 2025. This could have restrained Management from accomplishing the planned activities within the stipulated timelines. This was contrary to Regulation 83 (1 and 2b) of the Public Finance Management (National Government) Regulations, 2015, which states that "The National Treasury shall be responsible for establishing sound cash management systems, procedures and processes, to ensure efficient and effective banking and cash management practices by ensuring payments, including transfers to other levels of government and national-government entities are made when due for efficient, effective and economical program delivery and the government's normal terms for account."

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

828. Failure to Witness and Support Destruction of Vaccine Doses

According to a letter Ref. MOH/ADM/1/1/2 dated 19 August, 2024, 1,804,800 doses of Covid 19 vaccines had been delivered to the country to date. A further, 2,721,600 doses worth USD 64,037,757 were manufactured and not shipped as they were no longer needed and were due for disposal. The unshipped vaccines doses were indicated as no

longer needed and were destroyed in the months of August and October 2024 as per the destruction certificates but there was no evidence of approval by the Cabinet. Further, there was no evidence that the multi-agency team, made up of critical experts, the user department and mandate holders from the Kenyan Government visited the warehouse in Belgium to verify whether the vaccines had been manufactured, their expiry status and witness the destruction exercise. In addition, The National Treasury has acknowledged the liability by writing a letter proposing the modalities of settling the outstanding obligation.

In the circumstances, the value for money was not realized.

829. Commitment Fees on the Undrawn Loan Balances

Review of source of funds on page xii indicated an undrawn loan balance of Kshs.8,665,595,178 while the project closure date was extended to 30 September, 2025 making it difficult to utilize the remaining funds within the remaining period. This undrawn balance continues to attract a commitment fee at a rate of 0.5%, which is equivalent to Kshs.43,327,975 per year. This was contrary to Regulations 193 and 194(m) of the Public Finance Management (National Government) Regulations, 2015, which state that it is the objective of the Public Debt Management Office (PDMO) to ensure that the Government's financial needs and its payments are met at the lowest possible cost with a prudent degree of risk.

In the circumstances, Management was in breach of the law and there is no value for money for commitment fee incurred.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

830. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

831. As required by International Development Association, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND - TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE PROJECT (KEN-H-TNT 2065)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

832. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

Basis for Conclusion

833. Missed Performance Targets

During the year under review, the project performance indicated that they targeted 97,220 medical male circumcisions according to national standards. However, the project only achieved 65,550 resulting to an unachieved target of 31,670 or 33%. In the circumstances, the strategic objective to reduce new HIV, STI and Viral Hepatitis infections through increased access to testing for HIV, syphilis and viral hepatitis targeting key populations may not be attained.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

834. Undrawn Loan Balances

Review of the funding summary revealed that Global Fund entered into a grant agreement which was to run from 1 July, 2021 to 30 June, 2024 with a development partner commitment of USD 14,003,611 (Kshs.1,515,172,550). However, the Project ended on 30 June, 2024 with an advancement of USD 12,457,677 (Kshs.1,347,904,480) resulting in an undrawn amount of USD 1,545,934 (Kshs.167,268,070).

In the circumstances, value for money may not have been realized from the undrawn loan balances.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

835. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

836. As required by the Global Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

DANIDA PRIMARY HEALTHCARE (PHC) SUPPORT PROGRAM

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

837. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

838. Undrawn Grant Funds by Counties

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects transfers to other government entities amount of Kshs.481,803,250. The amount includes transfers to forty-seven (47) Counties amount of Kshs.478,403,250 whose allocation was Kshs.487,500,000 resulting to a variance of Kshs.9,096,750 which was attributed to four (4) counties that had allocation cuts due to non-compliance with donor requirements.

Program activities were not implemented in the four (4) counties that did not meet the funding requirements resulting in denial of essential primary healthcare services to the public.

My opinion is not modified in respect of this matter.

Other Information

839. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

840. Delayed Transfer of Funds

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects transfers to other government entities amount of Kshs.481,803,250 which includes transfers to forty-seven (47) Counties amount of Kshs.478,403,250. Analysis of DANIDA Primary Health Care special purpose account statements revealed

that the funds were transferred on 10 July, 2025 ten (10) days after the closure of the financial year. In addition, as at September, 2025 twelve (12) Counties had not transferred grants amounting to Kshs.137,036,250 to their special purpose accounts. Further, six (6) Counties did not transfer the grants amounting to Kshs.68,557,125 to health facilities while nineteen (19) Counties with grant receipts amounting to Kshs.174,676,125 did not submit their special purpose account statements for audit.

The delays were contrary to Section 8.1 of the DANIDA Development Engagement Document under Denmark's framework agreement for Kenya which requires that grant funds disbursed to various County Revenue Funds be channeled without delay to County Special Purpose Accounts for Health and eventually to the recipient health facilities' commercial banks accounts within twenty-five (25) days with all transactions being done through Integrated Financial Management Information System (IFMIS).

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

841. Noncompliance with Co-Financing Requirements

The statement of financial performance and as disclosed under Note 8 to the financial statements reflects transfers to other government entities amount of Kshs.481,803,250 which includes Kshs.478,403,250 transfers to forty-seven (47) Counties. During the year under review, the Counties were required to provide counterpart funding amounting to Kshs.540,000,000 or 60% to support outreach, operation and maintenance activities. However, nineteen (19) Counties did not contribute the counterpart funding amounting to Kshs.249,318,000.

In the circumstances, the failure to contribute counterpart funding obligation affected the sustainability efforts of the Project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

842. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

843. As required by the Danish Government, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

REPRODUCTIVE, MATERNAL, NEONATAL, CHILD, AND ADOLESCENT HEALTH (RMNCAH) PROJECT GRANT/CREDIT ID 6072

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

844. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

845. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted receipts and actual on comparable basis of Kshs.2,577,000,000 and Kshs.1,292,026,478 respectively resulting to underfunding of Kshs.1,284,973,522 or 50% of the budget. Similarly, the Project incurred actual expenditure of Kshs.50,231,861 against actual receipts of Kshs.1,292,026,478 resulting to an under-utilization of Kshs.1,241,794,617 or 96% of the actual receipts.

The underfunding and under-utilization affected the planned project activities and programmes, which may have impacted negatively on service delivery to the intended beneficiaries.

My opinion is not modified in respect of this matter.

Other Information

Basis for Conclusion

846. Gaps in Project Performance Objectives

A comparison of project achievements and milestones with the approved annual work plan and supporting documentation revealed no evidence of commencement to procurement or leasing of Basic Emergency Obstetric and Newborn Care (BEmONC) and Comprehensive Emergency Obstetric and Newborn Emergencies (CEmONC) equipment. Further, there was no evidence of resource allocation, in terms of manpower or procurement of health commodities, renovation and equipping of blood transfusion centers.

In the circumstances, there was no verifiable indicators on the implementation in support of the reported results.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

847. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

848. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

849. As required by the Financing Agreement dated 14 November, 2024, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH-OBA) PROGRAM – PROJECT NUMBER BMZ NO. KENYA 2010 65 853)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

850. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

851. Lack of Financing Plan for Payables

The statement of financial position and as disclosed to Note 17 to the financial statements reflects a bank balance of Kshs.1,060,383. The statement further under Note 23 to the financial statements reflects pending accounts payable balance of Kshs.4,436,435 that was awarded following the arbitration on a legal suit which could not be settled fully by the current bank balance. The financing of the resultant deficit of Kshs.3,376,052 has not been explained. In addition, and as previously reported court cases with estimated contingent liabilities of Kshs.11,775,877 do not have provisions for its financing were it to crystalize.

In the circumstances, the financing of pending accounts payable of Kshs.4,436,435 and estimated claims arising from the court cases of Kshs.11,775,877 could not be confirmed.

My opinion is not modified in respect of this matter.

Other Matter

852. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources on errors in the financial statements, undrawn balances, avoidable bank charges and lack of financing plan for payables. However, Management had not resolved the issues as at 30 June, 2025.

853. Unimplemented Project Activities

Section 2.7A on project information and overall performance on source of funds indicates development partner total commitment of EUR 30,200,000 (Kshs.3,273,686,056). The total funds received by the Project as at 30 June, 2025 amounted to EUR 29,144,624 (equivalent to Kshs.3,381,929,185). This indicated an undisbursed balance of EUR 1,055,376 (equivalent to Kshs.160,047,770) as at the Project end date in January 2017.

The undrawn fund balance of Kshs.160,047,770 as at the end of the project in January 2017 is indicative of unimplemented project activities.

Other Information

854. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

855. Late Submission of Financial Statements

The financial statements for the year under review were received late on 7 October, 2025 instead of 30 September, 2025. This was contrary to Section 47 of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

856. Failure to Close the Project

The Project Financing Agreement indicated end date of 31 January, 2017. However, the Project has not been closed to date. During the year under review, the Project incurred

avoidable bank charges of Kshs.33,275. Management has not rendered satisfactory explanation for the continued delays to close the Project and the related bank accounts.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

857. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

858. As required by KfW (German Development Bank), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND - REDUCING THE BURDEN, ENSURING SUSTAINABILITY AND ACCELERATING PROGRESS TOWARDS MALARIA ELIMINATION IN KENYA-GRANT NUMBER KEN-M-TNT- 4149 – MINISTRY OF HEALTH

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

859. Unconfirmed Transfer of Fuel Prepayments and Liabilities

The statement of financial performance and as disclosed in Note 20B and Note 23 B to the financial statements reflects fuel prepayments transferred from Grant Cycle 6 (GC6) and liabilities transferred from New Funding Model 3 (NFM3) of Kshs.6,607,694 and Kshs.11,132,791 respectively. However, the schedules provided to support fuel prepayments of Kshs.6,607,694 were based on fuel cards issued but not supported with fuel vouchers. Further, reconciliation of fuel balances with fuel statements from the fuel stations were not provided. In addition, the transfer of liabilities of Kshs.11,132,791 was supported with a schedule amounting to Kshs.10,959,813 resulting to an unexplained variance of Kshs.172,978. The schedule indicates the expenses were incurred during the period between May 2023 and October 2024 and included undated accrued statutory deductions from NFM3 of Kshs.7,155,241.

In the circumstances, the accuracy and completeness of fuel prepayments transferred from Grant Cycle (GC) 6 and liabilities transferred from New Funding Model (NFM3) amounting to Kshs.6,607,694 and Kshs.11,132,791 respectively could not be confirmed.

860. Unsupported and Variance in Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.17,544,362 which was not referenced to any Note to the financial statements but the amount is included in Note 23A to the financial statements. Further, Note 23 A reflects trade payables balance of Kshs.28,677,153 and total trade and other payables balance of Kshs.17,544,362 resulting to a variance of Kshs.11,132,791.

Further, the statement of financial position reflects trade and other payables from GC 6 of Kshs.11,132,791 which was incorrectly referenced to Note 22 which relate to intangible assets while the correct Note is Note 23B. No approval, handing over report or certificate of inter fund or grant cycle transfers was provided to support transfer of balances. In addition, payables list attached to the financial statements on page 37 to page 42 amounting to Kshs.28,677,153 was not separated to indicate payables amount relating to trade and other payables and trade and other payables from GC 6.

In the circumstances, the accuracy, completeness and appropriate disclosure of trade and other payables and trade and other payables from GC6 of Kshs.17,544,362 and Kshs.11,132,791 could not be confirmed.

861. Failure to Disclose GOK Counterpart Funding Budget in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects GOK counterpart funding final budget and actual on a comparable basis of Nil and Kshs.672,302,012 respectively resulting to unbudgeted GOK counterpart funding of Kshs.672,302,012.

In the circumstances, the accuracy of Nil GOK counterpart funding budget could not be confirmed.

862. Non-Compliance with Public Sector Accounting Standards Board Template

Review of the financial statements revealed the following errors, omissions and non-compliance with the Public Sector Accounting Standards Board template:

i. The headers were incomplete and do not indicate that the reports relate to annual report and financial statements.

ii. Performance indicators were not indicated in quantifiable and measurable terms in the statement of performance against predetermined objectives.

iii. The statement of comparison of budget and actual amounts does not provide explanations for significant budget utilization differences for all items over or under 10% between final budget and actual amounts.

iv. Note 28 on related party disclosures does not include the relationship between the Project and Grant Cycle (GC) 6 and New Funding Mode (NFM3).

In the circumstances, Management did not provide adequate disclosures and did not comply with Public Sector Accounting Standards Board template.

Emphasis of Matter

863. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted receipts and actual on comparable basis of Kshs.800,000,000 and Kshs.1,079,718,421 respectively resulting in an overfunding of Kshs.279,718,421 or 35% of the budget. Further, the Project spent Kshs.745,865,147 actual receipts of Kshs.1,079,718,421 resulting in underutilization of Kshs.333,853,274 or 31% of the actual receipts.

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

My opinion is not modified in respect of this matter.

Other Information

864. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

865. Commingling of Project Funds

The statement of financial position and as disclosed in Note 17 to the financial statements reflects cash and cash equivalents balance of Kshs.333,837,274 as at 30 June, 2025. Audit verification carried out revealed that the project bank account for Global Fund Project number KEN-M-TNT-2064 was used for Project number KEN-M-TNT-2064 and project number KEN-M-TNT-4149 leading to comingling of funds for the two projects. This contravenes Regulation 3.4(d) of the Global Fund Regulations, 2014 which states that, the Grantee shall ensure, and shall cause the Principal Recipient and each of its Sub-recipients to ensure, that the Grant Funds are not co-mingled with other funds unless agreed to in writing by the Global Fund.

Further, the cash books, bank reconciliation statements and bank confirmation certificates provided for audit did not separate the funds for the two projects which were running concurrently.

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

866. Ineligible Expenditure

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects use of goods and services of Kshs.743,867,945 which includes payments to Global Fund of Kshs.143,650,531.The payments to the Global Fund relate to VAT paid on fuel, VAT for supplies, and non-compliant procurement of printing of registers and tools in the previous project cycles incurred contrary to Regulation 3.5(1) of The Global Fund Grant Regulations Version 2, 2023 which states that the Grant Funds are made available by the Global Fund for the purposes of implementing respective Program Activities, and the Grant Agreement and the purchase and/or import of any goods or services using the Grant Funds shall be exempt from relevant taxation applicable in the Host Country including but not limited to custom duties, import duties, taxes and value added tax levied or otherwise imposed on the purchases of goods and services using Grant Funds.

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

867. Non-Remittance of Statutory Deductions

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects employee costs of Kshs.21,950,169. Included in employee cost is statutory deductions of Kshs.6,108,100 deducted from employees' salaries but not remitted to the various statutory bodies contrary to Section 19(4) of Employment Act, 2007 which states that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

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

868. Unpaid Imprest Claims

The statement of financial position and as disclosed in Note 23 A to the financial statements reflects trade and other payables balance of Kshs.17,544,362 which includes unpaid imprest claims of Kshs.7,099,620. The imprest claims relate to activities that took place during the year under review but were not paid contrary to Regulation 93(4)(d) of the Public Finance Management (National Government) Regulations, 2015 which states that before issuing temporary imprests under paragraph (2), the Accounting Officer shall ensure that adequate funds are available against the relevant items of expenditure to meet the proposed expenditure.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

869. Failure to Conduct Internal Audit

During the year, there was no evidence of internal audit conducted in respect to the activities and operations of the Project contrary to Section 73(1) of Public Finance Management Act, 2012 which states that every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the effectiveness of governance processes on Project activities could not be confirmed.

870. Failure to Carry Out Risk Assessment

During the year under review the Project Management did not carry out risk assessment on Project activities contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and the national government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of risk management of the Project could not be confirmed.

871. Weak Internal Controls in Fuel Management

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects use of goods and services of Kshs.743,867,945 which includes cost of fuel and lubricants amounting to Kshs.33,964,380. Audit verification revealed that fuel worth Kshs.27,806,499 was procured from a firm through open fuel cards that were not assigned to specific vehicles. Further, review of the fuel statements from the supplier revealed that the statements did not include the registration numbers of the vehicles consuming the fuel. In addition, the manual fuel register lacked critical details such as work ticket numbers, making it difficult to authenticate the actual usage of fuel contrary to Regulation 23(1)(c) of the Public Finance Management (National Government) Regulations, 2015 which states that, Accounting Officers shall, in accordance with Article 226(2) of the Constitution and Section 68(1) of the Act, be accountable to the National Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective

In the circumstances, the effectiveness of internal controls on fuel management could not be confirmed.

872. Failure to Prepare Quarterly Procurement Implementation Reports

Review of records revealed that the Management did not prepare quarterly reports on the implementation of the annual procurement plan and submit it to the relevant authority contrary to Regulation 40(6) of the Public Procurement and Asset Disposal Regulations, 2020 which states that an Accounting Officer of a procuring entity shall prepare a quarterly report on the implementation of the annual procurement plan and submit it to the Cabinet Secretary or County Executive Committee member for finance or responsible for the procuring entity or the governing body, as the case may be.

In the circumstances, the effectiveness of internal controls on procurement could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

873. As required by the Global Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER STATE DEPARTMENT FOR MEDICAL SERVICES

KENYA HEALTH SECTOR PROGRAMME SUPPORT III (DANIDA REF. 104.KENYA.810.300-GRANT) - COUNTY GOVERNMENT OF KISII

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

874. Failure to Adopt IPSAS Accrual Reporting Format

Review of the financial statements presented for audit review revealed that the financial statements for the year were prepared on cash basis accounting method. This was contrary to The National Treasury Circular No.03/2025 dated 14 April, 2025 which requires all entities to transition to IPSAS accrual reporting. As a result, the following deficiencies were noted in the annual report and financial statements presented for audit.

i. The entity did not prepare 1st transitional IPSAS accrual financial statements that include all financial assets, all financial liabilities and all non- financial assets including inventories as at 30 June, 2025.

ii. Management had not disclosed information regarding its compliance with IPSAS 33, in the financial statements particularly the progress made towards full

compliance with accrual basis IPSASs. This includes disclosures about the nature and effect of any transitional provisions applied.

iii. Management had not communicated the applicable dates of migration to accrual basis communicated and owned up by the accounting officers. This was to ensure adherence to the 3-year transition period to full IPSAS accrual compliance as provided by the standards through IPSAS 33 on first-time adoption of IPSASs.

iv. There was no evidence provided to confirm that the entity had engaged the internal stakeholders to ensure entity buy-in as well as effective communication of the roles to be played by each of the staff members during the transition process and the expected benefit of the whole transition process.

v. Management did not provide evidence to confirm that the transition process was spearheaded through a project co-ordination committee that was established at entity level made up of officers from relevant departments responsible for coordinating adoption of the Accrual Accounting within the entire Organization.

In the circumstances, the financial statements as prepared and presented were not IPSAS accrual compliant while Management was in breach of The National Treasury Circular No.03/2025 dated 14 April, 2025.

875. Unsupported Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance of Kshs.13,065,897. However, Management did not provide bank reconciliation statements and board of survey reports for all the facilities bank accounts maintained by the Programme. Further, Management did not provide certificate of confirmation of bank balances for bank accounts relating to seventy-eight (78) health facilities. Further, cash book and bank statements in respect to HSSF/Beyond Zero were not provided for audit review. Further review noted that Management made cash book adjustments of Kshs.181,360 and Kshs.80,000 in respect to Matongo and Nyakwana dispensaries respectively both totalling Kshs.261,360. However, the cash book adjustments were not supported or explained.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.13,065,897 could not be confirmed.

876. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amount on comparable basis amounts of Kshs.129,058,097 and Kshs.48,389,153 respectively, resulting in an under-funding of Kshs.80,668,944 or 63% of the budget. Similarly, the Programme spent Kshs.35,323,256 against actual receipt of Kshs.48,389,153 resulting in an under-utilization of Kshs.13,065,897 or 27% of the actual receipts.

The under-funding and under-utilization may have impacted negatively on service delivery to the residents of Kisii County.

877. Unresolved Prior Year Matters

Various prior year audit issues as listed below remained unresolved as at 30 June, 2025. Management did not provide reasons for the delay in resolving the prior year audit issues. Non-implementation of the previous audit recommendations implies that anomalies noted during audit might have continued to recur, hence affecting the operational efficiency of the Fund.

No.	Audit Issue
1.	Cash and Cash Equivalents
2.	Unexplained DANIDA Budget
3.	Budgetary Control and Performance
4.	Unclaimed NHIF
5.	Sustainability of the Project
6.	Non-compliance with Minimum Wage Requirements

878. Delay in Disbursement of Programme's Funds from County Revenue Fund

Review on the documents provided revealed that Kshs.11,992,500 donor commitments to the project reached the County Revenue Fund after the close of the financial year on 10 July, 2025 as grants for the implementation of the planned programme for the financial year 2024/2025. However, at the time of audit on 21 August, 2025, the funds were still being held in the designated special purpose account and had not been released to the health facilities. This was contrary to the Memorandum of Understanding (MoU) between Royal Danish Embassy and Ministry of Health, Council of Governors and County Governments, which requires that such funds should be transferred to the health care facilities within twenty-five (25) days.

In the circumstances, the objectives of the Programme may not be realized within the planned time-frame while Management was in breach of the Memorandum of Understanding.

879. Non-Compliance with the Legal Minimum Wages

The statement of receipts and payments reflects compensation of employees amount of Kshs.15,863,064 which, as disclosed in Note 3 to the financial statements, comprises basic wages of temporary employees of Kshs.15,075,780 and compulsory national social security scheme amount of Kshs.787,284. The amounts relate to payments to casual workers engaged in the various health facilities during the year under review. Documents provided for audit review revealed that the employees were assigned either cleaning, data clerk or security roles at an average pay ranging from Kshs.3,000 to Kshs.6,000 per month which varied in different facilities. However, the wages paid were contrary to Gazette Supplement No.114 and Legal Notice No.125 on the Regulation of Wages Order, 2022 which set minimum wages for cleaners and watchmen at Kshs.9,673 per month.

Further, review of documents provided revealed the following anomalies:

i. The contracts provided did not contain any role to be performed by the employee and the terms of engagement.

ii. There was no uniformity of pay despite casuals working in the same conditions under the same policies.

iii. Requisition for the casuals and subsequent approvals were not provided for audit review, an indication that specific needs were not identified before the engagement of the casuals.

iv. Employee records including master rolls were not well maintained for all the health facilities engaging the casuals.

v. It was further noted that the Kshs.15,075,780 spent on temporary employee's wages was paid in cash, which is prone to abuse. Management did not provide satisfactory explanations on why the payments could not be processed through bank.

In the circumstances, Management was in breach of the law and internal controls over wages were not effective.

880. Non-Compliance with The National Treasury Circular on Asset Management

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.338,025 as disclosed in Note 5 to the financial statements. Note 5 also reflects Kshs.183,540 for 2023-2024 and Kshs.7,098,013 cumulative to date. However, Management did not provide an asset register to confirm the balances.

In the circumstances, the accuracy of the reported cumulative assets value of Kshs.7,098,013 acquired during the programme period could not be confirmed.

881. Facilities Staffing and Governance Structures

Documents provided for audit review revealed that facilities within the project were managed by facility's in-charges who were employees of County Government of Kisii and several other categories of staff whose number varied in different health facilities. However, Management did not provide the listing of staff posted to each facility including the name, staff numbers, and their appointment letters indicating specific roles and responsibilities they were expected to perform. Further, Management did not provide the list of Board of Management members of each facility who provide oversight, including their appointment letters and subsequent gazettement.

This was contrary to Section 4.4.4 paragraph (iv) of Kenya Health Policy 2014-2030 on the organization of health facilities services which states that "each health facility will organize and manage the delivery of expected services based on its level. Each facility will be managed by a health management team with an approved organizational structure and oversight governance team".

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

882. I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

883. I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit conclusion.

A CASE STUDY ON INTEGRATED DELIVERY OF SELECTED NON-COMMUNICABLE DISEASES IN KENYA (PHGF GRANT NO. TFOA5636) - MOI TEACHING AND REFERRAL HOSPITAL

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

884. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

885. There were no material issues noted relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

886. Undrawn Project Funds

As previously reported, A Case Study on Integrated Delivery of Selected Non-Communicable Diseases in Kenya Project was a Ministry of Health Project supported by World Bank piloting an integrated care for Hypertension, Diabetes, Cervical and Breast

Cancer at the primary care level in the Counties of Trans-Nzoia and Busia. The Project was for a duration of four (4) years from 28 February, 2018 to 31 January, 2022 with an approved budget of USD 2,500,000 equivalent to Kshs.267,389,977.

Review of records and funding summary as at 30 June, 2025 revealed development partner commitment of USD 2,500,000 (approximately Kshs.267,389,977) and amount received by project as at 30 June, 2025 was USD 2,478,301 equivalent to Kshs.265,071,011 leaving a balance of USD 21,699 equivalent to Kshs.2,318,966 as undrawn by the Project.

Review of correspondences indicated that World Bank, through its Project team leader, Kenya Country Office wrote an unreferenced letter to the Management of the Project on 18 January, 2024 acknowledging the closure of the Project. In the letter, the Bank also requested the Project Management to report on whether the balance of Kshs.2,318,966 was disbursed. It remains unclear whether the Project Management reverted back to the Bank on the status of the undisbursed balance. In addition, it is not clear whether the Project is officially closed.

In the circumstances, the undrawn balance of USD 21,699 equivalent to Kshs.2,318,966 may have hindered the Project's ability to discharge its obligations.

887. Non-Compliance with the Public Sector Accounting Standards Board Approved Reporting Template

Review of prior year financial statements revealed pending payables balance of Kshs.2,318,966 which have not been disclosed in the statement of financial position opening balance as required by the Public Sector Accounting Standards Board (PSASB) reporting template for June, 2025. The balance relate to unpaid monthly salaries for the project staff for a period of six (6) months from August, 2021 to February, 2022. The bills had been pending for over twenty-eight (38) months contrary to Section 18(2) of the Employment Act, 2007 which states that : Subject to Sub-Section (1), wages or salaries shall be deemed to be due - (a) in the case of a casual employee, at the end of the day; (b) in the case of an employee employed for a period of more than a day but not exceeding one month, at the end of that period, (c) in the case of an employee employed for a period exceeding one month, at the end of each month or part thereof; (d) in the case of an employee employed for an indefinite period or on a journey, at the expiration of each month or of such period, whichever date is the earlier, and on the completion of the journey, respectively.

Further, the project management risks making nugatory payments arising from legal suits from employees for non-payment of their legally earned salaries and wages. In addition, non-payment or delayed payment of staff salaries and wages may damage the reputation of the Hospital and erode public trust in the Hospital.

In the circumstances, the Project Management was in breach of the PSASB guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

888. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GLOBAL FUND HIV/AIDS PROJECT GRANT NUMBER KEN-H-TNT-2065 - NATIONAL SYNDEMIC DISEASES CONTROL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

889. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

890. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

891. Undrawn Loan Balances

Review of the Project funding summary revealed that Global Fund entered into a grant agreement to fight AIDS, Tuberculosis, and Malaria with The National Treasury as the principal recipient which was to run from 1 July 2021 to 30 June, 2024 with a commitment of USD 11,404,292 (Kshs.1,230,323,003) to the National Syndemic and Diseases Control Council. However, the Project ended on 30 June, 2024 with an advancement of USD 6,439,433 (Kshs.949,772,429) resulting in an undrawn amount of USD 4,964,859 (Kshs.280,550,574).

In the circumstances, the envisaged benefits and opportunities from the undrawn loan balances could not be realized.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

892. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

893. As required by the Global Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND PROJECT-TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT, AND CARE GRANT NUMBER: KEN-H-TNT – NATIONAL SYNDEMIC DISEASE CONTROL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

894. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

895. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.295,835,007 and Kshs.258,560,484 respectively resulting to underfunding of Kshs.37,274,523 or 13% of the budget. Similarly, out of the actual receipts realized of Kshs.258,560,484 only Kshs.196,586,325 was spent resulting to an under absorption of Kshs.61,974,159 or 24% of the realized receipts.

The under-funding and the under absorption may have affected the implementation of planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect to this matter.

Other Information

Basis for Conclusion

896. Under Performance on Project Targets

Review of project performance against annual targets revealed that out of the four (4) planned joint support supervisions to community implementing partners, only one (1) supervision was conducted. Further, the Kenya AIDS Response Progress Report (KARPR) development and dissemination had only two (2) outputs delivered against the planned four (4). Further, only two (2) of the three (3) planned national-level strategic

direction working group and joint coordination meetings were undertaken. Similarly, the HIV Implementing Partners' Report Writing Workshop trained one hundred and seventy (170) participants against a target of two hundred (200), leaving thirty (30) partners untrained.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

897. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

898. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

899. As required by the Global Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND - TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT, AND CARE -KEN-H-TNT-NO.4147 - NATIONAL AIDS AND STI CONTROL PROGRAM

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

900. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

901. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects the final receipts budget of Kshs.273,779,194 and actual on comparable basis of Kshs.261,642,952 resulting to an underfunding of Kshs.12,136,242 or 4% of the budget. Similarly, the Project expended Kshs.178,432,778 against actual receipts of Kshs.261,642,952 resulting to an under-absorption of Kshs.83,210,174 or 32% of the actual receipts.

The underfunding and under absorption affected the planned Project activities which may have impacted negatively on the achievement of Project objectives and service delivery to the public.

902. Missed Performance Targets

A review of performance reports indicated that the authority did not achieve most of the set objectives as detailed in the table below:

Objective/Module	Indicator	Target	Performance	Unachieved %
Elimination of vertical transmission	VT-1 Percentage of pregnant women who know their HIV status	49%	32%	17%
Prevention package for AGYW and their males	YP-6 Number of medical male circumcisions performed according to national standards	100%	27%	73%
Treatment, care and support	TCS-1.1 Percentage of people on ART among all people living with HIV at the end of the reporting period	99%	94%	5%
Treatment, care and support	TCS-8 Percentage of people living with HIV and on ART with viral load test result	85%	82%	3%
TB/HIV	TB/HIV-7.1 Percentage of people living with HIV currently enrolled on antiretroviral therapy who started TB preventive treatment (TPT) during the reporting period	55%	23%	32%

Objective/Module	Indicator	Target	Performance	Unachieved %
TB/HIV	TB/HIV-3.1a Percentage of people living with HIV newly initiated on ART who were screened for TB	95%	54%	41%
RSSH: Laboratory systems	RSSH/PP LAB-3 Percentage of laboratories successfully participating in external quality assurance (EQA) or proficiency testing (PT) schemes	85%	49%	36%

In the circumstances, the non-achievement of the set targets for the year may have impacted negatively on the service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

903. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

904. Slow Draw Down of Project Funds

The Project funding summary under source of funds reflects receipts of USD 1,838,362 equivalent to Kshs.237,550,757 during the year under review. However, the financing agreement indicates that the Project should have received USD 1,897,510 equivalent to Kshs.245,197,242) which resulted to underfunding of USD 59,148 equivalent to Kshs.7,643,028. This was contrary to Regulation 83 (1 and 2b) of the Public Finance Management (National Government) Regulations, 2015, which states that the National Treasury shall be responsible for establishing sound cash management systems, procedures and processes, by ensuring payments, including transfers to other levels of government and national-government entities are made when due for efficient, effective and economical program delivery and the government's normal terms for account;

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

905. Long Outstanding Imprest

The statement of financial position and Note 18 to the financial statements reflects other debtors balance of Kshs.330,000 which relates to un-surrendered imprests that has been outstanding since 2018. The imprest relates to an amount lost by an officer to robbery while on assignment in Marsabit. Although the matter was reported at Marsabit Police station, the matter remains unresolved.

In the circumstances, the effectiveness of internal controls over the write off of doubtful imprests could not be confirmed.

906. Failure to Maintain a Fixed Asset Register

The statement of financial position and as disclosed in Note 21 to the financial statements reflects property, plant and equipment balance of Kshs.22,666,950. However, physical verification revealed that the Project owned furniture, equipment, computers, fixtures, and software, which had been tagged but were not recorded in the fixed asset register.

In the circumstances, the effectiveness of internal controls over fixed assets management could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

907. As required by Global Fund, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR PUBLIC HEALTH AND PROFESSIONAL STANDARDS – VOTE 1083

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

908. Variances in the IFMIS Payment System

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects use of goods and services expenditure of Kshs.1,108,774,429. However, analysis of the IFMIS payment reports processed against actual payments revealed that one thousand five hundred and twenty-six (1,526) transactions amounting to Kshs.1,317,210,928 were paid but not captured in the payment details as at 30 June, 2025. Further, analysis indicated that one hundred and forty-two (142) transactions amounting to Kshs.643,290,240 recorded in the system payments against Kshs.207,430,708 reflected in the payment details resulting in an unexplained variance of Kshs.435,859,532.

In the circumstances, the accuracy and completeness of the use of goods and services amount of Kshs.1,108,774,429 could not be confirmed.

909. Inaccuracies in Transfers to Other Government Entities

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects transfers to other government entities amount of Kshs.20,188,334,108. However, third-party confirmations from eight (8) entities indicated an amount of Kshs.17,206,681,740 as received while the State Department indicated Kshs.14,150,796,470 resulting to an unexplained variance of Kshs.3,055,885,270.

In the circumstances, the accuracy and completeness of the transfers to other government entities amount of Kshs.20,188,334,108 could not be confirmed.

Emphasis of Matter

910. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.32,466,531,091 and Kshs.29,950,470,572 resulting to underfunding of Kshs.2,516,060,519 or 8% of the budget.

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

911. Long Outstanding Trade Payables

The statement of financial position and as disclosed in Note 17 to the financial statements reflects trade and other payables balance of Kshs.132,898,804. The amount includes

Kshs.45,029,104 that has been outstanding since 2023 despite the availability of cash and cash equivalents balance of Kshs.631,331,323 as at 30 June, 2025. Management has not rendered explanations for the delay, while the State Department is at risk of incurring penalties and interest with the continued delays in settlement.

Failure to settle bills during the year to which they relate may adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of these matters.

Other Matter

912. Unresolved Prior Year Matters

In the prior year's audit report, the following 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. Review of the status during the audit of State Department in 2024/2025 revealed that the matters remained unresolved as detailed below;

No.	Financial Year	Observation
1.		Unsupported Expenditure on Other Grants and Transfers
2.		Undisclosed Bank Balances
3.		Budgetary Control and Performance
4.		Pending Accounts Payable
5.		Failure to Operationalise Institutions
6.	2022-2023	Failure to Surrender Imprest
7.		Unconfirmed Port Health Revenue
8.		Unconfirmed Employee Costs
9.		Overstated Exchequer Releases
10.		Budgetary Control and Performance
11.		Pending Accounts Payable
12.		Non-Compliance with the Climate Change Regulations
13.		Non-Adherence to Fiscal Responsibility Principle on Employee Compensation
14.		Staff Earning Less than a third of Basic Salary
15.		Delay in Project Implementation
16.		Non-Adherence to Fiscal Responsibility principle on Development Expenditure
17.		Non-Compliance with the National Values and Principle of Governance
18.		Missed Performance Targets
19.		Understaffing of the Department
20.		Lack of Training Need Assessment
21.	2023-2024	Incomplete Assets Register

Other Information

Basis for Conclusion

913. Unachieved Performance Targets

Review of the State Department's performance indicated four (4) programs which included-: Preventive and Promotive Health Services, Health Resource Development and Innovation, Health Policy Standards and Regulations and General Administration with various strategic objectives. However, review of performance revealed that some performance indicators were not achieved.

Failure to achieve key performance targets may affect the State Department's ability to achieve its mission of offering effective leadership and participating in the provision of quality public health and sanitation services that are equitable, responsive, accessible and accountable to Kenyans

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

914. Unapproved Expenditure

The statement of comparison of budget and actual amounts reflects approved use of goods and services budget of Kshs.1,021,454,835 while the actual expenditure amounted to Kshs.1,104,268,098 resulting to unapproved expenditure of Kshs.82,570,063 or 8% of the budget. This was contrary to Regulation 52(1)(b) of the Public Finance Management (National Government) Regulations, 2015, which stipulates that Accounting Officers and AIE holders shall ensure that the limit to which they may commit or spend public funds is that prescribed by the Authority, and not based on their expectations, however justified these may seem.

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

915. Staff Earning Less Than One-Third of Basic Salary

Review of the financial statements revealed that twenty-four (24) employees earned less than one third of their basic salary. This was contrary to Section 19(3) of Employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

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

916. Non-Compliance with the Climate Regulations

During the year under review, Management did not report to the National Climate Change Council on the status and progress of performance and implementation on climate change. Further, the Kenya Climate Change and Health Strategy 2024-2029 was in draft form and it is yet to be launched. This was contrary to the National Climate Change Action Plan (NCCAP)III 2023-2024 and the Climate Change Act, 2016.

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

917. Delayed Completion of the Microwave Medical Waste Housing Projects

Review of contract agreements at the State Department revealed contracts for the construction of microwave medical waste housing in Bomet and Vihiga Counties at the cost of Kshs.29,077,375 and Kshs.29,306,145 respectively both signed on 24 October, 2023 with completion period of 24 weeks which lapsed on 13 August, 2024 followed by a second extension to 14 May, 2025. However, the completion certificates were not provided to confirm that the projects have been completed and the performance security for both companies had expired.

In the circumstances, value for money on the expenditure on construction of microwave medical waste housing in Bomet and Vihiga Counties at the cost of Kshs.29,077,375 and Kshs.29,306,145 respectively could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

918. Voided Transactions

The statement of financial performance reflects total expenses of Kshs.29,847,427,814. Analysis of the system payments indicated that two hundred and sixty-seven (267) transactions of Kshs.459,448,302 were voided. However, Management did not provide the satisfactory explanations for voiding the transactions.

In the circumstances, the effectiveness of internal controls in processing and voiding payments could not be confirmed.

919. Payment of House Allowances Above the Approved Rates

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs amounting to Kshs.8,470,977,897. However, analysis of payroll records revealed that house allowance totalling Kshs.8,151,200 was paid to seven hundred and ninety-two (792) officers at rates exceeding the approved allowances applicable to their respective job groups.

In the circumstances, the effectiveness of internal controls in the management of payroll and payment of allowances could not be confirmed.

920. Training Without Performance Targets

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects use of goods and services expenditure of Kshs.1,108,774,429 out of which Kshs.189,186,120 relates to training expenses. However, the training expenditure was not supported by performance targets and performance evaluation reports on the specific assignments and activities for each of the participants trained.

In the circumstances, the effectiveness of internal controls in the management trainings could not be confirmed.

921. Unreviewed Tariffs Under Port Health Services

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects revenue from proceeds from sale of assets of Kshs.6,748,170,249. The amount includes Kshs.3,030,388,620 in respect of receipts from the sale of inventories, stocks and commodities out of which Kshs.196,070,477 is revenue from the Port Health Division. However, the division has been using a user fee tariff which was introduced twenty-four (24) years ago in the year 2001 through legal notice No.112/2001 and the existing regulations do not capture the services of vaccination against travel-related diseases, including Hepatitis A&B and polio are not captured under the existing regulations. Further, issuance of import and export health certificates is only limited to food items and omits chemical substances, raw materials and other substances of public health concerns. In addition, it was noted that six (6) ports of entry/ exit were closed and while seven (7) were not manned and no revenue was being generated from them.

In the circumstances, the effectiveness of internal controls in the management of revenue and review of tariffs could not be confirmed.

922. Under Staffing

The State Department had an approved staff establishment of six hundred and sixty-three (663) positions. However, only one hundred and ninety (190) positions were filled resulting in understaffing of four hundred and seventy-three (473) positions.

In the circumstances, the effectiveness of internal controls in the management of human resource matters could not be confirmed.

923. Weak Information Technology Control Environment

Review of information control environment revealed that Management has not implemented a regular schedule for testing the Information and Communication technology (ICT) disaster recovery plan, including full-scale simulations to help ensure preparedness for actual disaster scenarios. Further, there was no external or remote backup site for data redundancy and protection against physical disasters.

In the circumstances, the effectiveness of internal controls in the management Information Technology (IT) Control Environment could not be confirmed.

GLOBAL FUND - TO REDUCE MALARIA INCIDENCE AND DEATHS BY AT LEAST 75 PERCENT OF THE 2016 LEVELS BY 2023 WORKING TOWARDS A MALARIA - FREE KENYA - KEN-M-TNT NO.2064

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

924. Variances in Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 17 to the financial statements reflects cash and cash equivalents balance as at 1 July, 2024 of Kshs.156,279,858 while Note 17 to the financial statements reflects a balance of Kshs.180,922,244 resulting to an unexplained variance of Kshs.24,642,386. Further, the 2023/2024 audited financial statements reflects bank balance of Kshs.180,922,244 resulting to an unexplained variance of Kshs.24,642,386.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance as at 1 July, 2024 of Kshs.156,279,858 could not be confirmed.

925. Unbalanced Statement of Financial Position

The statement of financial position reflects net assets balance of Kshs.218,932,614 on the debit side while the total net assets balance on the credit side was Kshs.156,279,858 resulting to an unexplained variance of Kshs.62,652,756.

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

926. Undisclosed Accounts Payables

Note 13 to the 2023/2024 audited financial statements reflects pending bills totalling Kshs.215,514,030. However, these bills were not disclosed in the opening balance of accounts payables as at 1 July, 2024 resulting to an unexplained variance of Kshs.215,514,030.

In the circumstances, the accuracy and completeness of Nil accounts payables balance as at 1 July, 2024 could not be confirmed.

927. Unsupported Accumulated Surplus

The statement of changes in net assets reflects accumulated surplus balance as at 1 July, 2024 of Kshs.156,279,858 after liabilities recognition adjustment of Kshs.87,295,147 which was not supported with a schedule and source documents.

In the circumstances, the accuracy of accumulated surplus as at 1 July, 2024 of Kshs.156,279,858 could not be confirmed.

928. Unsupported Opening Budget Balance Brought Forward

The statement of comparison of budget and actual amounts reflects opening budget balance brought forward of Kshs.156,279,858 which was not supported. Further, the statement of comparison of budget and actual amounts in the 2023/2024 financial year reflected actual receipts of Kshs.1,518,703,608 and actual expenditure of Kshs.1,322,897,418 resulting to unutilized balance of Kshs.195,806,190 which differs with opening balance brought forward of Kshs.156,279,858 resulting to an unexplained variance of Kshs.39,526,332.

In the circumstances, the accuracy of opening budget balance brought forward of Kshs.156,279,858 could not be confirmed.

929. Unsupported Transfers to Other Government Entities and Co-Mingling of Funds Between Projects

The statement of financial performance reflects transfers to other government entities of Kshs.61,296,753 which is disclosed in Note 11 to the financial statements as a transfer to Grant Cycle 7(GC7). However, the schedules provided reflects payments for MPESA domestic subsistence allowance, hospitality and fuel prepayments of Kshs.54,638,177, Kshs.1,260,684 and Kshs.5,397,892 respectively. Further, one bank account was used for two projects resulting to co-mingling of funds between Project Grant number KEN-M-TNT-2064 and Project Grant number KEN-M-TNT-4149. This was contrary to Regulation 3.4(d) of the Global Fund Regulations, 2014 which states that the Grant Funds shall not be co-mingled with other funds unless agreed to in writing by the Global Fund.

In the circumstances, the accuracy and completeness of transfers to other government entities of Kshs.61,296,753 could not be confirmed and Management was in breach of law.

Emphasis of Matter

930. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final and actual receipts budget on a comparable basis of Kshs.1,586,529,858 and Kshs.659,364,653 respectively resulting in an under funding of Kshs.927,165,205 or 58 % of the budget.

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

931. Undrawn and Unutilized Balances

Table A on source of funds under funding summary reflects donor commitment of Kshs.3,716,048,900 and amount received to date as at 30 June, 2025 of Kshs.3,295,989,774 resulting to undrawn balance of Kshs.420,059,126. Further, Table B on application of funds under funding summary reflects cumulative amount paid to date as at 30 June, 2025 of Kshs.3,112,398,215 out of the total amount received to date of Kshs.3,295,989,774 resulting to unutilized balance of Kshs.183,591,559.

In the circumstances, the undrawn and unutilized balances could lead to underperformance and the Project may not have achieved its planned objectives.

My opinion is not modified in respect of these matters.

Other Matter

932. Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit revealed that unsupported compensation of employees and misclassification of training expenses remained unresolved as at 30 June, 2025.

Other Information

933. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

934. There were not material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

935. Failure to Conduct Internal Audit

During the year under review, there was no evidence of internal audit conducted in respect to the activities and operations of the Project contrary to Section 73(1) of Public Finance Management Act, 2012 which states that every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the effectiveness of governance processes on Project activities could not be confirmed.

936. Lack of Risk Management Policy and Strategy

During the year under review, the Project Management had not put in place risk management policy, strategies and risk register to mitigate against risks and Management did not carry out risk assessment on project activities contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and the national

government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of risk management of the Project could not be confirmed.

937. Failure to Prepare Quarterly Procurement Implementation Reports

Review of records revealed that the Management did not prepare quarterly reports on the implementation of the annual procurement plan and submit it to the relevant authority contrary to Regulation 40(6) of the Public Procurement and Asset Disposal Regulations, 2020 which states that an accounting officer of a procuring entity shall prepare a quarterly report on the implementation of the annual procurement plan and submit it to the Cabinet Secretary or County Executive Committee member for finance or responsible for the procuring entity or the governing body, as the case may be.

In the circumstances, the effectiveness of internal controls on procurement could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

938. As required by the Global Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND TUBERCULOSIS (PROJECT NO. KEN-T-TNT-2067)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

939. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

940. Undrawn Balance

Review of source of funds under project information and overall performance page viii of the financial statements revealed that the project had an approved budget of Kshs.1,505,627,819 being funding for the period of three (3) years to 30 June, 2024. However, as at 30 June, 2025 and the end of the project, only Kshs.1,399,110,228 was drawn which includes Kshs.951,222,563 relating to current grant number KEN-T-TNT-2067 and Kshs.442,281,826 relating to grant number C19RM COVID leaving an undrawn balance of Kshs.112,123,430.

In the circumstances, the Project may not have achieved its planned objectives.

My opinion is not modified in respect of this matter.

Other Information

941. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

942. There were not material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

943. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

944. As required by the Global Fund, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND TUBERCULOSIS PROJECT NO. KEN-T-TNT-4148

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

945. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

946. Budgetary Control Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.648,170,000 and Kshs.507,674,205 resulting to an under funding of Kshs.140,495,795 or 22% of the budget. Similarly, the Project spent

Kshs.383,763,610 against actual receipts of Kshs.507,674,205 resulting in under absorption of Kshs.123,910,596 or 24% of the actual receipts.

The underfunding and under absorption affected the planned project activities and programmes, and may have impacted negatively on service delivery to the intended beneficiaries.

My opinion is not modified in respect of this matter.

Other Information

947. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

948. Failure to Seek Exemption of Taxes on Fuel

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects use of goods and services amount of Kshs.292,604,997 which includes fuel and lubricant expenses of Kshs.3,868,924. However, the expenditure includes VAT amount of Kshs.676,456 charged to the Project contrary to Regulation 3(5) of the Grant Regulations Version 2 which states that for each Program, the Grant Funds are made available by the Global Fund for the purposes of implementing respective Program activities, and the Grant Agreement and the purchase and/or import of any goods or services using the Grant Funds shall be exempt from relevant taxation applicable in the host country, including, but not limited to the value-added tax levied or otherwise imposed on the purchases of goods and services using Grant Funds.

In the circumstances, Management was in breach of the grant agreement.

949. Ineligible Expenditure Charged to the Project

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects other transfers/subsidies/grants of Kshs.64,288,870. Review of the supporting documents revealed that the amount was paid back to Global Fund being recovery of funds utilized on non-eligible expenditure incurred for the financial years 2018-2019 to 2021-2022 related to project KEN-T-TNT-2067 which closed on 31 December, 2024.

The ineligible expenditure arose from VAT paid on fuel and procurement of printing of registers and tools for the various respective years contrary to Regulation 3(5) of Global Fund Grant Regulations Version 2 which states that Grant Funds are made available by the Global Fund for the purposes of implementing respective Program activities, and the Grant Agreement and the purchase and/or import of any goods or services using the Grant Funds shall be exempt from relevant taxation applicable in the host country .

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

950. Failure to Conduct Internal Audit

Review of records revealed that no internal audit was conducted in respect to the activities and operations of the Project during the year contrary to Section 73(1) of Public Finance Management Act, 2012 which states that every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the effectiveness of governance processes on Project activities could not be confirmed.

951. Failure to Carry Out Risk Assessment

During the year under review Project Management did not carry out risk assessment on Project activities contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and the national government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of risk management of the Project could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

952. As required by the Global Fund, I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

RESILIENT SUSTAINABLE SYSTEMS FOR HEALTH (RSSH) KEN-T-TNT-2067 SUB- RECIPIENT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

953. Inaccuracies in the Statement of Financial Position

953.1. Variance in Accumulated Surplus Balance

The statement of financial position reflects Nil accumulated surplus as at 30 June, 2025 while the statement of changes in net assets reflects accumulated deficit as at the same date of Kshs.7,018,567 resulting to a variance of Kshs.7,018,567.

In the circumstances, the accuracy and completeness of Nil accumulated surplus as at 30 June, 2025 could not be confirmed.

953.2. Undisclosed Trade and Other Payables Balance

The statement of financial position reflects Nil trade and other payables as at 30 June, 2025. According to the statement and Annex 4a to the 2023/2024 audited financial statements the trade and other payables balance amounted to Kshs.13,728,019 as at 30 June, 2024. Further, audit verifications revealed that the Resilient Sustainable Systems for Health Grant Number KEN-T-TNT-2067 came to an end in 2024/2025 financial year but no disclosure was made on whether the accounts payables totalling Kshs.13,728,019 were paid.

In the circumstances, the accuracy and completeness of the Nil trade and other payables balance as at 30 June, 2025 could not be confirmed.

954. Variance in Net Decrease in Cash and Cash Equivalents

The statement of cash flows reflects net decrease in cash and cash equivalents balance of Kshs.6,709,453 while the recomputed amounts reflects Nil cash and cash equivalents balance resulting to an unexplained variance of Kshs.6,709,453.

In the circumstances, the accuracy and completeness of net decrease in cash and cash equivalents balance of Kshs.6,709,453 in the statement of cash flows could not be confirmed.

Emphasis of Matter

955. Undrawn Balance

Table A on source of funds under funding summary reflects donor commitment of Kshs.1,073,372,973 and amount received to date as at 30 June, 2025 of Kshs.592,515,741 resulting to undrawn balance of Kshs.480,857,232.

In the circumstances, value for money may not have been realized from the undrawn balances.

My opinion is not modified in respect of this matter.

Other Matter

956. Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during the audit of the Project in 2024/2025 revealed that the following matters remained unresolved:

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Failure to Settle Pending Bills
3.	Under Absorption of Project Funds
4.	Failure to Open Special Deposit Account
5.	Lack of Sub-Recipient Agreement
6.	Unapproved Airtime Allowance Rates

Other Information

957. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

958. Late Submission of Financial Statements

The financial statements for Resilient Sustainable Systems for Health (RSSH) KEN-T-TNT 2067 Sub Recipient - Ministry of Health for the year ended 30 June, 2025 were submitted to the Office of the Auditor General on 30 September, 2025 contrary to Paragraph 1.8 and Paragraph 3 of The National Treasury and Economic Planning Circular Reference No:AG.3/88 Vol. VII(41) dated 4 December, 2024 which directed that in line with Public Finance Management Act, all public sector entities, for both national and county governments, prepare and submit annual financial statements by 31 August, 2025.

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

959. Failure to Close the Project Bank Account and Commingling of Project Funds

Section 2.3 to the financial statements on Project overview indicates Resilient Sustainable Systems for Health (RSSH) KEN-M-TNT-2067-Ministry of Health started on 1 July, 2021 and was to run until 30 June, 2024. Audit verifications revealed a new project Grant number KEN-M-TNT-4148 was opened on 1 July, 2024. However, a new bank account was not opened for the purpose of disbursement of project funds to the new project and there was no evidence provided to confirm that an exemption was granted by the

Cabinet Secretary contrary to Section 76(1) of Public Finance Management (National Government) Regulations, 2015. The Project bank account which had been opened for Global Fund Project number KEN-M-TNT-2067 continued to be used to run the operations of Grant number KEN-M-TNT- 4148 resulting to co-mingling of funds for the two projects.

Further, the cash books, bank reconciliations and bank confirmation certificates provided for audit did not separate the money received and spent between the two projects.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

960. Failure to Conduct Internal Audit

During the year under review, there was no evidence of an internal audit conducted in respect to the activities and operations of the Project contrary to Section 73(1) of Public Finance Management Act, 2012 which states that "every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board".

In the circumstances, the effectiveness of governance processes on Project activities could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

961. As required by Global Fund, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

RESILIENT SUSTAINABLE SYSTEMS FOR HEALTH (RSSH) KEN-T-TNT- 4148 SUB RECIPIENT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

962. Variances in Cash and Cash Equivalents Balance

The statement of financial position and as disclosed in Note 10 to the financial statements reflects cash and cash equivalents of Kshs.184,970,931 which includes cash at bank of Kshs.183,148,574 and cash at hand of Kshs.1,822,357. However, the statement of cash

flows reflects cash and cash equivalents of Kshs.185,147,210 as at 30 June, 2025 resulting to an unreconciled variance of Kshs.176,279.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.184,970,931 could not be confirmed.

963. Variances in the Financial Statements

The statement of comparison of budget and actual amounts reflects total payments of Kshs.652,060,246 while the statement of cash flows reflects total payments of Kshs.504,670,965 resulting to unexplained variance of Kshs.147,389,281.

In the circumstances, the accuracy of total payments amounts of Kshs.652,060,246 in the statement of comparison of budget and actual amounts could not be confirmed.

964. Misstated Total Net Assets Balance

The statement of financial position reflects total net assets of Kshs.184,970,931 on the credit side which differs with recomputed credit side balance of Kshs.31,048,477 resulting to unsupported variance of Kshs.153,922,454.

In the circumstances, the accuracy of the total net assets balance of Kshs.184,970,931 could not be confirmed.

Emphasis of Matter

965. Budgetary Control and Performance and Unbalanced Budget

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.719,889,220 and actual receipts on a comparable basis of Kshs.683,108,723 resulting to an under funding of Kshs.36,780,497 or 5%. Further, the Project spent a balance of Kshs.652,060,246 against actual receipts of Kshs.683,108,723 resulting in underutilization of Kshs.31,048,477.

In addition, the statement reflects original and final receipt and payments budget of Kshs.719,889,220 and Kshs.689,958,976 respectively resulting to unbalanced budget of Kshs,29,930,244 contrary to Regulation 33(c) of Public Finance Management (National Government), Regulations, 2015 which states that unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, budget shall be balanced at all times during budget formulation and approval.

The underfunding and underutilization affected planned activities and may have impacted negatively service delivery.

My opinion is not modified in respect of this matter.

Other Information

966. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

967. Delay in Remittance of Statutory Deductions

The statement of financial position and as disclosed in Note 10 to the financial statements reflects cash at bank balance of Kshs.183,148,574. Review of bank reconciliation statements revealed four outstanding statutory deductions amounting to Kshs.176,280 out of which one month deduction amounting to Kshs.43,200 has been cleared leaving the balance of Kshs.133,800 outstanding for long after the deadline dates contrary to Section 19(4) of Employment Act, 2007(Revised 2012) which states that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance within the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

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

968. Delay in Signing of Staff Contracts

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects employee costs totalling Kshs.16,250,134. However, review of the payroll compared to staff contracts revealed six staff contracts were signed on 27 January, 2025 which was seven months late. This was contrary to Section 10(1) of Employment Act, 2007 which states that a written contract of service specified in Section 9 shall state particulars of employment which may, subject to subsection (3), be given in instalments and shall be given not later than two months after the beginning of the employment.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

969. Failure to Conduct Internal Audit

During the year under review, there was no evidence of internal audit conducted in respect of the activities and operations of the Project contrary to Section 73(1) of Public Finance Management Act, 2012 which states that every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the effectiveness of governance processes on Project activities could not be confirmed.

970. Failure to Carry Out Risk Assessment

During the year under review, Project Management did not carry out risk assessment on Project activities contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and the national government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of risk management of the Project could not be confirmed.

971. Weak Internal Controls in Fuel Management

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects use of goods and services of Kshs.635,810,112 which includes cost of fuel and lubricants of Kshs.1,714,000. It was noted that Management uses fuel cards to pay for fuel but the fuel statements do not indicate the vehicle registration numbers for the vehicles that consumed fuel and there was no fuel register. It was not therefore possible to ascertain ownership of the vehicles that consumed fuel.

In the circumstances, the effectiveness of internal controls with respect to expenditure on fuel and lubricants could not be confirmed.

972. Late Commitments

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects use of goods and services of Kshs.635,810,112 which includes hospitality supplies and services of Kshs.87,116,104. Review of payment vouchers revealed that the entity procured a conference facility at Kshs.775,862 on 20 June, 2025 which was after the stipulated deadline of 31 May and no evidence was provided to confirm approval by the Accounting Officer contrary to Regulation 51(1) of Public Finance Management (National Government) Regulations, 2015 which states that, all commitments for supply of goods or services shall be done not later than May 31st each year except with the express approval of the accounting officer in writing.

In the circumstances, the effectiveness of internal controls on use of goods and services could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

973. As required by Global Fund, I report based on my audit that, 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR ROADS – VOTE 1091

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

974. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

975. Unresolved Prior Year Matters

In the prior year audit report, two issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in the Use of Public Resources. These include budgetary control and performance and non-compliance with one-third rule on basic salary. Review of the status during the audit of the State Department in 2024/2025 revealed that issues remained unresolved.

Other Information

976. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

977. Non-Compliance with One-Third Rule on Basic Salary

Review of the State Department's staff payroll revealed that for the twelve (12) month period there were one hundred and eleven (111) employees whose salary deductions exceeded two-thirds (2/3) of the basic salary. This was contrary to Section 19(3) of the Employment Act, 2007 which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class employers or employees or any trade or industry. This may expose the staff to pecuniary embarrassment.

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

978. Failure to Comply with Public Procurement and Asset Disposal Act, 2020

Review of the Consolidated Annual Approved Procurement Plan for the year 2024/ 2025 revealed that the State department planned to acquire both goods and services at a total cost Kshs.1,074,205,591. However, the Accounting Officer did not submit biannual or quarterly reports of Contracts awarded during the period to the Public Procurement Regulatory Authority contrary to the Regulation 131(1) of the Public Procurement and

Asset Disposal Regulation, 2020 that provides that the Accounting Officer of a procuring entity shall, in accordance with section 138(b) of the Act report all signed contracts to the Authority within fourteen (14) days.

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

979. Failure to Comply with 5% Persons Living with Disability Guidelines

Review of the human resources records revealed that the State Department has a total of one thousand six hundred and forty-seven (1647) employees out which thirty-four (34) or 2% were persons living with disabilities. This was contrary to the provisions of the Public Service Commission Human Resource Manual 2016 under Section B.23(2) of Rights and Privileges of Persons with Disabilities which states that, Persons with disability shall be accorded equal opportunities for employment that Government shall implement the principle that at least five (5) percent of all appointments shall be for persons with disabilities.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

980. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (LOAN NO.6768-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

981. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

982. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

983. Delayed implementation of Office Partitioning, Associated Electrical and Mechanical Works at Barabara Plaza

On 5 February, 2024, the State Department for Roads through the Project entered into a contract with a firm for partitioning offices at Barabara Plaza on behalf of the Engineering Board of Kenya, (EBK) at a contract sum of Kshs.76,885,250 for a period of twenty-four (24) weeks. The commencement date was 2 May, 2024 with an expected completion date of 17 October, 2024. However, review of records revealed that the completion date has been extended twice to 6 December, 2024 and 17 January, 2025.

Further, the Quarterly Progress Report of August, 2024 indicated a weighted overall work completed was at 51.84% against time lapse of 191.9%, an indication that the project was behind schedule. The certified works was Kshs.39,861,949 out of which an amount of Kshs.34,567,895 or 87% had been paid leaving an outstanding balance of Kshs.5,294,054. At the time of audit, in the month of September, 2025, no works were ongoing and liquidated damages notice had been issued to the contractor pursuant to the provisions Conditions – GCC 51.1. of the Contract.

In the circumstances, value for money for an amount of Kshs.34,567,895 incurred on the project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

984. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

985. As required by the Financing Agreement for credit No.6768 between the Government of Kenya and the International Development Association (IDA) dated 7 October, 2020, I report based on my audit that 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. Further, in my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (CREDIT NO.5638-KE IDA)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

986. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

987. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.505,000,000 and Kshs.307,071,752 respectively, resulting to an under-funding of Kshs.197,828,248 or 39% of the budget. However, the Project spent Kshs.417,339,119 against actual receipt amount of Kshs.307,071,752 resulting to an over-expenditure of Kshs.110,267,368 or 36% of the actual receipt.

The under-funding negatively affected implementation of planned development projects resulting to poor service delivery to the public.

My opinion is not modified in respect of this matter.

Other Information

988. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

989. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

990. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

991. As required by the Financing Agreement No.5638-KE between the International Development Agency (IDA) and the Government of Kenya, I report based on my

audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

EAST AFRICA SKILLS TRANSFORMATION AND REGIONAL INTEGRATION PROJECT IDA CREDIT NO.6334-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

992. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

993. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.350,000,000 and Kshs.309,491,600 respectively, resulting in an under-funding of Kshs.40,508,400 or 12% of the budget.

Similarly, the Project spent an amount of Kshs.305,924,394 against actual receipts of Kshs.309,491,600 resulting to an under absorption of Kshs.3,567,206. Management attributed the underfunding and under absorption mainly to lengthy approval of no objection from the donor.

The under-funding and under absorption may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

994. Unresolved Prior Year Issues

In the prior year report, three (3) issues were raised under Emphasis of Matter and Report on Effectiveness of Internal Controls, Risk Management and Governance. These include budgetary control and performance, undrawn loan balance and failure to update fixed asset register. Review of the status during the audit of the Project in 2024/2025 revealed that the issues remained unsolved.

Other Information

995. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

996. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

997. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

998. As required by International Development Association (IDA), Financing Agreement No.6334-KE., I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR ROADS

KENOL-SAGANA-MARUA HIGHWAY IMPROVEMENT PROJECT (P-KE-DBO-037) CREDIT NOs.5050200000901 AND 2000200004504 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

999. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1000. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 11 to the financial statements reflects trade and other payables balance of Kshs.1,473,183,365. Included in this balance

was Kshs.680,646,103 or 46% of total trade and other payables that had been outstanding for over three (3) years.

Failure to settle payables when due may attract interests and penalties. Further, the unsettled payables will distort the budget of the subsequent year as they form first charge.

1001. Low Absorption of Loan Balance

Review of the financial statements and as disclosed in Note 2.2 on Project Information and Note 2.7 on Funding Summary indicate that the Project period was for five (5) years and six (6) months from 9 January, 2020 to 9 July, 2025 at a funding commitment of Kshs.3,561,691,000, Kshs.20,354,806,800 and Kshs.7,923,065,332 from Development Partners (AGTF and AfDB) and Government of Kenya (GoK) respectively all totalling Kshs.31,839,563,132. However, the Project had drawn an amount of Kshs.23,039,495,847 or 72% of the committed funds with time lapse at 100% with undrawn amount of Kshs.8,800,067,285.

Failure to exhaust the credit facility within the Project period denied the public services that could have accrued from outstanding deliverables.

1002. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.6,223,945,567 and Kshs.5,474,025,685 respectively resulting to an under-funding of Kshs.749,919,882 or 12% of the budget. However, the Project spent an amount of Kshs.4,662,254,587 against actual receipts of Kshs.5,474,025,685 resulting to an under-absorption of Kshs.811,771,098 or 15% of actual receipts.

The underfunding and under-absorption affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Matter

1003. Unresolved Prior Year Matters

In the 2023/2024 audit report, several issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of Project in 2024/2025 revealed that the following seven issues remained unresolved:

No.	Audit Issue
1.	Pending Bills
2	Budgetary Control and Performance
3.	Delayed Project Implementation
4	Failure to Relocate Powerline Posts

No.	Audit Issue
5	Nugatory Payment - Compensation of Buildings and Business
6	Extended Consultancy Services
7	Delayed in Land Acquisition

Other Information

1004. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1005. Irregular Variation of the Contract

The Government of Kenya entered into a contract with a foreign company on 30 July, 2020 for the dualling of Sagana-Marua (A2) road (36 kilometers) for a contract period of thirty-six (36) months. The commencement date of the contract according to the contract agreement provided for audit was 19 October, 2023. However, the contract completion was extended to 10 July, 2025 resulting to variation of original contract sum of Kshs.6,115,038,571 to Kshs.9,146,922,301 or 49.58% increase. This was contrary to Section 139(4)e of Public Procurement and Asset Disposal Act, 2015 that provides for a maximum variation of 25%.

Further, progress report on the project outputs, outcomes and impacts since implementation provided for audit inspection indicated weighted overall work completion (physical progress) at 88% against the programmed target of 99% (Main carriageway works) resulting to a shortfall in the completion percentage by 11%.

In addition, project inspection carried out in the month of October, 2025 revealed that the Project had stalled. The Contractor vide a letter dated 19 May, 2025 issued notice to suspend works on two grounds; delayed payment on certified works totalling Kshs.949,895,176 and exhaustion of budget and unapproved cost appraisal under addendum number 3. The Contractor had submitted revised three (3) revised cost appraisals on the 6 September, 2024, 4 March, 2025 and 5 May, 2025 for approval but the employer had not responded to them thereby leaving the contractor with no option other than to terminate the works.

In the circumstances, delayed completion of the Project denied the public benefits that could have accrued from it.

1006. Avoidable Expenditures

The statement of financial position and as disclosed in Note 11 to the financial statements reflects trade and other payables balance of Kshs.1,474,183,365. Included in the amount is a balance of Kshs.6,498,029 relating to interest charged on delayed payment of Interim Performance Certificate (IPC) Number 29A. The payment could have been avoided had the Project Management made payment when due.

In the circumstances, the effectiveness in use of public resources could not be confirmed.

1007. Idle Medical Equipment-Sagana Trauma Centre

Review of procurement documents revealed procurement process of supply, delivery and installation of medical equipment for the Trauma Centre at Sagana which was awarded to a supplier at a contract sum of Kshs.895,071,859. However, it was noted that the Trauma Centre stalled at 60% completion in January, 2025 and the Contractor had suspended the works. Management did not explain reasons for procuring equipment for stalled Centre and where the medical equipment will be stored awaiting completion of the Trauma Centre.

In the circumstances, the procurement of idle equipment denied the public benefits that would accrue from installed equipment.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1008. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1009. As required by the Financing Agreements Credit No.5050200000901 and No.2000200004504 between Africa Development Bank (ADB) and the republic of Kenya, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

UPGRADING OF KIBWEZI-MUTOMO-KITUI-MIGWANI ROAD PROJECT NO. BLA2016K001 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1010. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1011. Long Outstanding Account Payables

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.1,949,071,920. However, review of

payables schedule provided revealed that a balance of Kshs.598,583,365 remained unsettled for a long time some dating back to 2021 financial year. The Authority did not provide explanations on the measures put in place to facilitate payments.

Failure to settle pending bills when due may attract avoidable costs inform of interest and penalties charged on long overdue payables. Further, unsettled payables will distort budget of the subsequent year as it forms first charge.

My opinion is not modified in respect of this matter.

Other Matter

1012. Unresolved Prior Year Matters

In the prior year audit report, three issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. These issues include non-compliance with Public Procurement and Asset Disposal Act, 2015, incomplete contract works and avoidable interest on delayed payments. Review of the status during audit of the project in 2024/2025 revealed that the matters remained unresolved.

Other Information

1013. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1014. Avoidable Interest on Delayed Payments

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.1,949,071,920. The balance includes an amount of Kshs.474,338,860 relating to interest on delayed payments which translates to 24% of the total outstanding payables. The Authority negotiated for interest payable waiver of an amount of Kshs.255,413,232 or 35% as supported by the interest waiver settlement agreement provided for audit. However, the balance of Kshs.474,338,860 relating to interest remained payable. This amount could have been avoided had the pending bills been paid on time.

In the circumstances, the value for money, would not be realized on interest payment.

1015. Delayed Payments to Persons Affected by the Project

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.1,949,071,920 which included a balance of Kshs.803,564,190 relating to payables in respect of persons affected by implementation of the project that has been outstanding for long. This was contrary to requirements of Section 111 of Land Act, 2012 which states that for land acquired

compulsorily under this Act, just compensation shall be paid promptly in full to all persons whose interests in the land have been determined.

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

1016. Incomplete Contract Works

As previously reported, the Authority entered into a commercial contract with a Contractor at a contract sum of Kshs.18,505,888,139 on 09 February, 2011 for the Upgrading of Kibwezi-Mutomo-Kitui Road Project. Review of the contract documents reveal that on 20 September, 2016, the Authority and the Contractor executed Addendum 1 under the contract whereby the scope of works was increased without affecting the contract sum. This was at the request of the Authority due to drastic decrease in international oil prices, bitumen, steel and diesel by big margins. The increased scope of works included engineering, procurement and construction of Kabati-Migwani direction (16.7Km) road. Further, Management executed Addendum No.2 under the existing contract on 4 October, 2020 which also included the engineering, procurement and construction of Kabati-Migwani direction of a further (8.92Km) road. The additional works in Addendum 1 and 2 aggregated totals 25.62Km which is the distance between the two (2) towns.

Further, the Authority and the Contractor executed Addendum No.3 on 28 April, 2021 which revised the contract sum to Kshs.21,545,912,343, a variation of Kshs.3,141,024,204 from the original contract sum. The completion date was also extended from 15 February, 2022 to 14 May, 2023 and the scope of works was revised to include construction of 29.2 km section from Km 170+461.5 (end of Kibwezi – Mutomo-Kitui-Migwani Section) to Mbondoni (Junction with A3 Road), Ndolo's Corner Road (road to DCC Office and Shopping Centre) 0.75 Km, Tulia Town Roads (to connect ACC Office and town to main road) 1.65Km, Migwani Town Roads (including access to DCC Office) 1.85 Km, Construction of 2 No. bridges at Km 153+354 and Km 159+821.

Physical inspection carried out on the section of the road on 29 September, 2025 revealed that the road works under Addendum No.3 were yet to be completed despite the extended time having lapsed. This was as a result of the suspension of works by the contractor, due to non-payment of certified works, in December 2021. At the time of inspection, the contractor had resumed works with machinery mobilization and labour confirmed on the site.

In the circumstances, delayed implementation of the project denied the public benefits that could have accrued from completed project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1017. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1018. As required by the Financing Agreement No. BLA2016K001 between the Republic of Kenya and Export-Import Bank of China Loan, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC/TURNKEY BASED) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1019. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1020. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,133,791,086 as disclosed in Note 11 to the financial statements. This balance includes trade payables amount of Kshs.684,466,506 which had been outstanding for over one (1) year. Management attributed this to lack of adequate budgetary allocations and timely releases of Exchequer funds.

The Project runs the risk of incurring significant interest costs and penalties with the continued delay in settling the bills.

1021. Project Closure Report

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of six (6) years from 06 April, 2018 to 08 June, 2024 with an approved Development Partner Commitment budget of USD 11,785,982 equivalent to Kshs.1,190,973,504 and Government of Kenya counterpart funds of Kshs.4,746,122,949 totalling Kshs.5,937,096,453. The Donor Commitment was received in full while an amount of Kshs.1,133,791,087 in respect of GoK counterpart funds had not been received.

Further, Paragraph 2.8 on summary of overall Project performance indicates that the Project was physically completed and handed over to the employer. However, the Project closure report was not provided for audit. Management did not provide an explanation for the failure to close the Project.

My opinion is not modified in respect of these matters.

Other Matter

1022. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources as indicated in the table below. However, Management had not resolved the issues as at 30 June, 2025.

Unresolved Prior Year Audit Issues – Financial Year 2023/2024

No.	Issue	Audit Status
1.	Budgetary Control and Performance	Not Resolved
2.	Irregular Variation of Project Costs on Government Contributions	Not Resolved
3.	Failure to Adequately Budget for Pending Bills	Not Resolved
4.	Delay in Completion of Project	Not Resolved
5.	Irregular Variation of Contract Sum on Consultancy Services	Not Resolved

Other Information

1023. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1024. Contract Price Variation and Interest on Delayed Payments

Review of Project records revealed that the contractor was awarded claims totalling Kshs.614,329,869 comprising of an amount of Kshs.401,844,724 and Kshs.212,485,154 in respect of contract price variations and interest on delayed payments respectively.

Further, the Project briefs dated 25 July, 2023 revealed that the contractor had lodged a prolongation cost claim of Kshs.3,497,747,818, representing 142% of the original civil works project cost of Kshs.2,464,287,937. The claim remained under evaluation as at September, 2025. This exposes the Project to the risk of escalation of costs, potential disputes, and litigation, which could derail project completion and result in substantial loss of public funds.

In the circumstances, there may be no value for money as public resources are diverted to settle avoidable costs such as interest on delayed payments and contract price variation.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1025. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1026. As required by the Financing Agreement No. 200765123 between the Republic of Kenya and German Development Bank (KfW) dated 14 December, 2009, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

KAPCHORWA-SAUM-KITALE AND ELDORET BYPASS PROJECT NO. P-ZI-DBO-0183 ADB (NEW) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1027. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1028. Failure to Settle Pending Bills

The statement of financial position and as disclosed in Note 10 to the financial statements reflects trade and other payables balance of Kshs.1,908,748,934. Included in this balance is an amount of Kshs.1,104,383,944 relating to compensation to Project Affected Persons and payable to the contractors that has been outstanding for long. Management did not demonstrate efforts to clear this amount.

Failure to settle pending bills when due distorts the budget of the subsequent year as they constitute a first charge on that budget.

1029. Low Absorption of Project Funds

The Project commenced on 23 February, 2018 and was expected to end on 30 September, 2023 a duration of five (5) years which was later extended for two (2) years up to 30 September, 2025. However, the funding summary information as disclosed in paragraph 2.7(A) on sources of funds, reflects total Project funding amount of

Kshs.23,396,164,233 out of which an amount of Kshs.16,153,149,844 or 69% of total project funding had been drawn as at 30 June, 2025 leaving undrawn balance of Kshs.7,243,014,389 or 31% with only three (3) months left to the Project end date. The Project may end without full disbursement resulting to incomplete works or pending bills.

My opinion is not modified in respect of these matters.

Other Matter

1030. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on the Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Project in 2024/2025 revealed that the following six (6) issues remained unresolved:

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Failure to Settle Pending Bills
3.	Outstanding Disbursement of Donor and Counterpart Funds
4.	Nugatory Payment - Interest on Delayed Payments
5.	Unutilized Lorry Park on Lot 1 Road Project
6.	Delayed Completion of the Project

Other Information

1031. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1032. Delayed Project Implementation

Field inspection carried out on Kapchorwa-Saum-Kitale and Eldoret Bypass Project No.P-ZI-DBO-0183-KENHA ADB (New) in the month of October, 2025 revealed that the Project had several incomplete activities as listed below despite the fact that the Project period had expired and no evidence of period extension was provided for review.

i. Compensation for persons affected by the project was pending.

ii. Civil works, including concrete pavement for parking, partitions, and paint work for buildings, are incomplete.

iii. Electrical works at the market were incomplete.

iv. One-stop border post electrical works, including generator installation, high mast installation, data cable fitting, CCTV, and arrestors, were pending.

v. Road markings were incomplete in some sections.

vi. Pedestrian walkway construction was incomplete.

vii. Curb installation at the Kwanza junction was pending.

viii. Guardrails at bridges were incomplete.

ix. Incinerator installation was not done.

x. Two flameless glass doors were pending installation.

xi. Some locals had added their own bumps on the road, which could compromise safety.

Delayed Project completion denies public services that could have accrued from the completed project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1033. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1034. As required by the Financing Agreements No. P-ZI-DBO-183 between the Government of Kenya and African Development Bank (ADB) and African Development Fund, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

MOMBASA PORT AREA ROAD DEVELOPMENT PROJECT IDA LOAN NO.KE-P29 AND KE-P32 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1035. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1036. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.7,329,473,758 as disclosed in Note 10 and Annex 5 to the financial statements. Included in the balances and as disclosed in trade and other payables schedule of aging analysis is an amount of Kshs.3,354,268,481 and Kshs.529,725,397 totalling Kshs.3,883,993,877 payable to the National Land Commission Project Affected Persons (PAPs) and a consultant respectively which has been outstanding for more than three (3) years and which represents 53% of the trade and other payable balance. Management attributed this to inadequate budgetary allocations from the Government of Kenya (GoK) in both the current and previous financial years.

Failure to settle the pending bills on time may lead to loss of public funds through accrued penalties, interest costs and other administrative costs.

1037. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual on comparable basis on transfers to other Government entities amount of Kshs.1,962,977,571 and Kshs.2,505,690,864 respectively resulting to an overfunding of Kshs.542,713,293.

Further, the statement of comparison of budget and actual amounts reflects final budget and actual on comparable basis on GoK Counter Part Grants of Kshs.1,962,977,571 and Kshs.2,508,696,269 respectively resulting into an over expenditure of Kshs.545,718,698.

In addition, the printed estimates under supplementary III reflected approved budget amount of Kshs.537,500,000 for the Project's Package 2-Mwache-Tsunza–Mteza. However, review of documents revealed that the Project did not receive the amount in their bank account resulting to counterpart underfunding of Kshs.537,500,000.

The under-funding may negatively affect the planned activities of the Project.

My opinion is not modified in respect of these matters.

Other Matter

1038. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Report on Financial Statements, Other Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Project in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1.	Inaccuracies in the Financial Statements
2.	Budgetary Control and Performance

3.	Pending Bills
4.	Delay in Project Completion
5.	Unconfirmed Ownership and Value of Fixed Assets

Other Information

1039. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1040. Interest on Delayed Payments

The statement of financial position reflects property, plant and equipment balance of Kshs.50,582,534,311 and as disclosed in Note 9 to the financial statements. Included in the property, plant and equipment balance are road assets additions balance of Kshs.3,243,201,983. Review of interim payments certificate relating to the additions revealed that a construction company charged interest on delayed payments amounting to Kshs.559,309,410. Management attributed this to inadequate budgetary allocations from the Government of Kenya (GoK) in both the current and previous financial years which could have been avoided had Project Management made payments as and when they were due.

In the circumstances, the value for money for the amount charged on interest on delayed payments could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1041. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1042. As required by Financing Agreement No.KE-P29 and No.KE-P32 between the Republic of Kenya and Japan International Cooperation Agency (JICA) dated 2 June, 2012 and 4 July, 2017 respectively, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

MOMBASA-MARIAKANI HIGHWAY PROJECT (A109) ROAD LOT 1 (MOMBASA-KWA JOMVU) LOAN NO.2100150032743 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1043. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1044. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1.	Inaccuracies in the Financial Statements
2.	Budgetary Control and Performance
3.	Nugatory Project Expenditure
4.	Delayed Land Compensation
5.	Delayed Project Implementation and Completion

Other Information

1045. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1046. Avoidable Expenditure

The statement of financial position reflects trade and other payables balance of Kshs.1,252,810,786 as disclosed in Note 10 to the financial statement. Included in the trade and other payables balance is an amount of Kshs.772,198,851 in respect of cost claim arising from the extension of the contract period which was necessitated by delays in the acquisition of the Right of Way at the start of the Project as well as court injunctions that halted constructions works. The claim has remained outstanding since August, 2022. Further, by 6 June, 2025, the Contractor submitted claim update No.14, seeking additional costs linked to an extra two hundred and forty-four (244) days of extension, citing delayed events and site access constraints.

The unsettled cost claims expose the entity to significant financial and operational risks in form of additional interest charges, increased likelihood of costly litigations, and escalation of future claims by the contractor.

In the circumstances, value for money on the amount incurred could not be confirmed.

1047. Interest on Delayed Payments

Review of records revealed that interest on delayed payments to a Contractor amounted to Kshs.347,369,895, out of which an amount of Kshs.139,055,958 had already been paid resulting to unpaid interest balance of Kshs.208,583,937. The interests arose from delay in payment of Interim Payment Certificates (IPCs). Management attributed this to inadequate Government of Kenya budgetary provisions compounded by delays in Exchequer releases.

In the circumstances, value for money on interest paid due to delayed payments could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1048. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1049. As required by Financing Agreement No. 2100150032743 between the Republic of Kenya and Japan International Cooperation Agency dated 22 May, 2015, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project financial statements are in agreement with the accounting records and returns.

KENYA SOUTH SUDAN LINK ROAD PROJECT - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1050. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1051. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.761,312,169 and Kshs.505,576,922

resulting to an underfunding of Kshs.255,735,247 or 34% of the budget. However, the project spent an amount of Kshs.505,576,922 against actual receipts of Kshs.505,576,922 resulting to 100% utilization on the available funds.

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

1052. Low Absorption of Project Funds

The Project commenced on 24 April, 2017 and is expected to end on December, 2027. The Project has covered eight (8) years or 74% of Project period withdrawing an amount of Kshs.2,210,925,328 or 14% of the expected receipt (Kshs.16,023,794,143). Note 2.7(A) on page vi reflects undrawn amount of Kshs.13,812,868,815 with only two (2) years eight (8) months remaining to the Project closure. The credit may lapse without being fully utilized and the Project's planned deliverables not achieved.

My opinion is not modified in respect of these matters.

Other Matter

1053. Unresolved Prior Year Matters

In the audit report of 2023/2024, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources respectively as shown below. However, Management had not provided an explanation why the issues remained unresolved resolved.

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Failure to Settle Pending Bills
3.	Delayed Project implementation

Other Information

1054. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1055. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1056. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1057. As required by Financing Agreement between the Government of Kenya and KfW FRAKFURT AM MAIN (KfW), I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO (A1) ROAD REHABILITATION - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1058. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1059. Low Absorption of Project Funds

Note 2.7A to the financial statements on Funding Summary under Project Information and Overall Performance, reflects as source of fund an amount of Kshs.31,999,245,870 in respect of expected total funding. The amount comprised of an amount of USD 239,200,000 equivalent to Kshs.24,063,520,000 in relation to grant and loan from EU-AIFT and African Development Bank Loan, and Government of Kenya counterpart funding of Kshs.7,935,725,870.

The Project had received a total amount of Kshs.29,320,319,972 resulting to an undrawn balance of Kshs.2,678,926,898 or 8.4% of the expected funding. The Project completion is 30 June, 2026.

The Project may not achieve the planned activities and the public may be denied benefits which could accrue from the undrawn amount.

My opinion is not modified in respect of this matter.

Other Matter

1060. Unresolved Prior Year Matters

In the 2023/2024 audit report, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public resources. Review of the status during audit of the Project in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1.	Unsupported Land Compensation
2.	Interest on Delayed Payments
3.	Failure to Prepare Fixed Assets Register
4.	Non-Payment of Pending Bills
5.	Delay in Completion of Installation of Weighbridge Equipment at Rongo Station

Other Information

1061. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1062. Avoidable Expenditure - Interest on Delayed Payments

The statement of financial position and as disclosed in Note 11 to the financial statements reflects trade and other payables balance of Kshs.3,255,623,381. Included in the balance is an amount of Kshs.1,634,949,279 in respect to long outstanding payables some dating back to the year 2013. The long outstanding pending bills related to civil works interim payment certificates (IPCs) of two construction companies for works on Lot 1 which constituted interest charges on delayed payments amounting to Kshs.11,136,456 for IPC No.12 and Kshs.573,545,503 for IPC No.56, respectively totalling Kshs.584,681,959. Delayed settlement of payables attracted interests and penalties, and costs that could have been avoided had payments been made on time.

In the circumstances, the value for money and the effectiveness in use of public resources could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1063. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1064. As required by Financing Agreement No.2000130015238 between the International Development Association (EU-AIFT and AfDB) and the Republic of Kenya, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT LOAN NO.5150-KE – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1065. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1066. Long Outstanding Account Payables

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.2,472,242,309. The payables included an amount of Kshs.302,395,889 which has been outstanding for a long time some dating back to September, 2022.

Delayed settlement of the pending bills may result to loss of public funds due to accrued penalties and interest costs on long outstanding amounts. Further, failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

1067. Low Absorption of Project Funds

Paragraph 2.7 on Funding Summary indicates that the Project was for a six (6) year period and with total funding commitments amount of Kshs.22,098,145,300 and Kshs.29,862,488,597 from the development partner (Donor) and Government of Kenya (GOK) respectively, all totalling Kshs.51,960,633,897. However, the Project had drawn only an amount of Kshs.3,127,882,038 or 14% of the total donor funding as 30 June, 2025 compared to 100% project period lapse an indication of very low project funds absorption.

In the circumstances, the credit lapsed without being fully utilized and the Project's planned deliverables earmarked for completion had not been realized.

My opinion is not modified in respect of these matters.

Other Matter

1068. Unresolved Prior Year Matters

In the prior year audit report, three issues were raised under the Emphasis of Matter and Report on Report on Lawfulness and Effectiveness in Use of Public Resources. These include long outstanding pending bill, low absorption of Project funds and delayed Project implementation. Review of the status during audit of the Project in 2024/2025 revealed that the matters remained unresolved.

Other Information

1069. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1070. Delayed Project Implementation

Management entered into a contract between Kenya National Highways Authority and a contractor for rehabilitation and capacity enhancement of James Gichuru Road Junction to Rironi Highway (A104) at a cost of Kshs.16,366,586,563 (inclusive of taxes) for a period of thirty-six (36) months with a twelve (12) months defect liability period (DLP) commencing on 03 August, 2017 and original expected completion date was 03 August, 2021. The contract sum was later varied to a sum of Kshs.20,414,794,998 and the contract period extended several times by fifty-four (54) months to an expected completion date of 19 February, 2026. However, review of monthly progress report for June, 2025, revealed that works completed (physical progress) was at 78% against time elapsed of 94% indicating that the project implementation is behind schedule.

Field inspection carried out in September, 2025 revealed that the contractor was on site and major works were confirmed ongoing. However, the following unsatisfactory issues were noted; Major pending works on (service roads, street lighting and foot bridges), sustainability issues as the donor credit was terminated, poor coordination between County Government of Kiambu and the Authority whereby land marked for the road by the Authority is also targeted for construction of a level 3 hospital by the County Government at Gichuru Zambezi road encroachment by traders at Kangemi interchange.

In the circumstances, value for money obtained from the Project could not be confirmed.

1071. Delayed Payments to Persons Affected by the Project

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.2,472,242,309. Included in the payables is long outstanding balance of Kshs.85,485,483 relating to compensation of persons affected by implementation of the Project (PAPs). Delayed settlement of this amount contravenes Section 111 of the Land Act, 2012 which states that "If land is acquired compulsorily under this Act, just compensation shall be paid promptly in full to all persons whose interests in the land have been determined".

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

1072. Avoidable Interest Cost

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.2,472,242,309. The trade and other payables balance includes an amount of Kshs.555,004,119 in respect to interest on delayed settlement of pending bills amounting to Kshs.2,472,242,309. The claims on interest accrued on delayed payments could have been avoided if outstanding bills were settled when due.

Further, trade and other payables includes an amount of Kshs.582,691,256 in respect to Interim Certificate number 55 dated 05 March, 2025 resulting from foreign exchange loss due to exchange rate fluctuations over time and delayed implementation of the Project which resulted to increase of avoidable costs in form of interest and exchange loss thus denying the public benefits that could have accrued from the avoidable expenditure.

In the circumstances, value for money was not realized on the interest charge incurred.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1073. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1074. As required by International Development Association (IDA), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

REGIONAL MOMBASA PORT ACCESS ROAD (LOAN NO.(KFW):27459, GRANT NO.(KFW):202061919 AND CREDIT NO.(KFW):84010 PROJECT - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1075. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1076. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.170,879,638 as disclosed in Note 12 and Annex 4 to the financial statements. The payables balance includes supply of services, consultancy services, civil works and land compensation balances of Kshs.1,440,000, Kshs.7,491,494, Kshs.100,813,492 and Kshs.61,134,652 respectively, out of which Kshs.61,134,652 or 35% of the trade and other payables, payable to National Land Commission for compensation of Project Affected Persons (PAPs), has been outstanding for more than three (3) years. Management has attributed this to inadequate GoK budgetary provision and delayed

release of Exchequer funds. The Project is at risk of incurring additional cost inform of interest and penalties for failure to settle project related costs as and when they fall due.

1077. Low Absorption of Project Funds

Paragraph 2.7 on funding summary indicates that the original Project duration was fourty one (41) months from August, 2017 to December, 2025 (extended end date of 30 June, 2028). The statement of source funds indicates total Project cost/budget of EUR 155,292,639 equivalent to Kshs.18,147,062,948 out of which the total amount received to date was EUR 54,100,071 equivalent to Kshs.6,321,982,784 resulting to undrawn balance of EUR 101,192,568 equivalent to Kshs.11,825,080,164 or 65% of the total budget. The low absorption was primarily due to delays by service providers in the relocation of power lines, the initially low value of works executed at the start of the Project and abnormal rainfall experienced at the Project site during the year under review and the issue is still pending.

Further, considering the credit lapse period of June, 2028, the Project's planned deliverables may not be realized.

In addition, the printed estimates under supplementary III reflected approved budget amount of Kshs.18,750,000. However, review of the documents revealed that the Project did not receive the amount in their bank account resulting to delays in release of counterpart underfunding amounting to Kshs.18,750,000. This may have negatively affected the Project's planned activities.

My opinion is not modified in respect of these matters.

Other Matter

1078. Unresolved Prior Year Matter

In the audit report of the previous year, an issue on delayed project implementation was raised under the Emphasis of Matter. However, Management had not resolved the issue as at 30 June, 2025.

Other Information

1079. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1080. Delay in Project Implementation

The Government of Kenya (GoK) through its agency, the Kenya National Highway Authority (KeNHA) awarded the contract to a firm on 3 May, 2021, at a contract sum of Kshs.10,338,651,593. The notification to commence works was issued on 3 July, 2023 for a contract period of thirty (30) months with a completion date of 19 January, 2026. The Monthly Progress Report (MPR) for August, 2025, indicated that 68.78% of contract time

had elapsed. The contractor had achieved only 34.72% of physical progress based on the original contract sum of Kshs.10,338,651,593.

Further, according to the MPR report, key factors that are affecting the progress of the works include outstanding Interim Payment Certificates (IPC) balance of Kshs.754,261,063, delay in approval of design, delays in land compensation to Project-Affected Persons (PAPs) and slow relocation of utilities.

In the circumstances, the value for money may not be achieved due to the delay in Project implementation which could lead to increase in Project cost.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1081. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1082. As required by Financing Agreements No.27459, 202061919 and 84010 between the Republic of Kenya and Frankfurt am Main (KfW) dated 30 March, 2017, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

HORN OF AFRICA GATEWAY DEVELOPMENT (ISIOLO-MANDERA CORRIDOR: EL WAK - RHAMU ROAD UPGRADING) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1083. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1084. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amount of Kshs.100,967,408 and Kshs.28,175,758 respectively resulting to an under-funding of Kshs.72,791,650 or 72% of the budget.

Similarly, the Project spent Kshs.34,596,985 against actual receipts of Kshs.28,175,758 resulting to over-expenditure of Kshs.6,421,227.

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

1085. Low Absorption of Project Funds

Review of the financial statements and as disclosed in Note 2.2 on Project Information and Note 2.7 on Funding Summary, the Project period was for five (5) years from 9 May, 2022 to 30 June, 2027 at a funding commitment amounts of Kshs.23,537,367,000 and Kshs.678,429,990 from Development Partners (Donors) and Government of Kenya (GoK) respectively all totalling Kshs.24,215,796,990. However, the Project had drawn only an amount of Kshs.44,222,058 or 0.18% of the committed funds with time lapse of four (4) years or 60% as at 30 June, 2025. This was an indication of very low drawings against time taken.

In the circumstances, the credit may lapse without being fully utilized and the Project's planned deliverables may not be achieved.

My opinion is not modified in respect of these matters.

Other Matter

1086. Unresolved Prior Year Matters

In the prior year audit report, two issues were raised under the Emphasis of Matter and Other matter. These include budgetary control and performance and low absorption of Project funds. Review of the status during audit of the project in 2024/2025 revealed that the matters remained unresolved.

Other Information

1087. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1088. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1089. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1090. As required by the Financing Agreements Nos:2100150042744 and 21002500005152 between the Government of Kenya and the African Development Fund (ADF) and the African Development Bank (AfDB) respectively, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

KENYA NAIROBI WESTERN BYPASS PROJECT - CHINA EXIM BANK – KENYA NATIONAL HIGHWAY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1091. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1092. Undrawn Loan Balance

Review of the financial statements and as disclosed in Note 2.2 on Project Information and Note 2.7 on Funding Summary showed that the Project's period was for four (4) years from April 2019 to September 2023 and a funding commitment of Kshs.20,947,868,233 and Kshs.1,624,781,407 from Development Partners (Donors) and Government of Kenya (GoK) respectively all totalling Kshs.22,572,649,640. However, the Project had drawn an amount of Kshs.18,755,806,695 or 83% of the committed funds with time lapse at 100%. This is an indication that the Project closed with undrawn amount of Kshs.3,816,842,945.

In the circumstances, the credit lapsed without being fully utilized and the Project's planned deliverables may not have been achieved.

1093. Failure to Settle Pending Bills

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.734,186,484. However, this balance includes an amount of Kshs.561,353,679 in respect to unpaid compensation to Project Affected Persons by the contractor. The balance has been outstanding for long and the Management did not demonstrate efforts to settle the amount.

Failure to settle pending bills in the year they relate distorts the budget of the subsequent year as they constitute a first charge on that budget.

My opinion is not modified in respect of these matters.

Other Matter

1094. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following four (4) issues remained unresolved:

No.	Audit Issue
1.	Long Outstanding Pending Account Payables
2.	Lack of Project Closure Report
3.	Interest on Delayed Payments
4.	Delay in Completion of the Project

Other Information

1095. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1096. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1097. There were no material issues relating to effectiveness of internal controls, risk management and governance.

EASTERN AFRICA REGIONAL TRANSPORT, TRADE DEVELOPMENT FACILITATION PROJECTS IDA CR NO 5638-KE - KENYA NATIONAL HIGHWAY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1098. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1099. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.2,264,074,200 which as disclosed in Note 11 to the financial statements includes a balance of Kshs.2,229709,903 relating to payables that has been long outstanding.

Failure to settle pending bills when due may attract avoidable costs inform of interest and penalties charged.

1100. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,064,120,100 and Kshs.3,601,361,050 respectively resulting to an under-funding of Kshs.462,759,050 or 11% of the budget. Similarly, the Project spent Kshs.3,565,752,618 against actual receipts of Kshs.3,601,361,050 resulting to under absorption of Kshs.35,608,432.

The under-funding and under absorption may have affected the planned activities of the Project and impacted negatively on service delivery to the public.

1101. Low Absorption of Funds

The funding summary information in the financial statements under paragraph 2.7A - source of funds, reflects amount of Kshs.54,411,012,484 in respect of expected total funding of the Project. The amount comprised of a balance of Kshs.49,284,758,606 in relation loan from World Bank (IDA) and Kshs.5,125,410,913 in respect of Government of Kenya (GOK) counterpart funding. The amount received as at 30 June, 2025 was Kshs.48,504,886,948 and Kshs.4,749,435,727 from the donor and GOK respectively, resulting to an undrawn balance to date of Kshs.1,155,846,845 at the time of Project period end (29 December, 2024). This is an indication that the Project closed with undrawn amount. The credit lapsed without being fully utilized and the Project's planned deliverables may not have been achieved.

My opinion is not modified in respect of these matters.

Other Matter

1102. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Emphasis of Matter, and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following six (6) issues remained unresolved:

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Failure to Settle Pending Bills
3.	Delayed Counterpart Funding

No.	Audit Issue
4.	Undrawn Loan Balance
5.	Delayed Completion of Socio-Economic Infrastructure in Turkana and West Pokot Counties
6.	Delayed Payment to Contractors

Other Information

1103. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1104. Avoidable Expenditure-Interest on Delayed Payments

The Project Management contracted two construction firms to construct project's road works on two sections of Lokichar-Loichangamatak and Lodwar- Lokitaung along Eldoret-Nadapal road. Review of the interim payment certificates (IPCs) NOS.17, 28A,15B and 28A in respect of the two contractors revealed interest charged on delayed settlement the IPCs amounting to Kshs.70,026,609. The Project lost public resource inform of interest charge on long outstanding payables that could otherwise be avoided.

In the circumstances, effectiveness in use of public resources could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1105. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1106. As required by the Financing Agreement No.5638-KE between the Republic of Kenya and International Development Association (IDA), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

MOMBASA GATE BRIDGE CONSTRUCTION PROJECT - JICA LOAN NO. KE - P34 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1107. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1108. Low Absorption of Project Funds

As previously reported, Paragraph 2.7 of the funding summary indicates that the Project was to be implemented within seven (7) years from 5 December, 2019 with the targeted completion date of 30 June, 2027. The donor made a commitment of JPY 47,800,000,000 equivalent to Kshs.49,047,624,422. However, as at 30 June, 2025, with over five (5) years of the Project duration lapsed, only JPY 983,320,074 equivalent of Kshs.1,008,985,641 or 2% had been drawn leaving JPY 46,816,679,926 equivalent of Kshs.48,038,638,781 or 98% of Donor commitment undrawn.

The low absorption rate is primarily attributed to failure to secure the Right of Way (RoW) through compensation to Project Affected Persons (PAPs) and delay in approval of designs. The absorption rate of funds is slow, an indication that the project may not be completed within the remaining period.

My opinion is not modified in respect of this matter.

Other Matter

1109. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following four (4) issues remained unresolved:

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Slow Absorption of Project Funds
3.	Pending Accounts Payables
4.	Delayed Commencement of Project

Other Information

1110. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1111. Delayed Commencement of Project

Review of Project records revealed that the implementing agency had entered into a contract for the provision of project consultancy services on 31 August, 2021 at a contract sum of USD 36,579,745 (JPY 2,270,091,056). The scope of the consultancy, was to assist in preparation of tender documents, construction supervision, facilitation of implementation of environmental and social monitoring plan and transfer of technology. As at 30 June, 2025, the consultant had been paid advance payments amounting to Kshs.1,008,985,641 from donor commitments while an amount of Kshs.23,104,358 under the GoK counterpart funds, had been utilized on procurement of goods and services all amounting to a cumulative expenditure of Kshs.1,032,089,999. Despite the above payments, the Project has remained in the preparation phase for a period of over four (4) years.

The delay in Project commencement is a result of failure to secure the Right of Way (RoW) through compensation to Project Affected Persons (PAPs) and delay in approval of designs.

In the circumstances, the value for money for the amount paid to the consultant could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1112. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1113. As required by Financing Agreement No. KE-P34 between the Republic of Kenya and Japan International Cooperation Agency dated 5 December, 2019, I report based on my audit, that 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. Further, In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project financial statements are in agreement with the accounting records and returns.

BAGAMOYO-HORO HORO-LUNGA LUNGA MALINDI ROAD PROJECT PHASE 1 PROJECT ID NO. P-Z1-DBO-129 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1114. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1115. Under Absorption on Proceeds from Foreign Borrowing

The statement of comparison of budget and actual amounts reflects total final receipt budget and actual receipts on proceeds from foreign borrowings amounting to Kshs.5,276,048,341 and Kshs.4,708,746,010 respectively resulting to under absorption of Kshs.567,302,331 or 11% of the budget on proceeds from foreign borrowings.

The under absorption affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

1116. Unresolved Prior Year Matters

In the prior year audit report, two issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. These include undisbursed receipts and slow Project implementation. Review of the status during audit of the Project in 2024/2025 revealed that the matters remained unresolved.

Other Information

1117. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1118. Interest on Delayed Payments

The statement of financial position reflects property, plant and equipment balance of Kshs.16,798,066,768 which, as disclosed in Note 10 to the financial statements, includes additions to work in progress of Kshs.4,324,659,685. The work in progress balance includes interest on delayed payments of Kshs.10,943,947 which could have been avoided.

In the circumstances, the value for money on interest charged on delayed payments could not be confirmed.

1119. Delays in Project Implementation

1119.1. Construction of Mombasa-Mtwapa (A7) Road Section - Lot 1

The contract agreement for Bagamoyo - HoroHoro - Lunga Lunga - Malindi Road Project - Lot 1, was signed on 18 March, 2022 at a contract sum of Kshs.7,590,747,593 with a commencement date of 17 November, 2022 and a completion date of 01 November, 2025, for a period of one thousand and eighty (1080) days. The Monthly Progress Report (MPR) No.34 for June, 2025, indicated that the amount certified and paid to date was Kshs.4,244,222,480 or 55% of the contract sum which included interim payment certificate (IPC) No.1 on advance payments to IPC No. 18. Time elapsed was nine hundred and fifty-six (956) days. The contractor had achieved an overall permanent works progress of 42% against the planned progress of 90% with an elapsed time of 88% of the contract period.

According to the MPR report, key factors that were affecting the progress of the works include delay in relocation of existing, delay in land acquisition and compensation of Project Affected Persons (PAPs) which is necessary for the removal of obstructions and land acquisition within the Right of Way (RoW) along the Project Road sections.

In the circumstances, the Project may attract penalties from delay in implementation of the Project which would lead to avoidable expenditure.

1119.2. Construction of Mtwapa-Kwa Kadzengo-Kilifi Section: Lot 2

The contract agreement for Mtwapa-Kwa Kadzengo-Kilifi Section - Lot 2, was signed on 05 November, 2021 at a contract sum of Kshs.7,546,323,677 with a commencement date of 21 December, 2021. The contract was for one thousand four hundred and forty-five days (1,445) days from 21 December, 2021 to 05 December, 2025 which was later extended for additional four hundred and fifty-one (451) days up to 01 March, 2027.

The Monthly Progress Report (MPR) No.43 for June, 2025 revealed that the amount certified and paid to date was Kshs.7,211,211,611 or 96% of the contract sum which included interim payment certificate (IPC) No.1 on advance payments to IPC No.22. The time elapsed was one thousand two hundred eighty-seven (1,287) days. The contractor had achieved a physical progress of 68%.

According to the MPR report, key factors that are affecting the progress of the works include; delay in clearance of vegetation and design change at the new Mtwapa Bridge, delay in relocation of power lines, delay in land acquisition and compensation of PAPs and relocation of power lines.

Further, physical inspection carried out in October, 2025 revealed that the Project had stalled and the contractor and the consultant were not on site. The Project had been suspended from 15 September, 2025 due to suspension of the services of the supervision

consultant. This is due to delayed extension of their services which is awaiting issuance of No Objection from the Development Partner.

In the circumstances, the Project may attract penalties from delay in Project implementation which would lead to avoidable expenditure.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1120. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1121. As required by Financing Agreements No.2000200004662, 2100150042250 and 5110155000755 between the Republic of Kenya and African Development Bank (AfDB), African Development Fund (ADF) and European Union dated 10 June, 2020, 10 June, 2020 and 25 November, 2023 respectively, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project financial statements are in agreement with the accounting records and returns.

MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT (I) LOAN NO.KE-P35 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1122. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1123. Unresolved Prior Year Matters

In the prior year audit report, one issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. This includes delayed Project implementation. Review of the status during audit of the Project in 2024/2025 revealed that the matter remained unresolved.

Other Information

1124. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1125. Delayed Project Commencement/Implementation

Paragraph 2.7 of the funding summary indicates that the Project was to be implemented within nine (9) years from 27 February, 2020 with the targeted completion date of 27 February, 2029. The donor made a commitment of JPY 37,090,000,000 equivalent to Kshs.33,887,278,500. However, as at 30 June, 2025, with over five (5) years of the Project duration lapsed, only JPY 80,965,260 equivalent of Kshs.73,973,910 or 0.2% had been drawn leaving JPY 37,009,034,740 equivalent of Kshs.33,813,304,590 or 99.8% of Donor commitment undrawn.

The procurement for the works had been completed and awarded to a Japanese Corporation who was the single bidder but the contract has not been signed due to delay in clearance by the Attorney General, The National Treasury and JICA in respect to the financial clauses in the contract.

In the circumstances, the Project's duration is elapsing and the value for money may not be achieved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1126. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1127. As required by Financing Agreement No. KE-P35 between the Republic of Kenya and Japan International Cooperation Agency dated 27 February, 2020, I report based on my audit, that 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. Further, in my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT LOAN NO.6768-KE – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1128. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1129. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.5,996,000,000 and Kshs.7,373,235,480 respectively resulting to over-funding of Kshs.1,377,235,480 or 23% of the budget. However, the Project spent Kshs.6,744,037,247 against actual receipt amount of Kshs.7,373,235,480 resulting to underperformance of Kshs.629,198,232.

The underperformance affected the planned activities of the project and impacted negatively on service delivery to the public.

1130. Low Project Uptake

As disclosed in Paragraph 2.7 on Funding Summary review of the financial statements revealed that the Project period was eight (8) years with funding commitments of balance of Kshs.73,232,977,110, Kshs.6,000,000,000 and Kshs.39,000,000 from International Development Bank (Donor), Government of Kenya (GOK) and Road Maintenance Levy Fund respectively, all totalling Kshs.79,271,977,110. The Project had drawn an amount of Kshs.18,250,667,657 or 23% of the total funding as at 30 June, 2025 compared to 62% Project period lapse an indication that the Project was behind schedule. Further, an amount of Kshs.629,198,232 of the drawn amount had not been utilized as at 30 June, 2025. As a result, the Project may not achieve its objectives and the public may not have obtain services expected to accrue from the completed Project.

My opinion is not modified in respect of these matters.

Other Matter

1131. Unresolved Prior Year Matters

In the prior year audit report, one issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. This issue was on delayed Project implementation. Review of the status during audit of the Project in the 2024/2025 revealed the matter remained unresolved.

Other Information

1132. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1133. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1134. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1135. As required by the Financing Agreement No. Loan ID 6768-KE between the Government of Kenya and the International Development Association (IDA), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

SAMATAR-WAJIR ROAD PROJECT-BADEA GRANT/CREDIT NO.13451P, 13/779 AND 995 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1136. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1137. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.68,000,000 and Kshs.12,500,000 respectively resulting to an under-funding of Kshs.55,500,000 or 82% of the budget. Similarly, the Project spent Kshs.3,653,018 against actual receipts of Kshs.12,500,000 resulting to under-performance of Kshs.8,846,982 or 71% of the actual receipts.

The underfunding and under-performance affected the planned activities of the project and may have impacted negatively on service delivery to the public.

1138. Low Absorption of Project Funds

Note 2.2 on project information to the financial statements showed that the project implementation duration was four (4) years from 07 June, 2021 to 15 December, 2025. However, as at 30 June, 2025, the project was still in the procurement stage, despite the fact that the Project's completion period is only three (3) months away. No approval by Addendum for Extension of Time (EoT) was provided for audit review.

Further, paragraph 2.7 A on source of funds reflects amount of Kshs.8,950,570,600 in respect of the expected total funding for the Project. The amount comprised of Kshs.8,497,650,160 from Development Partners and Kshs.452,920,440 from Government of Kenya (Counterpart Funding). However, review of the project bank records revealed that the Project had only received amount of Kshs.12,500,000 from GOK and utilized Kshs.3,653,018 at closure of the year under review. The Project period may lapse before full utilization of the project credit and the Project may not achieve planned deliverables.

My opinion is not modified in respect of these matters.

Other Matter

1139. Unresolved Prior Year Matters

In the audit report of the previous year, one issue each was raised under the Emphasis of Matter on budget and budgetary control and the Report on Lawfulness and Effectiveness in Use of Public Resources on delay in implementation of projects respectively. However, Management had not provided an explanation why the issues remained unresolved.

Other Information

1140. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1141. Non-Compliance with The Public Sector Accounting Standards Board (IPSASB) Presentation Template

Review of the statement of comparison of budget and actual amounts revealed differences in excess of 10% between budgeted amounts and actual amount. However, differences were not explained inform of notes required by IPSASB template as analyzed below;

Item	Final Budget Amount (Kshs.)	Actual Amount (Kshs.)	Difference (Kshs.)	Percentage (%) Underperformance
Revenue Transfers from GOK	17,500,000	0	17,500,000	100%
Revenue Transfers - direct	38,000,000	0	38,000,000	100%
Use of Goods	68,000,000	3,653,018	64,346,982	95%

In the circumstances, Management did not comply with the financial statement presentation template.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1142. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1143. As required by Financing Agreement Nos.13451P, 13/779 and 995 between the Government of Kenya and the OPEC Fund for International Development, Saudi Fund for Development, Arab Bank for Economic Development in Africa and Kuwait Fund for Arab Economic Development, I report based on my audit, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

KENYA-SOUTH SUDAN ROAD CORRIDOR, LESSERU-KITALE AND MORPUS-LOKICHAR ROAD UPGRADING PROJECT - PHASE I-AFDB LOAN NO. 2000200005805 AND NO. 2100150043496-PROJECT ID NO. P-ZI-DBO-246 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1144. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

1145. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1146. Delayed Commencement of the Project

The statement of source of funds in the other information in the financial statements indicates that the Project is for a duration of 3.2 years from 14 November, 2024 to 31 January, 2028 with an approved loan of EUR 120,520,000 equivalent to Kshs.18,276,858,000 financed by African Development Bank, UA 56,000,000 equivalent

to Kshs.9,819,236,000 by African Development Fund and Kshs.3,984,930,000 by Government of Kenya as counterpart funds all totalling to Kshs.32,081,024,000.

Further, Section 7.01 of the Project Financing Agreement on procurement of all goods, works, non-consulting services and consulting services required for implementation of the Project and to be financed out of proceeds of the loan shall be procured in accordance with the provisions of the Procurement Framework and the Procurement Plan for the Project set forth in Schedule III (Procurement Plan) of this agreement, which may be amended from time to time in accordance with Section 7.03 (Procurement Plan) of this Agreement.

Review of Schedule III of the Project Financing Agreement and the Revised Procurement Plan of the Project indicates that the initial stage of the procurement process for the project which is bid invitation for Lot 1 Lesseru-Kitale was to be done on 06 June, 2025. However, review of the updated Project status report on the scheduled activities revealed that the invitation for bid for Lot 1 was done on 05 August, 2025 which shows a delay of two (2) Months against the updated Procurement Plan. Management attributed this to Donor consideration to incorporate the new design manuals which were launched in June, 2025.

In the circumstances, delay in the commencement of the Project may affect service delivery to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1147. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1148. As required by Financing Agreement No. 2000200005805 and No.2100150043496 between the Republic of Kenya and African Development Bank (AfDB) dated 14 November, 2024, I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

CONSTRUCTION OF LOT 2: TOT JUNCTION-CHESEGON-KOPASI RIVER, CDB, CREDIT NO. 8136202401100000041 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1149. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

1150. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1151. Delayed Commencement of the Project

The Loan Agreement was entered on 06 September, 2024 between the Republic of Kenya and the China Development Bank. The Project is for a duration of three (3) years from 14 November, 2024 to 31 January, 2028 with an approved loan of CNY 255,961,205 equivalent to Kshs.4,657,239,730 financed by China Development Bank and Government of Kenya counterpart funds of Kshs.1,120,608,439 all totalling to Kshs.5,777,848,170.

Paragraph 2.7 on funding summary and the statement of sources of funds indicates that the total Development Partner Commitment of Kshs.4,657,239,730 and Government of Kenya Counterpart Funds of Kshs.1,120,608,439 remained undrawn as at the time of audit in October, 2025 almost eleven (11) months after the intended commencement date.

In the circumstances, the value for money on the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1152. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1153. As required by Financing Agreement No. 8136202401100000041 between the Republic of Kenya and China Development Bank dated 6 September, 2024, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so

far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

THE ESTABLISHMENT OF BUS RAPID TRANSIT LINE 5 PROJECT (EDCF LOAN AGREEMENT NO. KEN-5) - KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1154. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1155. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.176,500,000 and Kshs.58,881,923 respectively resulting to an under-funding of Kshs.117,618,077 or 67% of the budget.

Similarly, the Project expended an amount Kshs.58,881,923 against an approved budget of Kshs.176,500,000 resulting to an under-expenditure of Kshs.117,618,077 or 67% of the budget.

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

My opinion is not modified on the effect of this matter.

Other Matter

1156. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under Emphasis of Matter and in the Report on Lawfulness and Effectiveness in Use of Public Resources sections. The issues which were on budgetary control and performance, accounts payable (pending bills), unresolved prior year matters and delayed commencement of works remained unresolved contrary to the provisions of Section 149(2)(l) of the Public Finance Management Act, 2012 which require the Accounting Officers designated to try to resolve any issues resulting from an audit that remain outstanding.

Other Information

1157. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1158. Delayed Commencement of Works

The statement of financial position and as disclosed in Note 9 to the financial statements reflects cumulative expenditure balance of Kshs.379,461,284 in respect of acquisition of non-current assets which relates to design, review and supervision of works. The Project was for a duration of three and a half years from June, 2022 to December, 2025 with an approved budget/loan from the donor of USD 59,000,000 equivalent to Kshs.6,498,501,900. However, as at 30 June, 2025, only an amount of Kshs.379,461,284 or 5.8% of the Development Partner's commitment of Kshs.6,498,501,900 had been drawn and the Project was still at procurement stage.

The low absorption of the Development Partner's loan budget was attributed to failure to commence the works component. Further, project costs may escalate due to prolonged project duration.

Delayed project implementation impacted negatively service delivery to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1159. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NAIROBI OUTERING ROAD IMPROVEMENT PROJECT (AFDB) - KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

1160. Unmodified Opinion

There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1161. Long Outstanding Pending Accounts Payables

The statement of financial position and as disclosed in Note 10 to the financial statements reflects an amount of Kshs.695,093,569 in respect of accounts payables. Included in the balance are amounts of Kshs.694,569,169 and Kshs.524,400 in respect of construction of civil works and consultancy services, respectively. Although the statement of financial position showed a decrease in payables from Kshs.846,198,623 by an amount of

Kshs.151,105,054, the balance of Kshs.695,093,569 has been outstanding for a long time and the Project is at risk of incurring additional costs in form of interest and penalties due to failure to settle Project costs a when due.

1162. Lack of Project Closure Report

Paragraph 2.2 on Project Information in the financial statements indicates that the Project start date was 17 September, 2014 and was set to lapse on 30 September, 2019. The completion date was revised to 25 April, 2020 which had also lapsed.

Further, Paragraph 2.7A on Funding Summary (Source of Funds) indicates that the Project had an approved budget of UA 560,000 equivalent to Kshs.79,600,000 to be financed by African Development Bank as a Grant and UA 77,040,000 equivalent to Kshs.11,030,000,000 to be financed by the African Development Bank as a loan while an amount of UA 54,299,805 equivalent to Kshs.7,718,129,549 was to be financed as counterpart fundings by the Government of Kenya. The paragraph further indicated that the project period lapsed with undrawn amounts of Kshs.681,697 and Kshs.187,342 totalling to Kshs.869,039 from Africa Development Bank grants and loan respectively.

In addition, Paragraph 2.8 on Summary of Overall Project indicates that all the components of the Project were completed in the financial year ended 30 June, 2021 and the overall progress was at 100%. However, the Project closure report was not provided for audit. Management did not provide an explanation for the failure to close the Project, over three (4) years after the completion date.

1163. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.46,250,000 and Kshs.151,105,054 respectively, resulting to an over-funding of Kshs.104,855,054 or 227% of the final budget.

My opinion is not modified in respect of these matters.

Other Matter

1164. Unresolved Prior Year Matters

In the prior year audit report, two (2) issues were raised under the Emphasis of Matter. These include long outstanding pending accounts payable and lack of project closure report. Review of the status during the audit of the Project in 2024/2025 revealed that the issues remained unresolved.

Other Information

1165. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1166. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1167. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1168. As required by the Financing Agreement No.2100150030144 between the Republic of Kenya and the African Development Fund, I report, based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

NAIROBI INTELLIGENT TRANSPORTATION SYSTEM ESTABLISHMENT AND JUNCTIONS IMPROVEMENT PROJECT PHASE I (EDCF LOAN AGREEMENT NO. KEN-6) – KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1169. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

1170. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1171. Delayed Commencement of Works

As previously reported, the Nairobi Intelligent Transportation System Establishment and Junctions Improvement Project was for a duration of four (4) years from 17 May, 2022 to

17 May, 2026 with an approved budget/loan amount of USD 61,000,000 equivalent to Kshs.6,718,790,100. During the year under review, an advance payment of USD 11,088,840 equivalent to Kshs.1,438,852,394 or 20% of the contract sum was disbursed to the lead contractor on 15 January, 2025 in line with the contractual terms. Despite the substantial advance payment made to the contractor, the project had not progressed beyond the design stage and the contractor had not mobilized to site.

Further, an amount of Kshs.257,915,594 had been paid to a consultancy company against a contract sum of Kshs.719,426,197 resulting to outstanding balance of Kshs.461,831,187 or 64.10% of the contract sum. However, review of the monthly progress reports, revealed that the consultancy company was contracted on 5 May, 2022, with an initial completion date set for 8 April, 2025. Although the consultancy period was extended to 31 July, 2027, an additional of twenty-seven (27) months were granted to accommodate implementation delays, as the time of audit the Project was yet to be started.

In addition, the implementation schedule for the basic design and construction phase, as per the contract was planned from 31 January, 2025 to 31 July, 2027, comprising a 30-month period followed by a 24-month operations and maintenance phase. A letter from consultant to the contractor reference number Cheil /25/KE/CS1/036 dated 31 July, 2025 revealed delays due to lack of a qualified Project Manager, poor design execution due to inaccurate survey data, failure to submit the method of construction, lack of traffic management plan and safety plan. Although, the consultant instructed the contractor to take immediate corrective actions, including appointing a qualified Project Manager, submitting an updated work program and accurate survey data and also providing relocation list as at the time of audit inspection in the month of August, 2025, there was no evidence of compliance with the directives.

In the circumstances, delayed Project implementation has negatively impacted on service delivery to the public and value for money incurred could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1172. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1173. As required by Financing Agreement EDCF Loan Agreement No. KEN-6 dated 29 January, 2021 between the Republic of Kenya and the Export-Import Bank of Korea, I report, based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

DESIGN, SUPPLY AND TURNKEY CONSTRUCTION OF NGONG ROAD/NAIVASHA ROAD (JUNCTION MALL) JUNCTION FLYOVER AT NGONG ROAD, NAIROBI - KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1174. There were no material issues noted during the audit of the financial statements of the Program.

Other Information

1175. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1176. Non-Compliance With the National Construction Authority Act, 2011

Review of Project records revealed that the contract for the design, supply and construction of Ngong Road/Naivasha Road (Junction Mall) Junction Flyover at Ngong Road was awarded and signed on 23 January, 2023 to a foreign limited company for a contract period of thirty-six (36) months. The commencement date and end date was from 19 July, 2024 to 18 July, 2027. However, the award was not supported by the Company's valid license from National Construction Authority (NCA). This contravened Section 18(3) of National Construction Authority Act, 2011, which provides that foreign contractor shall register with the National Construction Authority to be entitled to undertake work for time prescribed by the Board and on the expiry of the period the firm shall cease to be so registered and the validity of the license.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1177. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SUPPORT TO ROADS SECTOR POLICY:10TH EDF RURAL ROADS REHAHIBILITATION PROJECT IN KENYA CREDIT NO.KE/FED/023-571 – KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1178. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1179. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1.	Funding Summary
2.	Inaccuracies in the Statement of Cash Flows
3.	Unconfirmed Proceeds from Foreign Grants
4.	Presentation of the Financial Statements
5.	Delays in Project Implementation
5.1	Construction of Chuka-Kaanwa Road
5.2	Construction of Kaanwa-Wakathite Road

Other Information

1180. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1181. Delay in Completion of Project

Paragraph 2.2 on Project Information indicates that the Project start date was 10 September, 2012 and the Project end date was 9 September, 2025 with an approved budget of EUR 20,000,000 equivalents to Kshs.2,161,800,000. This consists of donor partner commitment of EUR 14,850,000 equivalent to Kshs.1,605,136,500 and Government of Kenya (GoK) counterpart funds of EUR 5,150,000 equivalent to Kshs.556,663,500. The total amount received to date from the Donor is Kshs.2,229,131,140 and GoK counterpart funds of Kshs.896,578,969 resulting to

undrawn donor balance of Kshs.658,045,754 and over drawn counterpart funds of Kshs.339,915,469.

Further, Paragraph 2.7 on Funding Summary and Clause 5.2 of Article 5 of the Financing Agreement indicates that the duration of the Project was twelve (12) years. However, as at October, 2025, the Project had not been completed.

In the circumstances, value for money on the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1182. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1183. As required by Financing Agreement No. KE/FED/023-571 between the Republic of Kenya and European Commission dated 10 September, 2012, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

IMPROVEMENT OF RURAL ROADS AND MARKET INFRASTRUCTURE IN WESTERN KENYA KFW CREDIT NO.200765123 – KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1184. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1185. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue and total payments on actual on comparable basis of Kshs.70,168,816 and Kshs.40,618,927 respectively resulting to revenue under-utilization of Kshs.29,549,889 or 42% of revenue.

The under-utilization affected the planned activities of the Project and may have affected the service delivery to the public.

1186. Long Outstanding Retentions and Deposits Refund

The statement of financial performance reflects third party deposits balance of Kshs.2,322,758. Review of the retention payments documents revealed that the contractors' retentions payments had been delayed for over three (3) years and there were no outstanding contractual obligations with the contractor. This could lead to litigation and penalties on unremitted retentions.

1187. Project Closure Report

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of seven (7) years from 1 August, 2012 to 2019 and a three (3) year extension was granted extending the Project period to 31 December, 2022. The Project had an approved Development Partner Commitment budget of EUR 7,500,000 equivalent to Kshs.750,000,000 and Government of Kenya counterpart funds of Kshs.470,000,000 totalling Kshs.1,220,000,000. However, the total Donor Commitment received amounted to Kshs.845,268,295 and GoK Counterpart and miscellaneous receipts of Kshs.712,315,413 and Kshs.17,394,945 respectively totalling Kshs.1,574,978,653 resulting to over-funding of Kshs.354,978,653.

Further, Paragraph 2.8 on summary of overall Project performance indicates that the Project have been undertaken for both batch 1 and batch 2. However, the Project closure report was not provided for audit. In addition, Management did not provide an explanation for failure to close the project.

My opinion is not modified in respect of these matters.

Other Matter

1188. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following four (4) issues remained unresolved:

No.	Audit Issue
1.	Inaccuracy in the Financial Statements
2.	Unsupported Overfunding of Counterpart Funds
3.	Budgetary Control and Performance
4.	Long Outstanding Retentions and Deposits Refund

Other Information

1189. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1190. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1191. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1192. As required by the Financing Agreement No. 200765123 between the Republic of Kenya and German Development Bank (KfW) dated 14 December, 2009, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

ROADS 2000 PHASE TWO-CENTRAL KENYA RURAL ROADS IMPROVEMENT AND MAINTENANCE PROJECT AFD LOAN NO. CKE 1046.01.J – KENYA RURAL ROADS AUTHORITY

Basis for Qualified Opinion

1193. Inaccuracies in Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts had no original, adjustments, final budget amounts and actuals on comparable basis. However, the statement financial performance reflects total revenue and payment amounts of Kshs.2,468,070 and Kshs.15,085,842 respectively.

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

Other Matter

1194. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Audit Issue
1.	Unsupported Prior Year Adjustment
2.	Inaccuracy in Accounts Payable
3.	Nugatory Expenditure on Accrued Interest
4.	Inaccuracy in Acquisition of Non-Financial Assets
5.	Unspent Project Funds
6.	Unbalanced Budget
7.	Presentation of the Financial Statements

Other Information

1195. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1196. Lack of Project Closure Report

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of twelve (12) years starting from 2007 and end in 2019 with an approved budget of EUR 74,000,000, equivalent to Kshs.7,400,000,000 financed by the Donor component while an amount of Kshs.2,240,000,000 was to be financed by the Government of Kenya (GoK) as counterpart funds. The statement of source of funds reflects undrawn balance of Kshs.1,228,407,090 as at 30 June, 2025 from the donor. The statement on Application of Funds reflects that as at 30 June, 2025, there was an unutilized balance of Kshs.192,396,897 from the donor.

Further, paragraph 2.8 on Summary of Overall Project Performance indicates that the Project had achieved its outputs and outcomes. However, the Project closure report was not provided for audit. This was contrary to Regulation 24 of the Public Finance Management (Public Investment Management) Regulations, 2022 which states that an Accounting Officer shall prepare a Project completion certificate and or a Project completion report confirming that the Project has delivered all the outputs as per the standards and specifications set out in the contract or Project implementation plan.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1197. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1198. As required by the Financing Agreement No. CKE 1046.01.J between the Republic of Kenya and Agence Francaise De Development (AFD) dated 2 July, 2010, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

UPGRADING OF GILGIL MACHINERY ROAD PROJECT BADEA LOAN - KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1199. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1200. Long Outstanding Trade and Other Payables

The statement of financial position and Note 12 to the financial statements reflect trade payables balance of Kshs.311,443,716 which was not settled in the year under review but instead was carried forward to 2025/2026 financial year. The balance includes an amount of Kshs.72,349,319 which had been outstanding for over of one (1) year and Management attributed this to inadequate budgetary allocation. The unsettled payables may result to increased Project costs through accrued interest and litigation leading to cost escalation and subsequent stalling of the Project.

My opinion is not modified in respect of this matter.

Other Matter

1201. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following four (4) issues remained unresolved:

No.	Audit Issue
1.	Irregular Charge of Interest on Delayed Payments
2.	Delay in Disbursement of Government Counterpart Funding
3.	Failure to Settle Pending Bills
4.	Delayed Completion of the Road Project

Other Information

1202. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1203. Payment of Interest on Delayed Payments

The statement of financial performance and Note 8 to the financial statements reflects certified works on road works balance of Kshs.264,895,866. The balance includes an amount of Kshs.20,727,964 which was interest paid as a result of delayed payments of various Interim Payment Certificates (IPCs). Management attributed this to inadequate budgetary allocation.

In the circumstances, there was no value for money on the amount of interest paid.

1204. Delayed Completion of Project

Review of Project documents revealed that Management entered into a contract with the contractor for upgrading to bitumen standard of Gilgil-Machinery Road at a contract sum of Kshs.1,476,491,036 on 6 February, 2019 for a period of twenty-four (24) months ending on 4 May, 2021. However, due to the delays in implementation of the Project, the employer awarded a fourteen (14) months extension of time to the contractor with the revised date of completion being 12 July, 2022. Upon expiry of the period, the contractor applied for further extension of time citing delay and default in payments of interim certificates. The revised date of completion was 30 July, 2024.

Further, review of Monthly Progress Report (MPR) No.73 of 30 June, 2025 revealed that the contractor suspended works from 8 August, 2023 to 12 March, 2024 citing delayed payments as the reason for suspension. As a result, a new project completion date was set for 31 December, 2024.

As at the time of audit in September, 2025, the completion of the project had been delayed by about seventy-four (74) months from the initial projected end date of 4 May, 2021. The Project was at overall physical progress of 99.96%.

In the circumstances, the value for money paid on the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1205. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1206. As required by Financing Agreement between the Republic of Kenya and Arab Bank for Economic Development in Africa (BADEA) dated 25 May, 2016, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

ASAL RURAL ROADS PROJECT CREDIT NO.CKE 117 01 H – KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1207. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1208. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipt budget and actual on comparable basis of Kshs.549,752,721 and Kshs.549,752,721 an indication that the performance was 100% of the budget. However, the Project spent an amount of Kshs.745,966,068 against actual receipts of Kshs.549,752,721 resulting to over-utilization of Kshs.196,213,347 or 36% of the total receipts. Further, annual work plan or itemized budget was not provided for audit.

My opinion is not modified in respect of this matter.

Other Information

1209. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1210. Delayed Road Projects

Physical inspection of road projects carried out between 15 and 19 September, 2025 in Isiolo, Meru and Tharaka Nithi revealed that contractors have abandoned the projects especially in Isiolo and Meru regions. This was due to delayed payment of work certified Interim Payment Certificates (IPCs) and some contractors had issued notices of penalties

on delayed payments. Further, contract period for these road works had already elapsed and Management had not awarded extension of time. Further, inspection of individual projects revealed the following anomalies:

1210.1. Isiolo Region

i) Labour Based Rehabilitation Improvement and Performance Based Routine Maintenance Works - Gotu-Merti (C340-01A) Road

The contract for the above works was awarded to a limited company through contract No. AFD/EU/IS/GR/01A/2023/2024 at a cost of Kshs.122,703,120 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 5 December, 2024 and was expected to be completed on 5 August, 2025. However, the progress report for the month of September, 2025 showed physical progress was at 67.63% and time elapse was 110.7% an indication that the works were behind schedule.

ii) Labour Based Rehabilitation Improvement and Performance Based Routine Maintenance Works Gotu-Merti (C340-01B) Road

The above road works contract was awarded to a limited company through contract No. AFD/EU/IS/GR/01B/2023/2024 at a cost of Kshs.106,787,725 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 5 December, 2024 and was expected to be completed on 5 August, 2025. However, the progress report for September, 2025 showed physical progress was at 60.85% and time elapse was 110.7% an indication that the works were behind schedule.

iii) Labour Based Rehabilitation Improvement and Performance Based Routine Maintenance Works Isiolo-Mlango-Oldonyiro (C342-02A) Road

The above road works contract was awarded to a company through contract no. AFD/EU/is/gr/02a/2023/2024 at a cost of Kshs.124,674,642 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 16 December, 2024 and was expected to be completed on 16 August, 2025. However, the progress report for September, 2025 showed progress was at 39.48% and time elapsed was 106.7% an indication that the works were behind schedule.

In addition, the value of work certified was Kshs.34,958,381 including an advance (IPC1) of Kshs.12,467,464 which was paid. However, during the field inspection on 15 September, 2025, there were no ongoing activities.

iv) Labour Based Rehabilitation Improvement and Performance Based Routine Maintenance Works Isiolo-Mlango-Oldonyiro (C342-02B) Road

The above road works was awarded to a company Limited through Contract No. AFD/EU/IS/GR/02B/2023/2024 at a cost of Kshs.108,992,230 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 5 December, 2024 and was expected to be completed on

5 August, 2025. However, the progress report of September 2025 showed physical progress was at 89.04% and time elapse was 110.7% an indication that the works were behind schedule.

In addition, the value of works certified was Kshs.51,362,377 including an advance (IPC1) of Kshs.10,899,223 out of which an amount of Kshs.40,463,154 had been paid. However, during the field verification on 16 September, 2025, there were no ongoing activities.

1210.2. Tharaka Nithi Region

i. Labour Based Rehabilitation, Improvement and Performance Based Routine Maintenance Works Marima-Makutano Road

The above road works was awarded to a Company Ltd through Contract No. AFD/EU/TN/GR/1/2023/24 at a cost of Kshs.66,767,678 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 9 December, 2024 and was expected to be completed on 9 August, 2025. However, the progress report for August 2025 showed physical progress was at 87% and time elapse was 114% of the contract period an indication that the works were behind schedule.

In addition, the value of work certified was Kshs.32,561,422 including an advance (IPC1) of Kshs.6,676,768 out of which an amount of Kshs.13,592,811 had been paid.

ii. Labour Based Rehabilitation, Improvement and Performance Based Routine Maintenance Works Materi-Kamarandi Road

The above road works was awarded to a company through Contract No. AFD/EU/TN/GR/2/2023/24 at a cost of Kshs.63,985,207 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 9 December, 2024 and was expected to be completed on 9 August, 2025. However, the progress report of August 2025 showed physical progress was at 96.79% and time elapse was 114% of the contract period an indication that the works were behind schedule.

In addition, the value of work certified was Kshs.31,334,792 including an advance (IPC1) of Kshs.6,398,521 out of which amount of Kshs.17,105,834 had been paid.

iii. Low Volume Sealing Based and Performance Based Routine Maintenance Works Itungururu-Kamaende Road

The above road works was awarded to a Construction company through contract No. AFD/EU/TN/LVS/2023/2024 at a cost of Kshs.233,413,365 for a period of twelve (12) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 5 December, 2024 and was expected to be completed on 5 December, 2025. However, the progress report for August, 2025 showed physical progress was at 23% and time elapse was 76% of the contract period an indication that the works were behind schedule.

In addition, the value of work certified was Kshs.79,031,077 including an advance (IPC1) of Kshs.23,341,337 out of which an amount of Kshs.22,342,420 had been paid. However,

the contractor had not been given full access of the site as part of the road was being claimed by Kenya Airport Authority. The road was to be diverted to alternative land stretching about 600 metres. However, the alternative land had not been acquired by the employer thus hampering the work progress.

1210.3. Meru Region

i) Low Volume Sealing Based and Performance Based Routine Maintenance Works Kachulu-Gotu (C346) Road

The above road works was awarded to a Construction company through Contract No. AFD/EU/ME/GR/1/2023/24 at a cost of Kshs.70,429,226 for a period of eight (8) months with a provision of maintenance period of thirty-six (36) months. The commencement date was 9 December, 2024 and was expected to be completed on 8 August, 2025. However, the progress report for August, 2025 showed physical progress was at 32% and time elapse was 85% of the contract period an indication that the works were behind schedule.

The value of work certified was Kshs.79,031,077 including an advance (IPC1) of Kshs.23,341,337 out of which an amount of Kshs.22,342,420 had been paid.

In the circumstances, delayed implementation of works denied public services that could have accrued from complete projects and value for money incurred on incomplete projects could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1211. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1212. As required by the Financing Agreement No. CKE 1117 01 H dated 02 October, 2020 between the Government of Kenya and the Francaise De Development (AFD), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA URBAN SUPPORT PROGRAM (KUSP2) - NYANDARUA COUNTY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1213. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1214. Budgetary Control and Performance

The statement of financial performance, as disclosed under Note 6, reflects revenue transfers in the form of Government of Kenya (GoK) counterpart funding amounting to Kshs.32,309,300. However, audit review established that the project did not receive the allocated funds within the 2024/2025 financial year. Instead, the funds were disbursed on 8 July, 2025, after the close of the financial year.

In the circumstances, the Project did not implement any of the planned project activities within the year under review.

My opinion is not modified in respect of this matter.

Other Information

1215. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1216. Late Submission of Financial Statements

Management of the Nyandarua County Kenya Urban Support Program II submitted the financial statements for the year ended 30 June 2025 to the Office of the Auditor-General on 8 October, 2025, instead of the submission deadline of 31 August, 2025, representing a delay of 38 days. No explanation was provided for the non-compliance with National Treasury guideline Paragraph 1.8 Ref: No:AG.3/88 Vol. VII (41) of 4 December, 2024 which directs all public sector entities, for both national and County Governments, to prepare and submit annual financial statements by 31 August, 2025 to office of the Auditor General with a copy to Controller of Budget, The National Treasury and Commission on Revenue Allocation.

In the circumstances, Management was in breach of The National Treasury Guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1217. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR TRANSPORT – VOTE 1092

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1218. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

1219. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.36,942,544. The balance includes an amount of Kshs.3,863,569 that has been outstanding for over one year. Further, the supporting ledgers revealed that the State Department for Transport payables increased from Kshs.3,863,569 (2023/2024) to Kshs.36,942,544 during the year under review an indication that goods and services supplied or rendered during the year amounting to Kshs.33,078,975 were not paid for.

Failure to settle payables within the year they relate distorts budget of the subsequent year as they form first charge. Further delayed, payment of pending bill may attract interest and penalties resulting to loss of public funds.

1220. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.48,036,177,529 and Kshs.42,256,582,325 respectively, resulting to an under-funding of Kshs.5,779,595,204 or 12% of the budget. Similarly, the Department spent an amount of Kshs.42,248,664,675 against actual receipt amount of Kshs.42,256,582,325 resulting to underutilization of Kshs.7,917,650.

The under-funding and underutilization affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters

Other Matter

1221. Unresolved Prior Year Matters

In the year 2023/2024 audit report, 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. Review of the status during audit of 2024/2025 financial statements revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1.	Long outstanding account payable
2.	Unlawful Forfeiture of leave days
3.	Non-compliance with Persons with Disability Act, 2003
4.	Unclaimed Assets-Third party deposits and retentions
5.	Delayed incompletion the Transport Data Centre

Other Information

1222. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1223. Unclaimed Refundable Deposits

As previously reported, the statement of financial position and as disclosed in Note 16 to the financial statements reflects a balance of Kshs.22,324,487 in respect to refundable deposits and prepayments. The balance includes an amount of Kshs.16,633,670 in respect of long outstanding deposits of Kshs.Kshs.14,633,699 and Kshs.2,000,000 in respect to Kenya Railways retirees and Ministry of Roads and Transport respectively. Further, the Kenya Railways retirees' deposit balance has been outstanding for long and had not been remitted to the Consolidated Fund. This was contrary to Regulation 106 of the Public Finance Management (National Government) Regulations, 2015 which states that unless otherwise exempted by an Act of Parliament, any deposit which has remained unclaimed for five (5) years may, with the approval of the Cabinet Secretary, be paid into Consolidated Fund and thereafter the Accountant-General may refund the deposit to any person entitled thereto, if he or she is satisfied that the claim is authentic. Similarly, the amounts could be surrendered to the Unclaimed Financial Assets Authority as provided under the Unclaimed Financial Assets Act, 2011.

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

1224. Non-Compliance with Disability Staffing Thresh Hold of 5%

Review of the staff establishment revealed that, out of one hundred and fifty (150) members of staff in post, only one officer or 0.6% was in the disability category. This was contrary to Section 4(f) of Persons with Disability Act, 2025 which stipulates that at least 5% of the work force to be persons with disability.

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

1225. Non-Compliance with One-Third Rule on Basic Salary

Review of the State Department staff payroll for the month of June, 2025, revealed five (5) employees whose salary deductions exceeded two-thirds (2/3) of the basic salary. This was contrary to Section 19(3) of the Employment Act, 2007 which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of

any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class employers or employees or any trade or industry. This may expose the staff to pecuniary embarrassment.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1226. Weak Internal Controls in Management of Assets

Review of the assets register, revealed that the State Department has twenty-four (24) motor vehicles in working condition, out of which twenty-two (22) were fully depreciated. However, the vehicles were operational and in good condition an indication that they still hold significant economic value. Management did not explain why these assets have not been revalued. Further, various asset items such as desks, chairs, and electronic equipment had not been tagged.

In addition, the entity's asset register lacked key information, including the date of purchase and cost of acquisition for several assets. This weakens the entity's ability to track and account for its assets.

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

DONOR FUNDED PROJECT

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1227. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1228. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted receipts of Kshs.330,000,000 against actual receipts of Kshs.321,476,018 resulting in under-funding of Kshs.8,863,824. However, the Project spent an amount

Kshs.264,382,303 against actual receipt amount of Kshs.321,476,018 resulting in an underperformance of Kshs.57,093,715 or 18% of the actual receipts.

The under-utilization affected the planned activities of the Project and impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

1229. Unresolved Prior Year Matters

In the prior year audit report, three issues were raised under the Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and in Report on the Effectiveness of Internal Controls, Risk Management and Governance. These include budgetary control and performance, lack of internal audit check and delayed Project implementation. Review of the status during audit of the Project in 2024/2025 revealed that the matters remained unresolved.

Other Information

1230. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1231. Failure to Inspect and Accept Sea Survival and Craft Equipment

During the year under review, the Project awarded a contract to a company to supply and deliver Sea Craft Equipment and Related Items. The procured assets were tax exempt and delivered to Railway Training Institute (RTI). The assets were received on 19 August, 2024 and invoice raised on 14 August, 2024. However, no evidence of inspection carried out on the goods was provide for audit. This was contrary section VII, Clause 5.1 (23) of the contract that requires the supplier to conduct inspection and report on all tests and inspections at their own cost, with the purchaser entitled to be present as witness. Failure to inspect goods and provide reports required, may result to quality and quantity of goods being compromised.

Further, Management did not provide evidence of semi-annual report sent to The National Treasury outlining the use of all materials, equipment, and services included in the approved tax exemption master list on goods exempted from tax. Further, no evidence was provided to determine whether Kenya Revenue Authority (KRA), acting on behalf of The National Treasury, conducted periodic audits to verify the proper use of exempted goods and services. This was contrary to The National Treasury Circular No. 9/2018 which requires an Accounting Officer to submit semi-annual report to The National Treasury outlining the use of all materials, equipment, and services included in the approved tax exemption master list and that KRA on behalf of The National Treasury to conduct periodic audits to verify the proper use of exempted goods and services.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1232. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1233. As required by Financing Agreement Credit No.6768-KE between the Government of Kenya and the International Development Agency (IDA, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR TRANSPORT

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NO.5140-KE) – KENYA RAILWAYS CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1234. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1235. Lack of Project Closure Report

As previously reported, Paragraph 2.2 on Project Information in the financial statements indicates that the Project start date was 26 December, 2012 and the Project end date was 31 December, 2018. Further, Paragraph 2.8 on Summary of Overall Project indicates that the Project was closed. However, the Project closure report was not provided for audit. Management did not provide an explanation for the failure to close the Project, over seven (7) years after the completion date.

My opinion is not modified in respect of this matter.

Other Information

1236. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1237. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1238. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1239. As required by International Development Agency (IDA), I report based on my audit that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

MULTINATIONAL LAKE VICTORIA MARITIME COMMUNICATION AND TRANSPORT PROJECT (P-Z1-GPB0-031) - KENYA MARITIME AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1240. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1241. Unresolved Prior Year Audit Matters

In the audit report of the previous financial year, several issues were raised under the Report on Financial Statements. However, Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

Other Information

1242. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES.

Basis for Conclusion

1243. Dormant Bank Balances

The statement of financial position and Note 17 to the financial statements reflects cash and cash equivalents balance of Kshs.61,403,989. However, review of the bank statements revealed that the bank balance has remained dormant and unutilized during the year under review except for bank charges amounting to Kshs.1,191. This was contrary to Regulation 83(2)(c) of Public Finance Management (National Government) Regulations, 2015 which requires accounting officers to ensure sound cash management through avoiding accumulation of idle balances.

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

1244. Undrawn Loan Balance

The African Development Fund issued notice of cancellation of the Project on 17 May, 2022, indicating that the undrawn loan as at the Project end date of April, 2022 was USD 2,193,569.74 (UA 1,555,723.23) or Kshs.263,184,409 equivalents. The undrawn balance had attracted a commitment charge of 0.5% or USD 10,967.85 (Kshs.1,315,923) as at the project end date. Consequently, Project Management was in violation of Section 3.03 of Financing Agreement between the Republic of Kenya and the African Development Fund providing that the borrower pays a commitment charge at the rate of 0.5% on the undisbursed portion of the loan which was to begin to accrue one hundred and twenty (120) days after the date of signing the agreement leading to loss of public funds and failure to achieve value for money on the expenditure of Kshs.1,315,922.

In the circumstances, Management was in breach of the law while value for money has not been realized on the commitment fees on the undrawn portion of the loan.

1245. Failure to Refund Funds Utilized without Bank Authorization

The African Development Fund vide a letter dated 17 May, 2022 required Kenya Maritime Authority to return Kshs.187,159 (UA 1,276.81) in which no objection by the bank was not granted for spending. However, as at 30 June, 2025, the amount was yet to be returned to the African Development Bank. This is contrary to the Bank (AFDB) Disbursement Handbook which required that when a project is closed, any balances remaining and any unjustified expenses to be returned to the Bank.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1246. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SAFE ROADS/USALAMA BARABARANI PROGRAMME - NATIONAL TRANSPORT AND SAFETY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1247. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1248. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.170,000,000 and Kshs.65,718,886 respectively resulting to an under-funding of Kshs.104,281,114 or 61% of the budget and which was not explained inform of Notes to the financial statements.

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

1249. Low Project Uptake of Funds

Section 2.7 on funding summary and the report on Project Information and Overall Performance, indicates that the project is for a duration of five (5) years and six (6) months from March, 2020 to August 2025 with an approved budget of EUR 5,375,000 equivalent to Kshs.754,171,625. As at 30 June, 2025, the Project time elapsed was or approximately 97%. However, it was noted that an amount of Kshs.549,436,287 approximately 73% had been drawn leaving an undrawn balance of Kshs.204,735,338 or 27% with two (2) months remaining to Project end time.

In the circumstances, the Project period may lapse before completion of the Programme thus impacting negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Matter

1250. Unresolved Prior Year Matters

In the audit report of the previous year, one issue of undrawn loan balance was raised under Emphasis of Matter. However, the Management has not provided an explanation why the issue has not been resolved as at 30 June, 2026.

Other Information

1251. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1252. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1253. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1254. As required by Financing Agreement No.KE/FED/037-778 dated 1 March, 2020, between the Government of Kenya and the International Development Association (European commission), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT - NATIONAL TRANSPORT AND SAFETY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1255. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1256. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of an amount of Kshs.560,000,000 and an amount of Kshs.355,973,108 respectively resulting to an under-funding of Kshs.204,026,893 or 36% of the budget. Similarly, the Project spent an amount of Kshs.414,257,393 against an actual amount of Kshs.355,973,108 resulting to over-expenditure amount of Kshs.58,284,286 or 26% of the budget.

My opinion is not modified in respect of this matter.

Other Matter

1257. Unresolved Prior Year Matters

In the prior year audit report, four issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. These includes undrawn loan balance and un utilized loans, counterpart underfunding, delayed Project implementation and failure to implement the approved project procurement plan. Review of the status during audit of the Project in 2024/2025 revealed that the matters remained unresolved.

Other Information

1258. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1259. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1260. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1261. As required by the Financing Agreement No P161305/6768KE between the Government of Kenya and the International Development Association (IDA), I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR SHIPPING AND MARITIME AFFAIRS – VOTE 1093

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1262. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

1263. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total expenditure budget of Kshs.3,493,335,194 comprising of recurrent and development expenditure of Kshs.3,470,335,194 and Kshs.23,000,000 respectively. However, analysis of the budget and actual expenditure revealed over-expenditure of Kshs.16,296,339 on ten (10) recurrent expenditure items under use of goods and services. Further, the State Department spent Kshs.11,618,050 on development expenditure against a budget of Kshs.23,000,000 resulting in under expenditure of Kshs.11,381,950 or 49% of the budget.

The underperformance affected the implementation of planned activities by the State Department and may have impacted negatively on service delivery to the citizens.

My opinion is not modified in respect of this matter.

Other Matter

1264. Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the State Department in 2024/2025 financial year revealed that matters on budgetary control and performance, outstanding pending bills, non-compliance with the one third of the basic salary rule and leave management remained unresolved.

Other Information

1265. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1266. Payment of Rent Without Valid Lease Agreement

The statement of financial performance and Note 9 to the financial statements reflects use of goods and services amount of Kshs.179,956,606 which includes Kshs.26,435,959 incurred on rental of produced assets. Review of the expenditure revealed rent payments for the State Department's offices at National Social Security Fund (NSSF) Annex building amounting to Kshs.8,285,079. However, the payments were not supported by an offer letter from the landlord, a letter of acceptance or formal lease of tenancy agreement. In addition, Management paid rent for an additional office in a different floor amounting to Kshs.18,150,879 without a valid lease agreement, as the existing lease for the office space had expired in February, 2023.

In the circumstances, the regularity of the payments of Kshs.26,435,959 made without a valid lease agreement could not be confirmed.

1267. Human Resource Management

1267.1. Non-Authentication of Academic Qualifications for Employees

Review of the Human Resource records revealed that Management was yet to undertake authentication of employees' academic and professional certificates. This was contrary to the Public Service Commission (PSC) Circular issued on 19 October, 2022, which required all Authorized Officers in Government institutions to undertake an audit of academic and professional certificates of their staff.

In the circumstances, Management was in breach of the Government Policies.

1267.2. Non-Compliance to One-Third Basic Salary Rule

Analysis of payroll data revealed that four (4) employees were paid a net salary that was less than one-third of their basic pay. This was contrary to Section 19(3) of the Employment Act, 2007 which stipulates that those deductions made from an employee's wages or salary at any one time shall not exceed two-thirds of such wages or salaries.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1268. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT – VOTE 1094

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1269. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

1270. Delay in Settling Confirmed Court Judgements and Arbitral Awards

Review of records revealed that the Attorney General recommended payment of an arbitral awards amounting to Ksh.165,980,055. However, the award had not been settled. Failure to settle awards could attract penalties.

My opinion is not modified in respect of this matter.

Other Matter

1271. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under the Report on Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Long Outstanding Pending Bills
3.	Non-Compliance with One-Third Rule on Basic Salary
4.	Stalled Construction of Economic Stimulus Programme Markets
5.	Other Receipts
6.	Lack of Ownership Documents
7.	Failure to Close Dormant Bank Accounts

Other Information

1272. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1273. Non-Compliance with One Third Basic Salary Rule

Review of the Payroll for State Department revealed that during the year, the following number of employees earned salaries below the recommended one third of their basic salary as shown below;

	2024						2025					
Month	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan	Feb	March	April	May	June
No of Officers	32	31	12	57	50	0	40	41	40	46	46	39

This was contrary to Section 19(3) of the Employment Act, 2007 which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1274. Lack of an Updated Asset Register

The statement of financial position and Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.3,047,924. The balance is in respect of additional assets purchased during the year. However, Management did not provide for audit, the assets register to demonstrate how the assets additions have been taken on charge.

In the circumstances, the custody and safety of the assets could not be confirmed.

1275. Unremitted Rent Revenue

Review of revenue records and by products (payroll on rent deductions) indicated that the State Department expected to receive rent totalling Kshs.863,491,932. However, the financial statements reflect an amount of Kshs.839,866,482 resulting to unremitted rent collections of Kshs.23,625,450.

The under collection of rent impacted negatively on the State Department's operations in maintenance and refurbishment of Government houses.

DONOR FUNDED PROJECTS

SECOND KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT IDA CREDIT NO.6759 AND AFD CREDIT NO. CKE 118801S

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1276. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1277. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue final budget and actual on comparable basis amount of Kshs.11,148,162,028 and Kshs.10,969,759,697 respectively resulting to budget funding of 98%. However, the statement reflects expenditure of Kshs.10,493,995,378 resulting to budget under-utilization of Kshs.475,764,319 of the receipts. The Management explained that under-absorption was due to late procurement of consultancies under AFD loan and grant.

My opinion is not modified in respect of this matter.

Other Matter

1278. Unresolved Prior Year Matters

In the prior year audit report, one issue on failure to transfer funds to Project special purpose account was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the matter remained unresolved.

Other Information

1279. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1280. Failure to Transfer Project Funds from County Revenue Fund to Projects Special Purpose Account

The statement of financial performance reflects transfer to other Government Entities of Kshs.7,489,098,310. The funds were transferred and received in the respective County Governments County Revenue Fund (CRF) Accounts as disclosed in Note 11 to the financial statements. However, it was noted that three (3) County Governments namely Kiambu, Nairobi and Taita Taveta did not transfer funds of Kshs.264,543,092,

Kshs.260,000,000 and Kshs.26,321,755, respectively all amounting to Kshs.550,864,847 to the Project's Special Purpose Accounts.

However, Management stated that the failure was occasioned by late signing of the County Government Additional Allocation Act, 2025 which was done on 13 May, 2025 and the subsequent assenting of the supporting Supplementary Budget No. 3 on 23 June, 2025, which was very close to the end of the year and some counties were locked out of Integrated Financial Management Information Systems (IFMIS) before the transfers could materialize.

In the circumstances, the Project may not achieve its goals since the funds were not used for the intended purpose. In addition, Management was in breach of the Project Appraisal document Annex 5 on detailed financial Management arrangement number 8 of the Financing Agreement which requires every County to open a Project Specific Special Purpose Account (SPA) from which all Project payments will be made.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1281. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1282. As required by Financing Agreement No. 6759 and CKE 118801S between the Republic of Kenya and International Development Association (IDA) and African Development Fund (AFD) dated 17 August, 2020 and 15 December, 2022 respectively, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records

KENYA INFORMAL SETTLEMENT REDEVELOPMENT PROGRAMME GRANT NO. 2021/05834A

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1283. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1284. Low Absorption of Funds

The Funding Summary of the financial statements and Grant Agreement between the Government of the Italian Republic and the Government of the Republic of Kenya was

entered on 14 March, 2023. The Programme was a Grant (Development Partner Commitment) of EUR 6,000,000 equivalent to Kshs.675,450,000 with a Programme duration of three (3) years from March, 2025 to 30 June, 2028.

The statement of sources of funds reflects that out of the Grant of Kshs.675,450,000, an amount of Kshs.98,797,773 had been received as at 30 June, 2025 resulting to undrawn balance of Kshs.576,652,227 as at 30 June, 2025. The statement of application of funds indicates that out of the amount received of Kshs.98,797,773, cumulative amount of Kshs.28,643,911 had been paid resulting to unutilized balance of Kshs.70,153,862. However, the first instalment of funding was received on 17 March, 2025 almost after two (2) years of signing the agreement. The delay in disbursement and reason for the undrawn balance was attributed to lengthy procurement process which led to failure to fulfil the pre-condition for the disbursement of the first installments.

Further, the Programme received the first instalment of funding of Kshs.98,797,773 on 17 March, 2025. However, review of the budget revealed that only Kshs.28,643,910 or 29% of the first instalment had been utilized as at 30 June, 2025. This falls below the 50% minimum utilization threshold required under the Grant Agreement for the release of subsequent instalments

In the circumstances, there is uncertainty on how the programme shall receive the second instalment without an audit report having confirmed the 50% utilization of the first instalment.

1285. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue final budget and actual on comparable basis amount of Kshs.100,000,000 and Kshs.98,797,773 respectively resulting to budget funding of 99%. Similarly, the statement reflects total revenue and total payments actuals on comparable basis amounts of Kshs.98,797,773 and Kshs.28,643,910 respectively resulting to underutilization/spending of Kshs.70,153,863 or 71% of the actual revenue.

The under-utilization of budget may affect the planned activities and impact negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

1286. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1287. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1288. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1289. As required by Financing Agreement No. 2021/05834A between the Republic of Kenya and Government of the Italian Republic dated 14 March, 2023, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

NAIROBI METROPOLITAN SERVICE IMPROVEMENT PROJECT IDA CREDIT NO. 5102-KE – STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1290. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1291. Long Outstanding Third-Party Deposits

The statement of financial position and as disclosed in Note 24 to the financial statements reflects third party deposit balance of Kshs.655,520 as at 30 June, 2025 relating to contractor's retention monies. Review of the contract details and performance of the Projects revealed that the defect liability period for the Project ended during the financial year 2019/2020 but retention money has not yet been claimed to date though there were no pending contractual obligations.

Further, the Project was not provided with budget in the financial year 2024/2025 but had an amount of Ksh.32,833,168 in the Project's bank account which The National Treasury instructed that the funds be refunded to the Exchequer account. This was despite the fact that the Project status was at 90% complete and extension up to 22 December, 2024 and a Defect Liability Period of 22 December, 2025. The Project was at risk of incurring additional costs in form of interest and penalties for failure to settle the Project's third-party deposits. In addition, the unclaimed monies should also be surrendered to the

Unclaimed Financial Assets Authority (UFAA) in compliance with the Unclaimed Financial Assets Act, 2011.

1292. Lack of Project Closure Report

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of eight (8) years with Project start date of 17 December, 2012 and project end date of 30 September, 2020.

The statement of source of funds indicates that the Project had an approved Development Partner Commitment budget of USD 300,000,000 equivalent to Kshs.24,860,909,091 and Government of Kenya counterpart funds of Kshs.2,486,090,909 all totalling Kshs.27,347,000,000. The total Donor Commitment and GoK counterpart fund was fully received and the total amount received to date amounted to Kshs.29,996,959,041 which was in excess of the total commitment by Kshs.80,918,881. The excess commitment was from the GoK counterpart funds and had not been drawn.

Further, Paragraph 2.8 on summary of overall Project performance indicates that, all the Project components had been completed except the construction of Mitubiri sanitary landfill site in Murang'a County which was 90% complete. Although correspondences from The National Treasury indicates that the Project lapsed and was not in existence in their books, the Project closure report by the Project implementor was not provided for audit. Management did not provide an explanation for the failure to close the Project.

My opinion is not modified in respect of these matters.

Other Matter

1293. Prior Year Unresolved Matter

In the prior year audit report, one issue on delay in completion of Project was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the matter remained unresolved.

Other Information

1294. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1295. Delay in Completion of Project

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of eight (8) years from 2012 to 2020 with a total budget of Kshs.27,347,000,000 comprising of Donor (World Bank-IDA) commitment of Kshs.24,860,909,091 and Government of Kenya Counterpart Funding of Kshs.2,486,090,909. The statement of source of funds indicates that all the Donor Commitment had been received and no amount remained undrawn. However, the Project Status Report dated June, 2025, indicated that only 90% of work

was done despite the lapse of the completion date. Further, The National Treasury records indicated that the Project had lapsed.

In the circumstances, value for money of the expenditure on delayed Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1296. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1297. As required by Financing Agreement No. 5102-KE between the Republic of Kenya and International Development Association dated 21 June, 2012, I report based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

SECOND KENYA URBAN SUPPORT PROGRAMME CREDIT NO. IDA 73490-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1298. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1299. Low Absorption of Funds

The Financing Agreement of Second Kenya Urban Support Program between Republic of Kenya and International Development Association (IDA) was entered into on 21 December, 2023. The Project was for a duration of five (5) years from 2023 to 2028 with an approved budget of EUR 360,000,000 equivalent of Kshs.48,971,880,000 comprising of IDA Grant and Loan of Kshs.6,801,650,000 and Kshs.40,809,900,000 respectively and Government of Kenya Counterpart Funds of Kshs.1,360,330,000.

Further, the statement of sources of fund indicates that out of the approved budget of Kshs.48,971,880,000, an amount of Kshs.2,191,585,006 had been received as at

30 June, 2025 resulting to undrawn balance of Kshs.46,780,294,994. The amount received represents only 4% of the Project approved budget.

In addition, the statement of application of funds indicates that out of the amount received of Kshs.2,191,585,006, the cumulative amount paid was Kshs.2,117,410,272 resulting to unutilised balance of Kshs.74,174,734. This was attributed to supplementary budget No.3 which was assented on 23 June, 2025, which was very close to the end of the year. The Project received the last disbursement on 30 June, 2025 making it impossible for the Project to execute programme activities.

In the circumstances, the Project risks incurring Maximum Commitment Charge Rate of one-half of one percent (1/2 of 1%) per annum on an Unwithdrawn Financing Balance as provided for under Clause 2.03 on Article II of the Financing Agreement.

1300. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget receipts and actual receipts amount of Kshs.2,925,696,004 and Kshs.2,191,585,006 respectively resulting to underfunding of Kshs.734,110,998 or 25% of the budget. Similarly, the Project actual expenditure was Kshs.2,038,011,835 resulting to under-utilization of Kshs.153,573,171 or 7% of the receipts.

My opinion is not modified in respect of these matters.

Other Information

1301. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1302. Delayed Disbursement of Funds to Counties

The statement of financial performance and Note 9 to the financial statements reflects transfer to other Government entities amount of Kshs.1,453,918,500. Review of the transactions at the counties and bank records in the Counties of Kilifi, Garissa, Kitui, Machakos and Kajiado revealed delays in the transfer of funds to the County Revenue Fund (CRF) and subsequently to the respective Special Project Accounts. (SPAs). This contributed to non - achievement of the planned Project activities for the financial year and risk missing out on subsequent disbursements as the disbursement to counties is linked to achievement of specific Disbursement Linked Indicators (DLIs) and Disbursement Linked Results (DLRs).

In the circumstances, the delayed disbursement may affect service delivery to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1303. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1304. As required by Financing Agreement No. 73490-KE between the Republic of Kenya and International Development Association dated 21 December, 2023, I report, based on my audit, that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

AFFORDABLE HOUSING FINANCE PROJECT IBRD LOAN NO.8958-K

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1305. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1306. Project Implementation

The International Bank for Reconstruction and Development (IBRD) entered into a loan agreement with the Republic of Kenya on 5 December, 2019 to lend an amount of EUR 219,000,000. The Project end date was originally 30 June, 2024 and later revised to 30 June, 2025. The Project consisted of two parts namely support to the Kenya Mortgage Refinance Company (KMRC) who are the principal lender and Technical Assistance component. The National Treasury was to oversee the management of the loan through KMRC while the Ministry of Lands and Physical Planning was to provide technical assistance on the Project.

The statement of source of funds reflects Development Partner Commitment of EUR 1,086,572 equivalent to Kshs.150,000,000. A total of EUR 999,531 equivalent to Kshs.137,984,119 had been received as at 30 June, 2025. Further, the statement of application of funds reflects that cumulative amount paid as at 30 June, 2025 was EUR 958,532 equivalent to Kshs.132,324,226 resulting to unutilized balance of EUR 40,999.20 equivalent to Kshs.5,669,894. However, review of records revealed that the unutilised balance was transferred to The National Treasury on 01 October, 2025 and that the Project was scheduled for closure on 31 October, 2025 in line with the Financing Agreement.

My opinion is not modified in respect of this matter.

Other Information

1307. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1308. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1309. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1310. As required by Financing Agreement No. 8958-KE between the Republic of Kenya and International Bank for Reconstruction and Development (IBRD) dated 5 December, 2019, I report based on my audit, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and, the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT

KISUMU URBAN PROJECT (PROJECT ADVANCE ACCOUNT) - CKE 1035.01.G - COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1311. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

1312. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1313. Failure to Refund Ineligible Expenditure to the Financiers

A letter from Project financiers, Agence Française de Development (AFD) dated 27 February, 2024 indicated that (AFD), using its own resources had hired the firm of Price Waterhouse Coopers (PWC) to conduct final financial audit of the Project. The letter further indicated that the audit disclosed cumulative ineligible expenditure amounting to Kshs.111,352,253. The AFD had further requested The National Treasury to repay the ineligible expenditure to enable closure of the project. However, Management did not provide any evidence of actions being taken to refund the ineligible expenditure in accordance with the credit agreement to facilitate project closure.

In the circumstances, Management was in violation of the credit agreement.

1314. Non-Closure of Project and Handover of Project's Assets

According to the Project Financing Agreement, the deadline for use of funds was 30 June, 2022. However, review of documents provided for audit revealed that there was no handover report for the Project's assets to the Implementing Entity, the City of Kisumu. Further, during the year under review, no funds were received by the Project and no expenditure was made from the bank account except for a bank charge of Kshs.1,200. The outstanding balance at year end was Kshs.2,197,909. Further, the Project records indicate pending bills of Kshs.31,575,700 as at 30 June, 2025.

Although the Project's bank account was closed on 27 June, 2025, and the pending bills were indicated to have been transferred to the City of Kisumu, there is no evidence that ineligible expenditure amounting to Kshs.111,352,253 has been settled.

In the circumstances, the closure of the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1315. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1316. As required by the Financing Agreement No. CKE 1035.01.G dated 5 July, 2020 and Addendum No.4 dated 19 February, 2020 between the Republic of Kenya and Agence Francaise de Development (AFD), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

KISUMU URBAN PROJECT (CASH EXPENDITURE FUND) - CKE 1035.01.G - COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1317. There were no material issues noted during the audit of the financial statements of the Project.

Other Information

1318. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1319. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1320. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1321. As required by the Financing Agreement No. CKE 1035.01.G dated 5 July, 2020 and Addendum No.4 dated 19 February, 2020 between the Republic of Kenya and Agence Française De Development (AFD), I report based on my audit that 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR PUBLIC WORKS – VOTE 1095

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1322. There were no issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

1323. Long Outstanding Pending Bills

The statement of changes in net assets reflects pending bills balance of Kshs.967,158,251. Included in the amount was an opening balance of Kshs.696,695,679 which relates to previous years and has been outstanding for a long period.

My opinion is not modified in respect of this matter.

Other Matter

1324. Unresolved Prior Year Matters

In the year 2023/2024 audit report, several issues were raised under Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the State Department in 2024/2025 revealed that the following eight (8) issues remained unresolved.

No.	Audit Issue
1.	Pending Bills
2.	Failure to Remit Long Outstanding Retention Deposits
3.	Delayed Completion of Projects
3.1	Proposed Tharaka-Nithi County Headquarters at Kathwana
3.2	Proposed Headquarters for Nyandarua County at Ol Kalou
4.	Proposed Headquarters for Tana River County
5.	Proposed Construction of Isiolo County Headquarters
6.	Lack of Lease Document for Likoni Road Warehouses
7.	Lack of Audit Committee
8.	Lack of a Risk Management Policy

Other Information

1325. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1326. Non-Compliance with One-Third Rule on Basic Salary

Review of the State Department's payroll revealed that several employees earned salaries below the recommended one-third of their basic salary as detailed in the table below:

	2024						2025					
Month	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan	Feb	March	April	May	June
No. of Officers	23	20	6	45	39	0	4	5	5	11	14	11

This was contrary to Section 19(3) of the Employment Act, 2007 which provides that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry. This may expose staff to pecuniary embarrassment.

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

1327. Delay in Payment of Certified Works

The statement of financial position and Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.747,930,791 which includes an amount of Kshs.545,810,768 arising from delay in payment of certified works payable to various contractors which have been outstanding for more than one (1) year. Management did not provide any mitigation measures that had been put in place to ensure contractors are paid on time.

Further, included in the property, plant and equipment balance are additions to construction and civil works balance of Kshs.202,120,023. The amount includes a balance of Kshs.63,963,716 being payments to clear some of the pending certificates for certified works for some of the stalled and completed projects.

In addition, review of Projects records revealed that the nine (9) projects with a total contract sum of Kshs.517,882,312 had totally stalled namely; completion of Ndau seawall, construction of Kiwayu Jetty and seawall, footbridge at Riagathuri Thangathi, Esukuta footbridge, Kimase-Kisabei footbridge, Kaiti footbridge, Mumoni footbridge, Muanda-Nasara footbridge and Binyenya-Kikai footbridge. However, the expenditure was not approved by the National Assembly since the projects were not included in the Approved Revised Development Expenditure Estimates for financial year 2024/2025 amount of Kshs.224,000,000.

In the circumstances, the value for money expended on the Project could not be confirmed.

1328. Delay in Completion of Project

The State Department entered into contract agreement with a local contractor for completion of Ndau seawall at a contract sum of Kshs.215,426,521 on 11 March, 2024. The contract was set to be completed in twenty-four (24) months with a commencement date of 21 March, 2024. Review of Project records revealed the following unsatisfactory matters:

(i) As previously reported, the contract for the construction of Ndau Seawall in Lamu District was awarded to a contractor at a contract sum of Kshs.365,103,794 in June, 2011. Review of records revealed that the contract was terminated when the project was at approximately 87% completion with Kshs.284,504,648 paid to the Contractor. The contract was later terminated. Upon termination of the contract, the State Department re-advertised the tender for completion of the remaining works. However, the contract sum of Kshs.215,426,521 exceeded the estimated cost of completing the remaining works of Kshs.134,827,375.

(ii) A dispute arose upon the termination of the contract. During the arbitration, the Contractor was awarded a principal sum of Kshs.148,806,576. However, due to accrual of interest, the principal sum increased to Kshs.322,888,747. The expenditure would have been avoided had Management managed the contract in accordance with the applicable laws and regulations.

(iii) The status and progress reports revealed that by 30 June, 2025, a total of Kshs.14,064,907 or 6.53% of the contract sum had been certified and paid to the contractor. However, the average percentage of work done was 32%.

(iv) Further, the status report indicates that the project is behind schedule and the main contractor had stopped all activities on site due to delayed payments of Interim Payment Certificates (IPC) No. 2, 3 and 4 for a total cost of Kshs.37,606,479.

(v) In addition, the State Department released 10% retention to the contractor (Full Moiety) of Kshs.30,334,314 on 3 April,2025.

(vi) At the time of audit in October 2025, the setting out of the seawall had been completed, the seawall screen beam was at 85% while the seawall bollards was at 88% complete.

In the circumstances, the value for money expended on the Project could not be confirmed.

1329. Failure to Budget for Prior Year Projects

Review of the projects' implementation status report as at 30 June, 2025 revealed that nine (9) previous year projects with a total contract sum of Kshs.517,882,312 and actual expenditure of Kshs.29,659,655 had not been completed and were on-going at various

stages of completion. However, during the year under review, the Project had no budget provision.

Further, review of records revealed that another nine (9) projects with a total contract sum of Kshs.128,055,823 and actual expenditure of Kshs.35,870,529 had been completed by 30 June, 2025. However, the completed projects had accumulated pending claims amounting to Kshs.92,185,294 as at 30 June, 2025 but these projects had no budget provision.

In the circumstances, the value for money on those projects could not be confirmed.

1330. Delayed Completion of the Proposed Construction of a Bridge

The State Department entered into a contract agreement with a local contractor for construction of Adole Foot Bridge in Garsen Constituency, Tana River County at a contract sum of Kshs.126,204,450 on 03 December, 2024. The contract was set to be completed in twenty-four (24) months with a commencement date of 19 February, 2025. At the close of the year in June, 2025, the project was at 20% completion and a certificate No.1 of Kshs.19,348,360 had been paid.

Review of project records revealed that the Project sign board was not erected, material sample approval including testing, manufactures warranties were not carried out despite having paid concrete and steel works worth Kshs.11,835,000. The Project Manager was not facilitated to prepare drawings and there was lack of Environmental Impact Assessment of the Project site.

Further, review of an interim payment certificate (IPC) No.1 revealed that there was an upward variation of Kshs.1,916,000 on concrete and steel works (Bill no.2) contrary to what is indicated in the Bill of Quantities (BoQ) for the item.

In the circumstances, value for money on the Project may not be achieved.

1331. Irregular Award of Cleaning Services Contract through Direct Procurement

Review of records revealed that the State Department awarded a two (2) year cleaning services contract to a local company through direct procurement method at a contract sum of Kshs.41,557,563 or Kshs.1,731,563 per month citing Section 103(2)(d) of the Public Procurement and Asset Disposal Act, 2015. This section allows direct procurement where the performance of a previous contract was effective in meeting the procuring entity's needs. However, the Accounting Officer failed to provide a performance appraisal report or any documented evaluation to demonstrate that the previous engagement with the service provider met the Department's cleaning requirements.

Further, in contravention of Regulation 90(b) of the Public Procurement and Asset Disposal Regulations, 2020, the State Department did not provide any evidence that the direct procurement valued above Kshs.500,000 was reported to the Public Procurement Regulatory Authority (PPRA) within 14 days of contract award, as required.

In addition, no market survey or benchmarking report was provided to demonstrate the prevailing market rates for similar cleaning services. As such, it remains unclear whether

the State Department obtained value for money, further undermining the credibility of the procurement process.

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

1332. Long Outstanding Refundable Deposits

The statement of financial position and as disclosed in Note 17 to the financial statements reflects refundable deposits balance of Kshs.251,632,162. The balance includes deposits of Kshs.197,099,344 that had been outstanding for over three (3) years. The retentions have remained unpaid despite the lapse of defects liability period contrary to Regulation 106 of the Public Finance Management (National Government) Regulations, 2015 which provides that unless otherwise exempted by an Act of Parliament, any deposit which has remained unclaimed for five (5) years may, with the approval of the Cabinet Secretary, be paid into Consolidated Fund and thereafter the Accountant-General may refund the deposit to any person entitled thereto, if he or she is satisfied that the claim is authentic. Further, the balance included other deposits totalling Kshs.3,975,531 that was withheld from contractors dating back from 2012.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1333. Failure to Develop a Risk Management Policy

Review of records revealed that the State Department did not have in place an institutionalized Risk Management Policy hence no formal approved processes and guidelines on how to mitigate operational, legal and financial risks. Confirmations from the Internal Audit function indicated that the State Department was still in the process of developing one. This may have raised the level of financial and operational risks faced by the State Department.

In the circumstances, the effectiveness of the State Department's risk management mechanism could not be confirmed.

STATE DEPARTMENT FOR IRRIGATION – VOTE 1104

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1334. There were no issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

1335. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.313,956,134 and as disclosed in Note 16 to the financial statements. The balance includes an amount of Kshs.99,772,185 that has remained outstanding for more than a year. This was contrary to Regulation 42 (1) of Public Finance management (National Government) Regulation, 2015 which provides that debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible that the government does not default on debt obligations.

Failure to settle bills during the year in which they relate adversely affects the budgetary provisions for the subsequent year.

1336. Incomplete Projects

Review of the projects' implementation status report as at 30 June, 2025 revealed that nineteen (19) projects with a total contract sum of Kshs.2,377,169,487 and actual expenditure paid of Kshs.856,345,03 had not been completed and were on-going in various stages of completion.

The slow pace of the project implementation may negatively affect service delivery to the public and the intended purpose of the projects may not be actualized.

My opinion is not modified in respect of these matters.

Other Matter

1337. Unresolved Prior Year Audit 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 two issues being, stalled projects and non-disposal of unserviceable assets or given any explanation for failure to resolve them as at 30 June, 2025.

Other Information

1338. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1339. Compensation of Employees

The statement of financial performance reflect compensation of employees of Kshs.232,789,584, as disclosed in Note 9(a) to the financial statements. Review of records revealed the following anomalies:

1339.1. Non-Compliance with a Third Basic Pay Rule

Analysis of the payroll records revealed that twenty (20) employees earned a net pay below a third of their basic pay during the year under review. This was contrary to Section 19 (3) of the Employment Act, 2007 which provides that, without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

1339.2. Staff Under Establishment

During the year under review, human resource records provided for audit revealed that the State Department has a staff establishment of five hundred and one (501) staff against one hundred and sixty-six (166) staff members in post thus resulting in an overall under establishment of three hundred and thirty-five (335) personnel.

This was contrary to section 'B.2 (1) Every Ministry/State Department shall prepare Human Resource Plans to support achievement of goals and objectives in their Strategic plans. The plans shall be based on comprehensive job analysis and shall be reviewed every year to address emerging issues and needs. (2) On the basis of these Human Resource plans, Ministries/State Departments shall be required to develop annual recruitment plans which will be forwarded to the Public Service Commission at the beginning of each financial year to enable it plan to fill the vacancies.

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

1340. Property, Plant and Equipment

1340.1. Stalled Project - Anyiko-Ujwangá -Kathieno Irrigation Project, Siaya County

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.533,468,037 and as disclosed in Note 14 to the financial statements which includes an amount of Kshs.95,702,666 advanced to a local contractor for the construction of Anyiko – Ujwang'a Kathieno Irrigation Project with a contract sum of

Kshs.478,513,313. The contract was terminated when works completed was at only 21% against a time lapse of 99.9%. On termination, the contractor computed claims amounting to Kshs.336,894,562 incorporating the unpaid certificates, extra works, idle plant and other contractual items emanating from inaction. The matter has since been resolved through arbitration and settlement reached at Kshs.131,642,800. No clear reasons and explanations were provided by the State Department on the way forward for the project having already paid Ksh.95,702,666.

In the circumstances, the value for money on the amount of Kshs.95,702,666 already paid and further settlement amount of Kshs.131,642,800 to be incurred, all totalling Kshs.227,345,466 could not been confirmed.

1340.2. Drilling and Equipping of Boreholes, Construction of Elevated Water Tanks and Drip Irrigation at Ganda Primary School in Kwale County

The statement of financial position reflects property, plant and equipment balance of Kshs.1,486,990,489 as disclosed in Note 15 to the financial statements. Included in this balance is Kshs.1,474,848,464 for capital work in progress, which also includes Kshs.2,065,300 paid during the year to a local company whose contract sum was Kshs.7,374,000. However, field verification revealed that Performance Bond No. RMB/BBG/TM/EB/1842-23 had expired on 11 April, 2024, the contractor was not on site despite the project being only 10% complete with the last reported presence on site being 27 May, 2024, and the contract period had lapsed.

In the circumstances, the value for money on the expenditure of Kshs.2,065,300 already incurred on the project could not be confirmed.

1340.3. Construction of Olopito Irrigation Scheme Project – Narok County

The statement of financial position reflects property, plant and equipment balance of Kshs.1,486,990,489 as disclosed in Note 15 to the financial statements. Included in this balance is an amount of Kshs.1,474,848,464 for capital work in progress which also includes Kshs.25,965,304, paid during the year for construction of Olopito Irrigation Scheme Project in Narok County with a contract sum of Kshs.26,307,022. The scope included rehabilitating of the JICA existing infrastructure (intake and sedimentation basin) and completing works up to the off takes for the feeder lines and related components. However, after completion the project could not function as expected due to severe leakages in the mainline. The scope of the repair works (majorly leakages) on the existing infrastructure required Kshs.11,965,460 comprising of preliminary and general, mainline pipework and repairs, feeder lines, in field system amounting to Kshs.2,790,000, Kshs.1,945,920, Kshs.4,608,737 and Kshs.2,620,802 respectively. Failure to address the leakages risks the Government's investment and prevents farmers from fully benefitting from the project.

In the circumstances, value for money on the expenditure of Kshs.25,965,304 could not been confirmed.

1340.4. Construction of Okundi Dam Irrigation Project in Homabay County

The statement of financial position reflects property, plant and equipment balance of Kshs.1,486,990,489 as disclosed in Note 15 to the financial statements. Included in this balance was Kshs.1,474,848,464 for capital work in progress which further includes Kshs.64,958,240 paid during the year for contract awarded for construction of Okundi Dam Irrigation Project - Karachuonyo Sub County in Homabay at a contract sum of Kshs.164,443,911. An agreement contract was signed on 16 January, 2024. Physical inspection done in July, 2025 revealed that the project was ongoing and the followings works had not been undertaken;

i. Okundi Dam reservoir excavation and fencing.
ii. Opande Check dam reservoir excavation and fencing.
iii. Okundi Upstream Check Dam amounting to Kshs.26,046,800.
iv. Mainline, submains and infields amounting to Kshs.4,825,200.
v. Water storage component amounting to Kshs.2,954,400.

In the circumstances the delay in project implementation may lead to cost over runs.

1340.5. Construction of Mbugiti Irrigation Project in Muranga County

The statement of financial position reflects property, plant and equipment balance of Kshs.1,486,990,489 as disclosed in Note 15 to the financial statements. Included in this balance was Kshs.1,474,848,464 for capital work in progress which includes Kshs.133,190,067 paid during the year for construction of Mbugiti Irrigation Project in Muranga County with a contract period of 24 months. The commencement date was 17 September, 2024 and expected completion date of 17 September, 2026.The project included preliminaries and general, intake works, sedimentation tank, river and gully crossings, conveyance pipeline, main lines, sub-mains, in-field systems for a contract sum of Kshs.379,364,732. Physical inspection carried out in July 2025 revealed that a 4WD vehicle new and unused station wagon SUV of engine capacity between 2,800cc-3,200cc, turbo engine of Kshs.15,500,000 as per the preliminary and general items requirements in the Bill of Quantities had not been purchased.

In the circumstances, value for money on the amount of Kshs.15,500,00 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1341. Lack of a Risk Management Policy

The State Department did not have a Risk Management Policy in place and therefore, Management did not undertake formal risk assessments over key financial risk areas including revenue, expenditure and cash management. In the absence of a structured risk management framework, Management was not able to systematically identify and

assess risks, determine their likelihood and potential impact, or design and implement appropriate mitigating controls

In the circumstances, the adequacy and effectiveness of the State Department's risk management system could not be confirmed.

1342. Lack of Information Communication Technologic (ICT) Policy

Review of the State department's ICT environment revealed that there was no formal approved ICT policy, Security policy, Environmental policy, IT Continuity Plan and Disaster Recovery Plan in place.

In the circumstances, the security and reliability of State Department's data including the finance management information system could not be confirmed.

1343. Lack of Inventory Management System

Audit of the stores and inventory management maintained by the State Department for Irrigation revealed that the Department was yet to develop a policy on stock management and re-order levels. A manual stock management system was still in use and prone to basic human errors. The Department was not able to run periodic stock reports and was yet to determine the optimal stock levels for basic but crucial items in the stores which was needed for day-to-day operations of the Department.

In the circumstances, the effectiveness of the internal controls on inventory management could not be confirmed.

DONOR FUNDED PROJECT

KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT (GRANT NO. TFOA0761A AND CREDIT NO. 5268/5674/7423 - KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1344. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1345. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,100,000,000 and Kshs.2,613,002,950 respectively, resulting in underfunding of Kshs.486,997,050 or 15.70% of the budget. Similarly, the Project spent an amount of Kshs.1,198,973,015 against the actual receipts of Kshs.2,613,002,950 resulting in under-utilization of Kshs.1,414,029,935. Management attributed the low absorption to slow pace of release of counterpart funds by the Government.

Further, the statement of comparison of budget and actual amounts reflects total revenue and total expenditure original budget and final budget of Kshs.3,350,000,000 and Kshs.3,100,000,000 respectively. However, the adjustments reallocation of Kshs.250,000,000 was not supported by approval by The National Treasury and Economic Planning.

In the circumstances, the underfunding and under expenditure is an indication that the project's objectives may not be achieved and may impact negatively on service delivery to the public.

1346. Undisclosed Special Deposit Account Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.48,508,157 as disclosed in Note 17 to the financial statements. This balance excludes an amount of Kshs.682,874,462 (USD 5,281,430) being the Project's special deposit closing account balance at the Central Bank of Kenya as at 30 June, 2025 contrary to the requirement of International Public Sector Accounting Standard (IPSAS) No.23 – revenue from non-exchange transactions. In addition, amount withdrawn and expenditure not claimed totalling USD 3,567,076 (Kshs.460,152,675) for Designated Account No.1000214244 was held with the Central Bank of Kenya as at 30 June, 2025.

In the circumstances, delays in the submission of expenditure returns distorts the reported Projects expenditures for the year.

My opinion is not modified in respect of these matters.

Other Matter

1347. Unresolved Prior Year Audit Matters

In the prior year's audit report several issues were raised under the Emphasis of Matter, Report on Lawfulness and Effectiveness in the Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed the following five (5) issues remained unresolved.

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Payment of Claims
3.	Interest on Late Payments
4.	Cost Adjustments Due to Delay in Project Completion
5.	Delay in Resettlement of Project Affected Persons

Other Information

1348. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1349. Interest on Late Payments

The statement of financial position reflects property, plant and equipment balance of Kshs.11,733,461,410 as disclosed in Note 21 to the financial statements. Included in this balance is Kshs.255,970,010 for interim Payment Certificate No. 4, which further includes an amount of Kshs.20,829,864 representing interest charges due to delayed payments to the contractor. These additional costs could have been avoided had all contractual payments been made to the contractor in a timely manner as stipulated in the agreement. Further, the justification for the interest payment was not provided.

In the circumstances, the Government incurred a loss of Kshs.20,829,864 through payment of interest to the contractor resulting to an increase in the project cost.

1350. Multiple Revisions of Contract Amendments and Unsupported Cost Increases - Lower Nzoia Project

The Kenya Water Security and Climate Resilience Project awarded contract for consultancy services for implementation support consultant for improvement of flood mitigation structures on Lower Nzoia River and Lower Nzoia Irrigation project on 4 October, 2016 for Kshs.547,066,288. The original contract sum has undergone multiple revisions through addendum, resulting in a revised contract sum of Kshs.1,283,005,890 being an increase of approximately 135% from the initial contract. However, the addenda reference additional costs due to extended timelines and increased expert inputs but does not provide sufficient supporting documentation for the revised work plans and cost-benefit analysis to validate the necessity of the adjustments.

Further, the repeated upward revisions, particularly under Addendum No.17 of Kshs.376,341,285 suggests poor initial cost estimation or possible mismanagement of project scope.

In the circumstances, the Project may not realize the intended objectives and may result in continuous price escalation above the approved budget.

1351. Consultancy for Lower Nzoia Irrigation Project

The statement of financial position reflects property, plant and equipment balance of Kshs.11,733,461,41 as disclosed in Note 21 to the financial statements. Included is an amount of Kshs.6,800,000 paid to a consultant for documentation and evaluation consultancy for lower Nzoia Irrigation project at a contract sum of Kshs.15,219,200 inclusive of all indirect taxes on 28 February, 2024 for a period of eighteen (18) months commencing 4 March, 2024 to 4 September, 2025.

However, review of the contract agreement and records provided revealed that the professional opinion issued on 30 November, 2023 recommended the engagement of a documentation and evaluation consultant for the Kenya Water Security and Climate

Resilience Project (KWSCRP). However, the contract agreement identifies the contracting entity as the Ministry of Water, Sanitation and Irrigation, State Department for Irrigation, Coast Region Water Security and Climate Resilience Project which could lead to legal challenges.

Further, the contract deliverables including the evaluation matrix, data collection tools, ICR template, field report, preliminary ICR report, draft ICR report and final ICR did not specify submission dates. As a result, it was impossible to determine whether the consultant adhered to the required timelines for these outputs.

In the circumstances, the Project may not realize the intended objectives.

1352. Delay in Resettlement of Project Affected Persons

i. Incomplete Land Transfer

The Project disbursed a total of Kshs.1,462,636,845 to landowners as compensation for acquired land. However, the physical verification and review of documents in July, 2025, revealed that the resettlement of project affected persons remains incomplete, with outstanding unpaid claims amounting to Kshs.97,948,038. This unresolved compensation issue has contributed to delays in the overall project completion. In addition, the delay in completing the land transfer process raises concerns about the timely implementation of project activities despite the substantial compensation already paid. Failure to disburse the payments despite the availability of funds raises concerns about the implementation process.

ii. Commingling of Funds

Further, the National Lands Commission (NLC) has failed to establish the mandated Escrow Account for holding compensation funds meant for Project Affected Households (PAHs) under the Lower Nzoia Irrigation Project. Despite clear directives requiring all uncompensated PAH funds to be deposited in a dedicated Escrow Account, with subsequent payments made exclusively from counterpart funds, the NLC has neither opened the account nor segregated these funds. This non-compliance has resulted in continued commingling of PAH compensation money.

In the circumstances, the delay in the resettlement process has resulted in the delayed completion of the project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1353. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1354. As required by Financing Agreement Financing Agreement Grant No. TFOA0761A and Credit No.5268/5674-KE, dated 7 September, 2015 between International Development Association (IDA) and the Republic of Kenya, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

COASTAL REGION WATER SECURITY AND CLIMATE RESILIENCE PROJECT (CREDIT NUMBER: 5543 – KE/70040 - KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1355. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1356. Undisclosed Special Designated Account Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.221,750,015 as disclosed in Note 17 to the financial statements. This balance excludes an amount of Kshs.13,467 (USD 104) being the Project's special deposit closing account balance at the Central Bank of Kenya as at 30 June, 2025. This was contrary to the requirement of International Public Sector Accounting Standard (IPSAS) No.23 – revenue from non-exchange transactions. In addition, amount withdrawn and expenditure not claimed totalled USD 3,415,320 (Kshs.440,576,357) for Designated Account No.1000263954 held with the Central Bank of Kenya as at 30 June, 2025.

In the circumstances, delays in the submission of expenditure returns distorts the reported Projects expenditures for the year.

My opinion is not modified in respect of this matter.

Other Matter

1357. Unresolved Prior Year Audit 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 following issues or given any explanation for failure to resolve them as at 30 June, 2025;

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Unrecovered Funds from Terminated Contract
3.	Construction and Civil Works
4.	Costly Price Adjustments
5.	Delayed Project Implementation
6.	Commingling of Funds

Other Information

1358. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1359. Certified Works

The statement of financial performance reflects Certified Works balance of Kshs.1,177,687,964 and as disclosed in Note13 to the financial statements in respect to construction of Mwache dam and other construction works at a contract sum of Kshs.13,752,164,330. However, the following anomalies were noted:

1359.1. Costly Price Adjustments

Review of records provided revealed that payments totalling Kshs.6,709,262,853 have since been made to the contractor. However, included in these payments are claims totalling Kshs.1,298,347,229 on cost adjustment contained in Section 13.8 of the contract specifications which provides that the amounts payable to the contractor shall be adjusted for rises or falls in the cost of labour, goods and other inputs to the works, by addition or deduction of the amounts determined by the formulae prescribed in the contract and schedule of adjustment data for the expenditure items. Further, the amount paid for certified works of Kshs.3,512,565,600 exceeds the provision of 25% price adjustment for the certified works allowed as per the contract agreement and Section 139(4)(e) of the Public Procurement and Asset Disposal Act, 2015 of Kshs.878,141,400 by Kshs.420,205,829.

Management has not explained measures being taken to forestall further cost adjustments over the remaining contract period and as a result of the price adjustments.

In the circumstances, the Project may incur cost overruns leading to increased and unbudgeted Project cost.

1359.2. Avoidable Interest on Delayed or Late Payments

Review of certified works revealed that the project had paid cumulative amount of Kshs.190,095,316 of interest expense caused by delayed payments to the contractor. Further, it was observed that the cumulative interest had increased by Kshs.11,459,240 from the previous financial year 2024/2025 balance of Kshs.178,636,076. These

additional costs could have been avoided if all payments due to the contractor were made as and when they fell due. In addition, review of records provided revealed that the interim certificates had been issued but the Project Management did not settle the claims amounting to Kshs.1,182,715,713 that fell due during the year under review.

In the circumstances, the Project may incur cost overruns over the Project period by failing to settle claims when they fall due.

1360. Water Resource Users Association (WRUA)

The statement of financial performance reflects transfers to other Government entities balance of Kshs.951,262,370 and as disclosed in Note11 to the financial statements. Included in this balance was Kshs.140,659,100 being transfers to Water Resources Authority in respect of water catchment activities for livelihood support and water catchment restoration activities which were being implemented by Water Resources User Associations (WRUA) in different wards in Kwale. However, the following unsatisfactory issues were noted: -

1360.1. Mwadudua Vigurungani Water Resources User Association (WRUA)

Mwadudua Vigurungani WRUA received funding of Kshs.4,000,000 during the year under review from the Coastal Region Water Security and Climate Resilience project through Water Resources Authority (WRA) for catchment restoration activities which included Sustainable Land Management (SLM) and Livelihood Restoration Activities. The association planted seventy thousand (70,000) vetiver, two thousand (2,000) indigenous trees and five hundred (500) bamboos. In addition, under the Livelihood Restoration Activities, the WRUA purchased fourty (40) goats. Physical verification in August, 2025 revealed that there was zero survival rate for the five hundred (500) bamboos initially planted, the indigenous trees had a 75% survival rate and there was need for additional training on bookkeeping.

1360.2. Mulunguni Water Resources User Association (WRUA)

Mulunguni WRUA received funding of Kshs.4,000,000 during the year under review from the Coastal Region Water Security and Climate Resilience project through Water Resources Authority (WRA) for catchment restoration activities which included Sustainable Land Management (SLM) and Livelihood Restoration Activities. However, the association planted sixty thousand (60,000) slips of vetiver grass, constructed gabions and installed rainwater harvesting tanks at Kideri Primary School. Under the Livelihood Restoration Activities, the WRUA planted aloe vera, green grams and established an apiary. Physical verification carried out in August, 2025 revealed that that the apiary was insect infected leaving it with no bees while the WRUA spent Kshs.664,320 paid to supplier for the supply of materials for establishment of an apiary.

1360.3. Chilungu Ngeyeni Water Resources User Association (WRUA)

Chilungu Ngeyeni WRUA received funding of Kshs.4,000,000 during the year under review from the Coastal Region Water Security and Climate Resilience project through Water Resources Authority (WRA) for catchment restoration activities which included

Sustainable Land Management (SLM) and Livelihood Restoration Activities. However, the association dug terraces and constructed gabions. Under the Livelihood Restoration Activities, the WRUA purchased two hundred (200) chicks for Amani Self Help Group. Field verification carried out in August, 2025 revealed that only seventy-five (75) out of the two hundred (200) chicks purchased had survived after a disease outbreak. The low survival rate of the chicks attributed to diseases which could have been done away with if there were frequent visits from the veterinary officer. In addition, there was no signage at the gabions site.

1360.4. Mwachiga Water Resources User Association (WRUA)

Mwachiga Water Resources User Association received Kshs.7,800,000 during the year under review for water shed funding and livelihood activities, however, it was observed that Vetiver grass from the bulking site had not been planted alongside the terrace and the dug terraces were not being properly maintained and as a result had been backfilled with earth as at the time of audit verification. Additionally, chicken farming was chosen as the livelihood activity for Mwachiga Water Resources Association.

Further, an allocation of Kshs.1,207,820 was given to the group to build a chicken house, equipping, vaccination and purchase of five hundred (500) one month old chicks. However, during field verification, only nine (9) chicks were found.

In the circumstances, the intended benefits may not have been achieved and value for money could not be confirmed.

1361. Construction of Nunguni Primary School, Kinango Sub County

The statement of financial position reflects property plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works. Included in the balance is Kshs.112,911,747 for the Construction of Nunguni Primary School, Kinango Sub County. The Climate Resilience Project identified Nunguni Primary School among those affected at a contract sum of Kshs.136,124,960. However, physical inspection done in the month of August, 2025 revealed that;

i. A letter dated 31 July, 2025 from the school's Board of Management to the project manager revealed noticeable delays and slow construction of the new school hence set completion date of 20 August, 2025. No clear reasons and explanations were provided on why the sub-contractor was unable to complete the works as per the earlier agreed time.

ii. Further, the letter highlighted the deteriorating condition of the current classes. The physical inspection revealed that one classroom roof structure had been dislodged by the strong winds in the area and the classroom walls were weak and unstable posing risks of collapsing. No clear explanations were provided as to why the school had not been moved to a temporary structure given that the school was no longer habitable.

iii. The compound barbed wire fence and kei apple plants were incomplete and Solar lighting and electrical works in all buildings was not done.

iv. Provision of piped water & rainwater harvesting five thousand (5,000) litres water tanks at each block was not done and four (4) teachers toilet units and five (5) latrine blocks and one (1) ECDE latrine blocks works had not started as well as football pitch and volleyball/net ball pitch works were incomplete.

In the circumstances, the intended benefits may not be received on time as had been planned.

1361.1. Construction of Mwache ECDE

The statement of financial position reflects property, plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes a balance of Kshs.9,952,391 paid during the year for construction of Mwache ECDE whose contract sum was Kshs.25,2830,311. Physical inspection done in August, 2025 revealed that;

i. The actual works started on 28 October, 2024 and were to be completed on 20 June, 2025. However, physical verification revealed that the works were only 40% complete. Further, no new completion date was given.

ii. One (1) Classroom Block & Office was incomplete, one (1) Kitchen construction had not commenced, two (2) latrine works had not commenced and Solar lighting and electrical Works had not been done.

iii. Provision of piped water & rain harvesting – five thousand (5,000) litres water tanks at each block had not been done.

iv. Site and ancillary works like landscaping, roads (internal roads) & footpaths, gates and fencing, erosion control and slope protection measures and signboards had not been done.

v. Further, the Project awarded tender no. MOWS/KWSCRP/QT/017/2021-2022 for construction of ECDE classes for Mwache Dam, Kwale at contract amount of Kshs.5,600,126. The project was complete and in use. However, no records were provided on what the structures would be used for after the completion of main Mwache ECDE buildings.

In the circumstances, the intended benefits may not be achieved on time as expected.

1361.2. Construction of Fulugani Primary School

The statement of financial position reflects property, plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes Kshs.9,952,391 for construction of Fulugani Primary School among those affected by construction of the dam and was earmarked for relocation for a contract sum of Kshs.211,114,978. However, the physical verification revealed that the works were 72% complete and the following were noted:

i. The Multipurpose Hall Kitchen & Store, one (1) ECDE Kitchen, the activities rooms, two (2) ECDE Latrine Block Classroom and Administration Block's doors &

windows, internal and external finishes, worktops, floor finishes, ceiling, storage fixture and fittings were not complete.

ii. The activities rooms walling was complete. However, doors & windows, worktops, internal and external finishes, floor finishes, ceiling, storage fixture and fittings were not complete.

iii. Solar lighting and electrical works had not been done in all buildings.

iv. Provision of piped water & rain harvesting – five thousand (5,000) litres water tanks at each block had not been done.

v. Site and ancillary works like landscaping, roads (internal roads) & footpaths, gates and fencing, erosion control and slope protection measures and signboards had not been done.

In the circumstances, the value for money may not be obtained.

1362. Base Camp and Other Buildings

1362.1. Construction of the Base Camp

The statement of financial position reflects property, plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes Kshs.159,985,417 paid during the year for construction of the base camp whose contract sum was Kshs.230,990,155. The development works commenced on 24 June, 2023 with a completion date of 30 June, 2025. However, a physical inspection done in August, 2025 revealed that;

i. Twenty-three (23) Junior houses were still under construction and not furnished.

ii. Football field and athletics track were not complete.

iii. The clubhouse building structure was complete. However, electricals installation, tiling, painting fittings and furnishing had not been done.

iv. Electricals installation, tiling, painting fittings and switches had not been done in the switch room.

v. Guard house, tennis court and swimming pool works had not started.

vi. Junior houses access roads were not complete.

1362.2. Construction of the Police Post and Dam Control Building

The statement of financial position reflects property, plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes Kshs.1,672,015 for construction of police post at a contract cost of Kshs.51,941,394. The police post had a start date of 1 July, 2025 with a completion date of 7 November, 2025.

Physical inspection done in August, 2025 revealed that the police post, guard houses and the dam control building construction had not commenced.

1362.3. Construction of a Clinic

The statement of financial position reflects property plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes Kshs.2,678,850 paid during the year for construction of a clinic whose contract sum was Kshs.19,134,648 which commenced on 1 November, 2024 with a completion date of 19 August, 2025. Physical inspection done in August, 2025 revealed that the permanent clinic construction was at 18% cumulative progressive.

In the circumstances, the intended benefits may not be achieved on time as expected and value for money could not be achieved.

1363. Construction for Kwale Town Urban Water Supply (KTUWS)

The statement of financial position reflects property, plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes advance payment of Kshs.52,000,000 for construction works for Kwale Town Urban Water Supply at a contract sum of Kshs.261,432,975. Review of project file and physical verification done on 31 July, 2025 in Kwale County revealed the following:

i. Drains, ditches and trenches at Kshs.40,000, painting of pump house, installation of windows and doors, fencing works with gates at Kshs.1,200,000 and rain gutters were yet to be done in the pump house at Madabara 1.

ii. Galvanized mild steel external ladders with handrails, metal tank roof latch, footpaths for the 250m^3 water tank at Madabara 1 boosting station had not been done.

iii. 6mm sheet metal access cover with latch and safety lock for the valve chamber and reservoir, application of two coats of bituminous asphalt over the plastered surface, galvanized mild steel ladders did not have guard rails.

iv. Galvanized mild steel external ladders did not have guard rails, Footpaths made of Precast Concrete Paving slabs for 500m3 Concrete storage tank at Kwale town offices was incomplete.

v. Compound lighting, Supply and installation of standard fire extinguisher, Supply air conditioners, Construction of Type III Fence, Construction of pipe shed within the office compound, roads and paving for the new administration block in Kwale town, had not been done.

vi. All electrical works and piping work at Marere treatment plant was yet to be done. Additionally, the project did not have any signboard erected to show ownership and financiers of the project.

In the circumstances, the intended benefits may not be obtained on time as intended.

1364. Construction of Mwache Dam

1364.1. Slow Implementation of Mwache Dam Construction Project

The statement of financial position reflects property plant and equipment balance of Kshs.10,056,431,040 as disclosed in Note 20 to the financial statements in respect to construction of Mwache dam and other construction works which includes Kshs.2,925,672,307 for the construction of Mwache Multipurpose Dam Project. However, physical inspection done in August, 2025 revealed that cumulative progressive construction of the dam was at 41% complete and the target completion date was 21 August, 2026. However, completion set date was not feasible hence will lead to several works not being completed within the set timelines.

Further, Priority 3 areas which covers part of main dam operational and impoundment areas and part of the lower check dam reservoir areas, silt pile and part of main and lower check dam reservoirs areas within the Mwavumbo Group Ranch. All these areas will be needed for the impoundment of the dam and for the deposition of the silt removed from the dam during its operational phase. Land acquisition maps and land parcels lists provided by the project surveyor (Geomatics) indicated that there was a total of nine hundred and sixty-eight (968) land parcels affected by the project. Priority area three had been divided in two (2) sections namely 3A and 3B with 99 and 155 to be compensated respectively totalling to two hundred and fifty-four (254). However, 3A and 3B had sixteen (16) and twenty-one (21) not compensated respectively totalling to thirty-seven (37) out of two hundred and fifty-four (254).

In the circumstances, the delay in project implementation may lead to possible project increased costs and the stakeholders may not get value for money.

1364.2. Operationalizing the Grievance Redress Mechanism

The Resettlement Action Plan Implementation Consultant (RIC) has been able to operationalize the Grievance Redress Mechanism (GRM) as per the Resettlement Action Plan (RAP) to assist in amicably resolving existing and emerging grievances amongst the Project-Affected Person (PAP) and the PAP community. However, the RIC reported that at the sub county level was a resolution rate of 88%.

In the circumstances, the intended benefits may not be achieved by the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1365. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1366. As required by the Financing Agreement Credit No.5543 - KE/70040 - KE, dated 13 January, 2015 between International Development Association (IDA) and the Republic of Kenya, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR IRRIGATION

BURA REHABILITATION DEVELOPMENT PROJECT CREDIT NUMBERS: BADEA 0595, KUWAIT 752, OPEC 1154P - NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1367. Failure to Transfer Counterpart Funds to Project Account

Review of the budget presented for audit revealed that the Bura Rehabilitation Development Project had a budget of Kshs.250,000,000 which was to be received through the National Irrigation Authority which is the implementing entity. However, a scrutiny of the Equity Bank account dedicated for the project revealed that only Kshs.112,500,000 was transferred by NIA to the project account on 11 September, 2024 resulting to an un-explained variance of Kshs.137,500,000. Further, it is not clear how much was received for the project during the period. In addition, It was not clear how the project has been financing its planned operations.

Further, review of the bank statements and cashbooks revealed that all the project expenditures are processed through the National Irrigation Authority's bank accounts. This results in co-mingling of donor funds with the entity's own funds and undermines the principles of fund accountability, transparency and traceability. It also increases the risk of misappropriation, misclassification of expenditures and non-compliance with donor financing agreements and public financial management regulations.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.86,785,384 could therefore not be confirmed.

Emphasis of Matter

1368. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2025 reflects total receipts budget and actual amounts on comparable basis of Kshs.680,000,000 and Kshs.597,573,230 respectively, resulting in a shortfall of

Kshs.82,426,770 or approximately 12% of the approved budget. Similarly, the statement reflects actual on comparable basis expenditure of Kshs.1,444,274,121 against an actual amount of Kshs.597,573,230 resulting in an over-absorption of Kshs.846,700,891 or approximately 141% of the actual receipts.

Further, the over-absorption was not supported with approval by the Cabinet Secretary contrary to Section 47 of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to seek approval of the Cabinet Secretary and indicate the actions taken to mitigate any budget variations and the Management did not explain the source of excess spending.

In the circumstances, the expenditure amounting to Kshs.1,444,274,121 could not be confirmed.

1369. Failure to Provide Itemized Budget

The statement of comparison of budget and actual amounts indicates the budget and actual amounts, which could not be traced to any approved budget because approved itemized budget for the entity was not provided. Although the development budget was included as one line item in the development budget of the parent entity (National Irrigation Authority), Management explained that there was no itemized budget for the entity since they only prepare a program-based budget intended for projects confirmed. The accuracy and authenticity of the amounts disclosed in the statement of comparison of budget and actual amounts could therefore not be confirmed.

Further, it was not possible to establish how the project expenditures are being controlled and monitored in the absence of an approved budget and if there are safeguards in place to prevent misallocation or misuse of funds in the absence of a documented and approved financial plan in form of a budget. In addition, it was not possible to establish how the project activities were being prioritized, costed and if the project complied with the Public Finance Management Act and relevant Treasury circulars requiring budget approval for donor-funded projects.

In the circumstances, Management was in breach of the law and the authenticity of the budget provided for audit could not be confirmed.

My opinion is not modified in respect of these matters.

Other Matter

1370. Unresolved Prior Year Audit Matters

In the audit report of the prior year, two issues were raised under Report on Lawfulness and Effectiveness in Use of Public Resources, Emphasis of Matter and Report on the Effectiveness of Internal Controls, Risk Management and Governance. These include unconfirmed cash and cash equivalent and slow implementation of Project in Lot 2-Constuction of New Main Canal Associated civil works from Korakora to Nanighi. Review of the status during audit of 2024/2025 revealed that the matters remained unresolved.

Other Information

1371. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1372. There were no material issues relating to lawfulness and effectiveness in the use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1373. Project Implementation Status

1373.1. Bura Gravity Lot 1

The National Irrigation Authority awarded contract for Bura Gravity Lot 1 to Afrikon Limited at a cost of Kshs.1,786,927,858 for construction of intake weir and other works on Bura gravity project. A contract was signed and works commenced on 3 October, 2019. Field inspection carried out in July, 2025 revealed that, the contractor was not on site, the project did not have a signboard as specified in the bill of quantities and works on the housing units had stalled. Further, construction of store, staff houses, roads and parking area were not done and the project is poised to stall as the Management did not provide any action plan to ensure that the contractor is back and work resumes.

1373.2. Bura Gravity Lot 2

The National Irrigation Authority awarded contract for Bura Gravity Lot 2 to a contractor at a cost of Kshs.1,764,278,550 for construction of main canal Bura Gravity project. The contract was signed and works commenced on 7 April, 2021. However, Field inspection carried out in July, 2025 revealed that, the project did not have a sign board as stipulated in the bill of quantities, parts of the main canal did not have a dyke as stipulated in the bill of quantities, construction of the service road was not complete and parts of the dyke have been swept away by the flood.

Further, animal & human bridges and crossings did not have guard rails as indicated in the bills of quantity, parts of the dyke are being used as service road and thus it may not serve the intended purpose and Canal stone lining had not been done.

MWEA IRRIGATION DEVELOPMENT PROJECT - LOAN AGREEMENT NO. KE - P27 – NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1374. Unexplained Variance in Funding Summary

Paragraph 2.7 on funding summary indicates source of funds amount received to date of Kshs.15,805,315,790 against application of fund amounting to Kshs.15,237,303,005 leading to un utilized balance to date of Kshs.568,012,785. However, the statement of

financial position reflects cash and cash equivalent balance of Kshs.2,184,018 resulting in an unexplained variance of Kshs.565,828,767.

In the circumstances, the accuracy of the funding summary information and cash and cash equivalent balance of Kshs.2,184,018 could not be confirmed.

Emphasis of Matter

1375. Budgetary Control and Performance

The statement of comparison of budget and actual amount reflects final revenue budget and actual on a comparable basis of Kshs.589,000,000 and Kshs.489,221,814 respectively resulting in an underfunding of Kshs.99,778,186 or 17%, Similarly, the statement reflects actual expenditure of Kshs.824,910,458 against actual receipts of Kshs.489,221,814 resulting in overutilization of Kshs.335,688,644 or 69% of the actual receipts.

The under-funding affected the planned activities and may have impacted negatively on delivery of services to the public.

1376. Amount Withdrawn but Not Claimed

The Statement of Special (Designated) Account Reconciliation for the Project reflects total amount advanced to the Project totalling JPY 136,005,707, equivalent to Kshs.122,133,125 at the exchange rate of Ksh.89.8 per 100 JPY as of 30 June, 2025. During the year the Project Management justified Nil expenditure leaving a balance of JPY 136,005,707 (Kshs.122,133,125) which expenditure returns had not been submitted to The National Treasury by the close of the financial year.

My opinion is not modified in respect of these matters.

Other Matter

1377. Unresolved Prior Year Audit Matters

In the audit report of the prior year, several issues were raised under Report on lawfulness and Effectiveness in Use of Public Resources, Emphasis of Matter and Report on the Effectiveness of Internal Controls, Risk Management and Governance. However, management has not resolved some of the issues or given explanation for failure to resolve them as at 30 June, 2025. The unresolved prior year audit issues are as detailed below:

No.	Audit Issue
1.	Budgetary Control and Performance
2.	Slow Absorption of Project Funds
3.	Avoidable Interest on Delayed Payment
4.	Slow Implementation of the project
5.	Unauthorized Reallocation of Funds

Other Information

1378. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1379. Operating a Bank Account without The National Treasury Approval

Review of a letter dated 11 March, 2024 ref:AG.3/88/1Vol.76/ (54) revealed that National Irrigation Authority was granted authority by The National Treasury to open and operate one bank account for Mwea Irrigation Development Project with a local bank namely Mwea Irrigation Development Project Account. However, examination of the financial records revealed the project holds another account in a different bank, whose authority to open and operate was not sought from The National Treasury. Additionally, the account had no transactions other than interest earned on funds held in the account.

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

1380. Irregular Co-Mingling of Funds

Review of bank statements and cash book, revealed funds transfers from the Mwea Irrigation Development Project account to other projects, Irrigation Scheme accounts and National Irrigation Authority accounts. Further, an analysis of payment schedules provided for audit revealed that, some of the expenditure incurred in the Project were paid from other accounts other than the designated project bank account.

In addition, review of the Project's prior year and quarterly financial statements revealed inclusion of two bank accounts in the cash and cash equivalent balances which related to the National Irrigation Authority. This was contrary to Section 76(1) of the Public Finance Management Act, 2012 which provides that each project should maintain only one bank account.

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

1381. Delay in the Projects Completion

1381.1. Fencing Works at Thiba Dam

The National Irrigation Authority entered into a contract agreement dated 1 December, 2022 with a contractor for fencing works at Thiba Dam (6,500m), Phase 1 at a contract sum of Kshs.26,646,500 and contract period of 6 calendar months. Gross amount approved for payment as per the Interim Payment Certificate was Kshs.15,995,465. Review of records provided revealed the following;

i. Interim Payment Certificate 1 amounting to Kshs.15,995,465 was the last certificate raised on 10 March, 2023 and approved in June, 2023 representing 54% payment status and 61% physical progress. However, as at time of audit in July, 2025 no subsequent interim payment certificates were raised and in absence of progress reports for the works, project completion status as at time of audit could not be confirmed.

ii. The Project's commencement date was 1 February, 2023 as revealed in Commencement Order letter dated 1 February, 2023 by the resident engineer. The completion date was thus expected to be on 31 July, 2023 since the contract period was six (6) calendar months. However, as at time of audit, the contract period had lapsed by twenty-four (24) months. No justification had been provided for the delayed fencing works and it could not be ascertained whether there was an approved contract extension. Further, performance bond was set to expire on 24 August, 2023. It could not be confirmed whether performance guarantee period was renewed upon delayed completion of fencing works.

In the circumstances, value for money spent on the Project could not be confirmed.

1381.2. Fencing Works at Thiba Dam Phase 2

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment balance of Kshs.15,704,284,215. Included in the balance are additions of Kshs.846,573,396, which further include Kshs.15,653,415 for fencing works at Thiba Dam Phase 2, at a contract sum of Kshs.25,949,000. Review of the Contract Agreement dated 10 January, 2023 revealed that the contract period was six (6) calendar months. Physical verification in July, 2025 revealed that the work was at 60% physical progress and the contract period had lapsed. However, Engineers commencement order for the fencing works, number of months lapsed since expiry, justification for delayed completion, contract extension approval and renewal of performance guarantee were not provided.

In the circumstances, value for money on the Kshs.15,653,415 spent on the Project could not be confirmed.

1381.3. Mwea Irrigation Development Project Package II Lot 1

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment balance of Kshs.15,704,284,215. Included in the balance are additions of Kshs.846,573,396, which further include Kshs.19,114,622 for the construction of civil works of irrigation facilities for Mwea Irrigation Development Project, Package II Lot1 whose contract was signed on 22 February, 2021 at the contract price of Kshs.920,117,880. Commencement date of the Project was 22 March, 2021 with expected completion date of 15 July, 2022. Management approved ten (10) project extensions with the latest revised completion date of 9 January, 2025. Interim payment certificate numbers 1-10 amounting to USD 2,258,119.17 were raised and certified. Review of Project records revealed that the contractor had been operating without a valid performance security from the 4 of April, 2024 till 20 December, 2024. However, no documentary evidence was provided to confirm that Management had requested for the guarantee and the contractor failed to comply.

Management issued a notice of contract termination to the contractor on 5 December, 2024 citing slow working progress and failure to renew a performance security guarantee that was valid and enforceable.

Project verification carried out in July, 2025 revealed that a new contractor was already on site and taken over the works. However, a contract termination clearance from the Attorney General, site handing over reports after the termination of the contract and reports from the contract management team to corroborate the contract termination were not provided to confirm the termination process was approved.

In the circumstances, value for money spent on the Project could not be confirmed.

1381.4. Construction of Civil Works for Drainage Facilities and Other works Package II - Lot 2

The statement of financial position and as disclosed in Note 11 to the financial statements reflects property, plant and equipment balance of Kshs.15,704,284,215. Included in the balance are additions of Kshs.846,573,396, which further include Kshs.98,952,093 for the construction of civil works of drainage facilities and other works at Mwea Irrigation Development Project, Package II Lot 2 whose contract was signed on 25 February, 2021 at the contract price of USD 6,487,899.83. The Project commenced on 22 March, 2021, for a contract period of 18 months, with expected completion date of 22 July, 2022. Ten (10) contract period extensions totalling to 1022 days cumulatively were approved with the latest revised completion date of 12 May, 2025. However, Management did not provide extension request from the contractor and contract evaluation committee's minutes and recommendation to justify the approval for the tenth extension.

Field verification of the Project conducted in July, 2025 revealed that the Contractor was not on site and construction works on the engineer's office and site clinic had stalled. In addition, excavation of the Mutithi main and branch drains had been partly done and construction of the connecting roads was not complete. Further, gates and ancillary works, electrical works and connectivity had not been done.

In the circumstances, value for money spent on the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1382. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RWABURA IRRIGATION DEVELOPMENT PROJECT NO.1109118900 - NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1383. Inaccuracies in the Financial Statements

Review of records provided for audit revealed the following inconsistencies;

i. The statement of financial position reflects property, plant and equipment comparative balance of Kshs.1,062,274,546 as disclosed in Note 9 to the financial statements while the audited prior year report reflects a balance of Kshs.955,830,102 resulting to an unreconciled variance of Kshs.106,444,444. Further, the property, plant and equipment balance of Kshs.1,062,900,070 has not been supported with an Annexure of nature and specifications of the projects with the amount represented.

ii. The statement of cash flows reflects acquisition of non-financial assets balance of Kshs.13,101,710, which has not been reflected under the statement of financial position and statement of changes in net assets respectively.

iii. The statement of financial performance reflects use of goods and services of Nil amount while the statement of comparison of budget and actual amounts reflects an amount of Kshs.728,970. Similarly, the certified works of Kshs.12,372,740 reflected in the statement of comparison of budget and actual amounts was not included under property, plant and equipment as disclosed in Note 9 to the financial statements. The inconsistencies were not explained. Further, Note 9 to the financial statements under property, plant and equipment reflects assets additions totalling Kshs.625,524 which could not be reconciled to the use of goods and services expenditure of Kshs.728,970 to the financial statements.

iv. Note 10 and Note 11 to the financial statements reflects trade and other payables and third-party deposits comparative balances of Kshs.12,476,186 and Kshs.93,968,259 respectively while the audited financial statements for the year ended 30 June, 2024 under other important disclosures reflects pending accounts payable and other pending payables balances of Kshs.14,379,584 and Kshs.102,527,566 respectively. The variances of Kshs.1,903,398 and Kshs.8,559,307 were not explained or reconciled.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

Emphasis of Matter

1384. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipts budget and actual on a comparable basis of Kshs.108,000,000 and Kshs.20,372,740 respectively, resulting to an under-funding of Kshs.87,627,260 or 81% of the budget. Similarly, the project spent Kshs.13,101,710 against actual receipts of Kshs.20,372,740 resulting to an under expenditure of Kshs.7,271,030 or 36% of the actual receipts.

The under-funding and under expenditure affected the planned activities and may have impacted negatively on the Project completion and service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

1385. Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under the Report on Financial Statements and on Lawfulness and Effectiveness in Use of Public Resources respectively. Review of the status during audit of the Rwabura Irrigation Development Project - National Irrigation Authority in 2024/2025 revealed that the following matters remained unresolved.

No.	Audit Issue
1.	Unsupported Cash and Cash Equivalents
2.	Delay in Processing Payment Certificates
3.	Project Implementation and Viability
4.	Failure to Stipulate Draw Down Terms

Other Information

1386. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1387. Undrawn Loan Balances

The financial statements under project information and overall performance reflects EUR 952,165 equivalent of Kshs.137,713,413 as undrawn balance from FIEM-Spanish Fund. The undrawn balance is subject to commission as spelt out in clause eight of the financing agreement, which is an avoidable cost to the tax payer. Further, the project information states that the project is for a duration of three years from 2020 to 2023 with an extension to December, 2025. No explanation was provided for failure to utilize the funds. Further, this is contrary to Clause eight of the financing agreement which states that an availability commission of 0.1% (zero-point one percent) per year shall be applied to all the amounts that have not been withdrawn during the drawdown period as set out in clause five, to commence six (6) months after the agreement comes into effect.

In the circumstances, the Project Management Unit (PMU) was in breach of the financing agreement.

1388. Multiple Issuance of Imprests

Review of a sample of imprest warrants provided for audit revealed that additional imprests totalling Kshs.173,375 was issued to officers with outstanding imprests contrary to Regulation 93(8) of Public Finance Management (National Government) Regulations, 2015 which states that, in order to effectively and efficiently manage and control the issue of temporary imprests, an Accounting Officer or AIE holder shall ensure that no second

imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

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

1389. Irregular Procurement of Hospitality Services

Review of payment vouchers provided for audit revealed that Management engaged suppliers to provide hospitality services for Kshs.367,000. However, support documents which include, local purchase orders, request for quotations from bidders to confirm the services was procured competitively, were not provided for review. This was contrary to Section 106(a)(b) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of a procuring entity to give the request to such persons as are registered by the procuring entity and the request shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three (3) persons, unless that is not possible;

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

1390. Inconsistencies in Rwabura Irrigation Development Project

1390.1. Commissioning of a Non-Functional Project

As per the application of loan funds, the Project as at 30 June, 2025 had absorbed an amount totalling Kshs.968,931,812 equivalent of EUR 7,086,193. However, during physical verification of the project in June, 2025, more than one year following the commissioning, the following observations on the status of the Project were made;

i. The Project was commissioned on 16 February, 2024. However, after the commissioning, there had not been any activity to date.

ii. A visit of the water intake site in Rwabura revealed that it was filled with silt which needs to be scooped manually with no place to deposit the waste since the intake is sandwiched between steep right and left river banks. The intake distillation requires major works of high-tech machinery to improve waterflow for viability of the Project.

iii. The intake had been vandalized, there was no operation and maintenance team on site and repair works for the damages caused during the long rains season on both Thirika and Rwabura conveyance had not commenced.

iv. Farmers or beneficiaries who had collected their irrigation kits and planted crops had the crops dying since there was no water flowing into their fields as conveyance works completion were still pending and the perimeter fence had not been done exposing the office block to vandalism.

In the circumstances, the value for money spent on Project could not be confirmed.

1390.2. Viability of the Project

1390.2.1. Rwabura System

During the field verification, it was noted that the water intake was more than half filled with trash, twigs, trees and soil deposits to the point of blocking the sluice gate. However, the fittings were not affected by the floodwaters and remained in good condition. Further, gabion boxes were markedly wasting away and PVC backfill material along the pipeline was lost as a result of the landslide raising concerns on the stability and functionality of the conveyance system. In addition, manual removal of the silt may be a mirage and the alternative methods of distillation, that is mechanical and hydraulic dredging could be difficulty due to the steepness of the area making the realization of the project bleak.

Further, the audit for the Rwabura system highlighted significant concerns regarding the feasibility study carried out before the actual inception of construction and integrity of the infrastructure. The gabion boxes were wasting away as a result of long periods of non-use and landslides compromising their efficiency in soil erosion control and water management. This was contrary to Regulation 72(2) of the Public Finance Management (National Government) Regulations, 2015 which requires that in identification and designing of projects funded by development partners, the areas covered and amounts allocated shall be determined by objective criteria and as far as possible on need-based formula which may include geographical area, population and poverty index.

1390.2.2. Theft of Irrigation Kits Accessories and Vandalism

Review of correspondences from the interim Chairman of Rwabura Irrigation Project Committee letter ref: RIDP/NIA/05/10/24 dated 7 October, 2024 revealed that Rwabura site lost; twenty-eight (28) air valve fittings, four (4) 350mm pipes, three (3) washout GL valves and Spigot fittings. However, information in regard to value of the lost items or whether they had been insured was not provided for audit review. Further, a police report or relevant case documents regarding the case were not provided for review and therefore conclusion on the theft case reports could not be confirmed.

In the circumstances, Management was in breach of the law and value for money may not have been obtained on the money already spent on the Project.

1390.2.3. Ambiguous Draw Down Terms in the Financing Agreement

Review of the credit facility agreement and the commercial contract agreement for construction works revealed that there were no stipulated key deliverables attached to loan draw downs. In the course of the financial year, a total of nineteen (19) Interim Payment Certificates (IPCs) were certified for payment amounting to EUR 3,094,846. (Equivalent to Kshs.487,961,702) and translating to 45% of the contract price. Its therefore not clear on the specific project timelines and milestones achieved to trigger 45% drawn downs.

In the circumstances, the absence of stipulated key deliverables in loan drawdowns poses significant risks that affects financial management, compliance, operations, reputation and future funding opportunities.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1391. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1392. As required by the Credit Facility Agreement between the Government of Spain and the Republic of Kenya, I report based on my audit, that: 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. Further, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and the Project's financial statements are in agreement with the accounting records and returns.

UPGRADING OF AHERO IRRIGATION DEVELOPMENT PROJECT GRANT NO. HS00124000 – NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1393. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1394. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue and expenditure budget of Kshs.230,000,000. Actual revenue realized was Kshs.159,253,600, while actual expenditure amounted to Kshs.486,833. This resulted in an underfunding of Kshs.70,746,400 (31%) and an underutilization of Kshs.229,513,168 (99%). The significant underutilization of resources may adversely affect timely project implementation, particularly considering that the project is expected to end in 2026.

My opinion is not modified in respect of this matter.

Other Information

1395. There were no material issues relating to Other Information

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1396. There were not material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1397. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR WATER AND SANITATION – VOTE 1109

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1398. Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents balance of Kshs.301,333,989. However, review of the cashflow from financing activities reflect an adjustment of return to exchequer of Kshs.1,160,484 which was not supported with a bank transaction details. Further, included in the cash flow statement is increase in the retention and deposit Kshs.22,268,521 as investing activities. However, the same was not investing activity in nature.

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

1399. Unsupported Adjustments on Statement of Changes in Net Assets

The statement of changes in net assets reflects the total accumulated deficit balance of Kshs.583,018,391. Included in this statement are adjustments for assets as per valuation of Kshs.63,911,963. However, the valuation report to support the balance was not provided for review. Further, adjustment to deficit for the period by returns to exchequer of Kshs.1,160,484 was also not supported.

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

1400. Cash and Cash Equivalents – Dormant Account

The statement of financial position reflects cash and cash equivalents balance of Kshs.301,333,990. Examination of schedule of bank accounts maintained by the State Department revealed that included was a dormant bank account, under the name of Kenya Italy Debt Project. The account has remained inactive since 2022 when the related project was completed.

However, key financial records including bank statements, cashbooks and bank reconciliation statements for the dormant account were not provided for verification. Therefore, it was not possible to verify whether there has been any balance in this account. Management did not provide the explanation unto why the account was not closed after the completion of the project.

In the circumstances, the accuracy and completeness of cash and cash equivalent balance of Kshs.301,333,390 could not be confirmed.

1401. Outstanding Imprests

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.1,779,724 as disclosed in Note 14 to the financial statements. However,

included in the balance was Kshs.919,512 which has been outstanding for over two years and no recoveries have been made. The supporting document indicated that some of the employees who did not surrender the imprest retired from employment before the recoveries were made. While others moved to other Government Departments making recoverability of the outstanding imprest uncertain. This was contrary to Regulations 93(5) and (6) of the Public Finance Management (National Government), Regulations,2015 provides that a holder of temporary imprest shall account or surrender the imprest within seven (7) days after returning to duty station.

In the circumstances, the recoverability of the outstanding imprest of Kshs.919,512 could not be confirmed.

Emphasis of Matter

1402. Budgetary Control and Performance

The statement of comparison of budget and actuals reflects final budget of Kshs.33,267,486,537 and actual receipt on comparable basis of Kshs.26,351,482,603 resulting to underfunding of Kshs.6,916,003,934 or 20%. Similarly, the statement reflects final budget of Kshs.33,267,486,537 against an actual expenditure of Kshs.26,330,595,479 resulting to underutilization of Kshs.6,936,891,058 or 21%.

The underfunding and underutilization may have hindered implementation of planned activities, impacting negatively on the service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

1403. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under Report on Financial Statements and Report on Lawfulness and effectiveness in use of Public Resources. However, as indicated in the Progress on Follow Up on Prior Year Auditor's Recommendations section of the financial statements, all these issues had not been resolved as at 30 June, 2025. Management had not provided any satisfactory reasons for the delay in resolving the prior year audit issues for 2023/2024 as detailed below;

No.	Audit Issue
1.	Long Outstanding Retention and Deposits
2.	Long Outstanding Imprests and Advances
3.	Slow Implementation of Projects
4.	Borehores with no Yield or Low Yield of Water
5.	Non-compliance with Law of Gender Balance
6.	Unauthorized Reallocation of Grants
7.	Lack of Stakeholders' Communication Policy
8.	Lack of Risk Management Policy

1404. Unresolved Issues in 2020/2021 Report

Parliament had directed the State Department to resolve fifty-one (51) issues which were listed in the report of 2020/2021. Review of the implementation report provided by the

State Department for the implementation of prior years' reports by external auditors revealed twenty-four (24) audit issues whose recommendations had not been implemented as detailed below;

No.	Audit Issue
1.	Pending Bills
2.	Unsatisfactory Implementation of Project - Sagana River Restoration Project
3.	Delayed Projects Completion - Kanini Irrigation Project Tharaka Nithi
4.	Delayed Implementation of Maragua Bulk Water Supply and Irrigation
5.	Delay in Project Implementation
6.	Water Pollution in Athi River
7.	Non-Construction of Temporary Site Offices
8.	Costly Price Adjustment on Construction of Thwake Multipurse Water Development Program
9.	Failure to Adhere to Approved Annual Work
10.	Failure to Drill Community Boreholes at Thwake Multi-purpose Water Development Program
11.	Lump Sum Amount in Bill of Quantities for Access Roads.
12.	Lump Sum Amount in Bill of Quantities-Manooni Water Project
13.	Unsupported Expenditure
14.	Failure to Close Project.
15.	Stalled Project- Changamwe Re-pooling Sewer Network
16.	Delayed Project Implementation
17.	Project Verification
18.	Acquisition of Assets
19.	Ownership of Project Vehicles
20.	Expansion of Water Supply Systems in Kericho
21.	Irregular Contract Variation
22.	Sustainability of Project
23.	Contingent Liability Sustainability of Project
24.	Slow Implementation of Works

This was contrary to Section 53 of the Public Audit Act, 2015 which requires the Accounting Officer of a state organ or public entity within three months after Parliament has considered and made recommendations on the audit report take the relevant steps to implement the recommendations of parliament on the report of the Auditor-General; or give explanations in writing to the Parliament on why the report has not been acted upon.

Other Information

1405. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1406. Unsatisfactory Implementation of Projects

The statement of financial performance reflects transfers to other government entities amounting to Kshs.26,341,925,507 as disclosed in Note 11 to the financial statements. Included in this amount were payments that were made in respect to the construction and implementation of water sector projects. However, review of project records and subsequent physical verification revealed several shortcomings in the implementation of the projects, as outlined below;

1406.1. The Desilting and Augmentation of the Siroriondo Water Pan – Bomet County

The State Department entered into a contract on 21 March, 2025 for Lot 1 at a contract sum of Kshs.24,256,073. The works commenced on 29 March, 2025, with a contract period of six months, and the implementation status report prepared in May, 2025 indicated 85% completion. As at the time of audit, a total of Kshs.19,034,965 had been paid. However, physical inspection conducted in July, 2025 established that the water pan and associated facilities including two toilets and two bathrooms appeared to have been constructed on privately owned land. No land ownership or acquisition documents were presented for verification, resulting in uncertainty over the public's continued access to the facility should the land owner deny entry.

1406.2. Desilting and Augmentation of the Cheboyo Water Pan- Bomet County

The State Department entered into a contract on 21 March, 2025 for Lot 3 at a contract sum of Kshs.27,192,808. The works commenced on 29 March, 2025 with a contract period of six months, and the implementation status report prepared in May, 2025 indicated 75% completion. As at the time of the audit, payments totalling Kshs.19,034,965 had been made. Physical verification conducted in July 2025 revealed that the water pan may have been on privately owned land since no ownership documents were availed for verification.

Further, the water pan demonstrated signs of poor workmanship. The audit noted inadequate compaction of the embankment walls, resulting in breakage and inability of the structure to retain water. This raised significant concerns regarding the integrity of the civil works, the safety of downstream communities, and the long-term durability of the water pan.

In the circumstances, the intended purpose and value for money on the expenditure on desilting and augmentation of water pans could not be confirmed.

1407. Completed Boreholes with Low or No-Productivity

The State Department entered into various contracts for the drilling, equipping, and civil works of boreholes across several locations. However, review of project documentation and subsequent physical verification carried out in July, 2025 revealed notable anomalies.

1407.1. Shivagala Primary School Borehole Project in Shinyalu Constituency - Kakamega County

The State Department entered into the contract on 16 May, 2023 at a contract sum of Kshs.9,290,150. According to the project implementation status report as at June, 2024, the project was reported as complete and a total of Kshs.9,270,830 had been paid by the time of the audit. However, physical verification conducted in July, 2025 revealed that the borehole did not have water. Interviews with the School Management and community members indicated that from the time the project was completed, the water yield had consistently been very low. As a result, the community has not benefited from the project despite full payment and completion of the project.

1407.2. Matisi Kwa Hamisi Primary School Borehole in Saboti Constituency - Kitale County

The State Department entered into a contract on 16 May, 2023 at a contract sum of Kshs.9,822,678. The project implementation status report indicated that the project was completed, with a completion certificate issued on 24 November, 2023, and a total of Kshs.9,882,678 paid as at the time of audit. However, physical verification in July, 2025 established that the borehole did not have water. Interviews with the School Management and community revealed that, since completion, the borehole had consistently produced extremely salty water and even then, only for about two hours per day hence, the community has not benefited from the project.

In the circumstances, it is unclear whether a proper feasibility study was undertaken to ascertain the viability of the boreholes and the suitability of the water for human consumption before project implementation.

1408. Avoidable Interest on Delayed Payments

The State Department entered into a contract with a Corporation on 14 February, 2020 at a contract sum of Kshs.889,397,521 for the Maragua Bulk Water Supply and Irrigation Project. The contract commenced on 16 July, 2020 with an initial completion date of 15 January, 2022, later extended to 15 July, 2022 at no additional cost. Interim Payment Certificate (IPC) No. 10 amounting to Kshs.103,280,576 was approved, but only Kshs.50,000,000 was paid. Included in the approved certificate was interest of Kshs.8,793,705 arising from delayed payments.

In the circumstances, the value for money on the interest payable of Kshs.8,793,705 could not be confirmed.

1409. Non-Compliance with Treasury Circular on Guidelines on Transition from Cash to Accrual Accounting

The National Treasury Circular No.03/2025 required all the Accounting Officers to establish a Cash to Accrual Transition Committee at entity level. The committee was to oversee and direct transition process over three years. However, review of the Management minutes and enquiry from Management revealed that the State Department does not have Cash to Accrual Transition Committee neither did it have its own transition road map and the project manager as guided the Treasury circular.

In the circumstances, Management was in breach of the Government guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1410. Failure to Comply with the Approved Staff Establishment

Review of Human Resources records revealed that State Department has an approved establishment of four hundred and seventy-nine (479) officers against in-post staffing of three hundred and eighty-seven (387) hence it was understaffed by ninety-two (92) officers or 19%.

In the circumstances, the operations of the State Department may be hindered due to understaffing thus affecting the effectiveness and efficient delivery of service to the public.

1411. Non-Compliance with One-Third of Basic Salary Rule

Review of the Integrated Payroll and Personnel Database (IPPD) and Human Resource Information System (HRIS) payroll data for the year under review revealed that nine (9) employees received a net salary of less than one-third (1/3) of their basic salary. This was contrary to Section 19(3) of the Employment Act, 2007 which provides that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two thirds (2/3) of such wages or salaries.

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

1412. Lack of Succession Plan for the Management Staff

The statement of financial performance and Note 9 to the financial statement reflects employee costs of Kshs.532,463,107. Review of the personnel files for the fiduciary management revealed that Heads of following Directorates i.e., Water Infrastructure Management, Sanitation Management, Water Resources and Heads of Accounts have not been filled since the approval of the staff establishment and there was no evidence of a plan to fill the vacant positions.

In the circumstances, the lack of optimal staffing levels may have impacted negatively on the Department's ability to meet its target objectives.

1413. Weaknesses in ICT Controls

Review of the IT Internal Control Systems of the entity revealed that the State Department does not have a backup system or a documented data retention strategy in place, exposing it to significant operational and financial risks in the event of a disaster. The ICT team was unable to demonstrate that backups were being performed, verified or successfully completed to an offsite recovery point thus the State Department remains highly vulnerable to the loss of key data and financial records. Further, there was no evidence of ICT-related staff training during the year under review, nor any indication that data protection requirements had been mainstreamed within the period. This gap limits

staff capacity to manage ICT risks and raises concerns about compliance with data protection standards.

In addition, the State Department central server room was also found to be in a dilapidated condition. It lacks a proper power backup system to support the LAN and departmental switches, does not have a reliable air conditioning system to regulate room temperatures, and is without humidity detectors essential for environmental control. The fire extinguishers installed in the server room were last serviced on 1 May 2021, casting doubt on their functionality and the State Department preparedness to respond to fire-related incidents.

Further, the State Department does not have a policy governing physical access to IT infrastructure and its surroundings. Furthermore, there are no formal, documented, and tested emergency procedures to guide staff in case of an incident. The absence of such protocols increases the risk of confusion, unsafe responses, and disruption of critical business operations during emergencies.

In the circumstances, the effectiveness of the State Departments IT controls could not be confirmed.

1414. Lack of Risk Management Policy

During the financial year under review, it was observed that despite the internal audit having a risk assessment matrix that ranks risks and guides their annual internal audit plans, the State Department did not have in place an institutionalized Risk Management Policy hence no formal approved processes and guidelines on how to mitigate operational, legal and financial risks such as; Identifying business risks relevant to financial reporting objectives, estimating the significance of the risks, assessing the likelihood of their occurrence and deciding about actions to address those risks

In the circumstances, Management may not be in a position to evaluate, rank and prioritize critical risks and channel resources towards mitigating identified risks. Ultimately the utilization of resources and quality of service may be negatively affected

DONOR FUNDED PROJECTS

THWAKE MULTI-PURPOSE WATER DEVELOPMENT PROGRAM PHASE 1 (AfDB LOAN NO. 2100150029993, 2000200003351, AGTF NO. 5050200000501 AND AfDB GRANT NO. 2100155025973)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1415. There were no material issues noted during the audit of the financial statements of the Program.

Emphasis of Matter

1416. Trade and Other Payables

1416.1. Unremitted Value Added Tax (VAT)

The statement of financial position and as disclosed in Note 14 to the financial statements reflects trade and other payables balance of Kshs.3,648,733,665. Included in this amount was Kshs.176,357,882 attributable to VAT. Further, included in the balance was Kshs.6,357,882 relating to the year under review for other suppliers whereas the balance of Kshs.170,000,000 relates to the contractor's payment certificates. The Management did not provide a clear plan on how the outstanding tax balance will be cleared.

In the circumstances, the Program may attract penalties, which will result in avoidable and ineligible cost to the Program

1416.2. Amount Withdrawn and Not Claimed

The statement of Special (Designated) Account Reconciliation for the Project reflects an amount withdrawn and not claimed of USD 77,206 (Kshs.9,977,663) for Designated held with the Central Bank of Kenya. These funds represent cumulative transfers to the local project bank account for which expenditure returns had not been submitted to The National Treasury by the close of the financial year. However, the details of the amount and reasons for failure to submit expenditure returns have not been provided for review.

In the circumstances, delays in the submission of expenditure returns distorts the reported Projects expenditures for the year.

1417. The Resettlement Action Plan

The Program acquired nine thousand two hundred and seventeen (9,217) acres of land for the dam Program displacing a total of one thousand eight hundred and twelve (1,812) persons. Only four (4) with a total acreage of forty-nine (49) out of one thousand eight hundred and twelve (1,812) Program affected persons (PAPs) had not been compensated as at 30 June, 2025.

The program had spent Kshs.3,602,337,155 on land acquisition and related costs. However, the unpaid PAPs were due to family disputes (2 parcels) and court case (2 parcels). Failure to compensate the Program Affected Persons may lead to unresolved conflicts

My opinion is not modified in respect of these matters.

Other Matter

1418. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the 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 some of the issues or given any explanation for failure to resolve them as at 30 June, 2025 as shown below: -

No.	Audit Issue
1.	Pending Bills
2.	Slow Implementation of the Project
3.	Increase in the Contract Price
4.	Additional Project Cost
5.	Irregular Payments to the Contractor
6.	Unremitted Value Added Tax
7.	Incomplete and Faulty Works for Community Social Responsibility Projects
8.	Lack of Ownership Documents - Title Deed
9.	Lack of National Project Steering Committee Meetings

Other Information

1419. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1420. Avoidable Interest Expense

The statement of financial position and as disclosed in Note 14 to the financial statements reflects trade and other payables balance of Kshs.3,648,733,665. Included in the balance was Kshs.468,137,276 being interest expense due to delayed payments to the Contractor. Further, the balance includes an amount of Kshs.406,222,489 which had been outstanding for more than two years. In addition, the cumulative interest had increased by Kshs.85,000,891 from the previous financial year's balance of Kshs.383,136,385. The additional interest payable could have been avoided had all payments due to the contractor been made on time.

In the circumstances, the value for money and proper use of Project's funds on the interest payable amount of Kshs.468,137,276 could not be confirmed.

1421. Program Implementation

1421.1. Slow Implementation of Construction

The statement of financial position reflects property, plant and equipment balance of Kshs.37,801,892,006 as disclosed in Note 13 to the financial statements. Included in the amount was Kshs.34,199,554,851 for capital works in progress relating to the construction of the Multipurpose Dam. In the year under review, the company submitted Interim Payment Certificates amounting to Kshs.1,194,936,351 (being IPC 26,27,28,29 and 30) for payment. However, physical inspection done in August, 2025 revealed that the construction of the 80.5M high Thwake Multipurpose Dam with 688 MCM storage capacity was still ongoing with civil works progress estimated at 94.2% completion level, (progress as at 30 June, 2024 was at 93.90%). The target completion date was 9 August, 2025. However, completion set date was not feasible hence would lead to several works not being completed within the set timelines which may lead to cost overrun

In addition, the Program design included phase 2, 3 and 4 being development of hydropower generating system with an installed capacity of 20 MW, development of water supply, sanitation & waste water management infrastructure to supply estimated 150,000m^3 per day of treated water to approximately 1.3m people and Irrigation scheme development to ultimately irrigate approximately 40,000 hectares (100,000 acres) respectively. However, no records showing set budget, funding, procurement and implementation plan for the three (3) phases were provided for review hence casting doubt on the actualization of the initial plan that dam being 94.2% complete.

Further, Physical inspection carried out in August, 2025 revealed that the project medical Centre had one ambulance instead of two (2) ambulances, the installation of Program name boards, direction signs and signboards all valued at Kshs.3,695,722 had faded and details of the Program could not be clearly verified.

In addition, supply of materials, labour and equipment to construct a single storey detached house (Type 1) ten (10) units with a total built up area of approximately 150 sqm with all finishing, furnishing, sanitary and electricity fittings including excavation, backfilling and disposal of surplus materials as per drawings and technical specification at a sum of Kshs.58,207,615 are yet to be done.

Further, the Consultant Senior Resident Engineer post had remained vacant from February, 2024. The State Department for Water and Sanitation, in a letter reference MWSI/WTR/PS/7/ Vol. VII dated 9 June, 2025 raised a no objection to the appointment of the Senior Resident Engineer. However, in compliance with the Kenyan Law, it was a requirement that one must obtain professional registration before assuming the role of the Senor Resident Engineer.

In the circumstances, the Program may not achieve its objectives if the aspects of the contract are not done within the stipulated time.

1422. Additional Program Cost

The Engineering Corporation prepared the initial design drawings for Thwake Multi-Purpose Dam and submitted it for tendering on 22 August, 2016 when Geo-technical investigations at the site and hydrologic studies had not been completed. The contract between the Ministry of Water and Irrigation and the Contractor for construction of Thwake Multipurpose Dam was subsequently signed on 15 November, 2017 and two months thereafter construction began, an Engineering Company prepared the final design drawings which made changes to the initial drawings that was tendered after completion of geotechnical studies. The final designs were submitted on 31 May, 2018 and approved on 8 July, 2019 through the letter Ref: WD/3/3/1423/56. This resulted in additional request for funding of Kshs.9,284,952,377 as indicated in the table below:

Item	Amount (Kshs.)
Variation Orders (Works Variation)	4,014,677,115
Contract Price Adjustment	5,270,275,261
Overall (Excluding Taxes)	9,284,952,377

In addition, the change in design drawings for the Dam was done after contract signing and beginning of works. This was contrary to Section 60(2) and (3) of the Public Procurement and Disposal Act, 2015 which provides that the specific requirements shall include all works or services being procured. The technical requirements shall conform to design, specification, functionality and performance.

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

1423. Incomplete and Faulty Works for Community Social Responsibility Programs

Physical inspection for the Community Supported Social Responsibility (CSR) Programs done in August, 2025 revealed that the works were done in three sectors, that is, improvement of existing public schools, public health centers and drilling and equipping of boreholes for supply of clean water. However, inspection of the works done for the listed sectors revealed the following;

1423.1. Renovation of Administration Block at Mavindini Level (III) Hospital

The works that were done at the facility included renovations of the roofs, installation of a water tank, tiles and gutters. However, there were major cracks on the female and male wards, office of the officer in charge and the maternity ward walls. Further, the ceiling boards in the stores, common waiting area, triage, maternity ward, mother and child health room, board room and the public health officers' office had leakages. In addition, the ceiling board at the waiting area was at the verge of collapsing, the extension of the waiting area was not fitted with a ceiling and the delivery room tiles had fallen off the walls due to blasting done at the dam.

1423.2. Renovation of Classrooms at Mathangathini Secondary

During the audit, it was noted that there were cracks on the walls and on the floor and the classroom blackboards had cracks and had faded as a result of using substandard paint. In addition, the untreated timber used for roofing may lead to pest infestation that may weaken the roof structure. Further, exterior paint work of the classroom had faded thus we were unable to ascertain if the required coating was applied and the ramp to the classroom was very steep and posed a safety hazard to the users.

1423.3. Renovation of Classrooms at Katithi Primary School

During the audit inspection, defects were noted on the works done in the school; there were cracks on the walls and floor, some broken window panes, the timber that was used for the roofing was not treated hence risk of pest infestation was inevitable and the classroom blackboards were faded as a result of using substandard paint.

1423.4. Drilling of Borehole at Kwa Makau Borehole for Katithi Community

During the audit inspection, it was noted that the inspection chamber was not locked which poses a risk of theft and vandalism of the fittings of the borehole and there were some leakages at the inspection chamber.

In the circumstances, the community may not benefit from the CSR activities especially boreholes as water is a priority for household and livestock use and also due to the poor workmanship.

1424. Grounded Vehicles

Physical inspection done in August, 2025 revealed that thirteen (13) motor vehicles were repairable but were grounded due to lack of funds. No clear explanations were given as to why the Contractor had not repaired the vehicles whereas there was a budget for the same.

In the circumstances, there may be loss of public assets due to lack of maintenance.

1425. National Program Steering Committee Meetings

Review of the Program Steering Committee Minutes revealed that the Committee should regularly conduct meetings on half yearly basis, the first meeting in September or October and the second meeting in March or April every year. However, only one committee meeting was held on 27 to 29 November, 2024 during the year 2024/2025. This was contrary to Section 5.02 (a) of Article V of the additional loan financing agreement, 2019.

In the circumstances, Management was in breach of the financing agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1426. Lack of Land Ownership Documents

The statement of financial position and as disclosed in Note 13. to the financial statements, reflects property plant and equipment balance totalling Kshs.37,801,892,006. Included in the balance is an amount of Kshs.3,602,337,155 relating to acquisition of land which Thwake Multipurpose Dam stands. However, the Program does not have a title for the land in its possession.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1427. As required by Financing Agreement No. 2100150029993, No. 2000200003351 and AGTF No. 5050200000501 and AfDB Grant No. 2100155025973 dated 27 January, 2014 and 19 June, 2019 respectively between the Republic of Kenya and the African Development Bank, I report based on my audit that 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. Further, in my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

WATER AND SANITATION DEVELOPMENT PROJECT (IDA CREDIT NO.60290 AND 60230 -KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1428. Inaccuracies in the Financial Statements

The financial statements presented for review contained several inaccuracies in that statement of financial performance reflected World Bank loan revenue of Kshs.2,436,051,546 without supporting schedules. It also included miscellaneous revenue of Kshs.266,468,806 and an adjustment of closing balance for Garissa County amounting to Kshs.54,360,553, both of which were not explained or supported. In addition, deferred income of Kshs.1,107,117,996 was erroneously reported under revenue in the statement of financial performance instead of liabilities in the statement of financial position, and no supporting schedule was provided.

Further, the statement reflects use of goods and services of Kshs.1,124,790,872 without supporting schedules, while Note 7 to the financial statements disclosed Kshs.1,125,783,616, which included unsupported payables of Kshs.992,774; prepayments of Kshs.2,133,127, intangible assets opening and closing balances of Kshs.87,353,974 and Kshs.148,867,406 respectively, and work in progress of Kshs.1,948,135,341 were all unsupported. Additionally, the opening property, plant, and equipment balance of Kshs.12,405,788,352 differed from the previous year's audited balance of Kshs.12,493,142,326, which was reported under IPSAS (Cash Basis) and had not been adjusted for retentions and advance payments recovered up to 30 June, 2024.

Further, trade and other payables opening and closing balances of Kshs.424,278,571 and Kshs.702,574,168 respectively were also unsupported, and adjustments for assets and liabilities in the statement of changes in net assets lacked supporting schedules.

In the circumstances, the accuracy, completeness and existence of the financial statements could not be confirmed.

1429. Inaccuracies in Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 8 to the financial statements reflects cash and cash equivalents balance of Kshs.8,295,883,555 while detailed projects bank accounts reported cash and cash equivalents balance of Kshs.7,188,765,559 resulting in an unexplained variance of Kshs.1,107,117,996. Review of bank reconciliation statements revealed that Mombasa Water and Sanitation Company, Northern Water Works Development Authority, and Wajir Water and Sanitation Company reported balances of Kshs.585,398,378, Kshs.13,564,323 and Kshs.506,422,268 respectively. However, Management did not provide the entities' bank reconciliation statements for review.

Further, the Project's special deposit accounts maintained at Central Bank of Kenya reflects closing balances of Kshs.233,230,216 (EUR 1,740,519) and Kshs.827,202,728 (EUR 5,529,430) respectively. However, Management had disclosed these balances in the statement of financial position. This was contrary to the requirement of International Public Sector Accounting Standards (IPSAS) No. 23-Revenue from non-exchange transactions.

In addition, the statement of special (designated) account reconciliation indicates amount withdrawn and expenditure not claimed totalled EUR 30,018,612(Kshs.4,490,784,355) and EUR 24,470,555 (Kshs.3,660,795,028) respectively as at 30 June, 2025 (exchange Rate 1EUR=Kshs.149.6).

In the circumstances, accuracy and completeness of the cash and cash equivalents balance of Kshs.8,295,883,555 could not be confirmed.

1430. Variances in the Project Bank Accounts

Note 8 to the financial statements reflects cash and cash equivalents balances disbursed to the respective County Revenue Fund accounts rather than the actual balances held in the implementing agencies' project accounts.

In addition, the submitted bank reconciliation statements from the implementing agencies revealed the following variances between the reported balances and the balances in the project account;

Details	Reported Balance (Kshs.)	Reconciled Balance (Kshs.)	Variance (Kshs.)
Kwale County	717,452,627	16,705	717,435,922
CWWDA	86,282,849	135,033,049	(48,750,200)
WSTF	2,033,135,476	2,033,188,921	(53,445)
Kilifi County	1,551,659,373	7,039	(1,551,652,334)
Garissa County	309,743,043	1,878,601	307,864,442
Taita Taveta County	614,904,494	3,986,668	610,917,826

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance could not be confirmed.

Emphasis of Matter

1431. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.5,880,000,000 and actual on comparable basis of Kshs.4,610,462,241 resulting to under-funding of Kshs.1,269,537,759 or 22% of the budget. Similarly, the Project spent an amount of Kshs.3,180,905,718 out of the actual receipts of Kshs.4,610,462,241 resulting to under-utilization of Kshs.1,429,556,523 or 31% of the receipts.

The underfunding and under-utilization may have impacted negatively on the achievement.

1432. Project Implementation Status

Review of the project implementation status as at 30 June, 2025 revealed that a total of twenty-two (22) projects were at varying stages of completion with progress ranging from fifty-four (54%) to ninety-nine (99%) percent. The combined contract value for these projects amounted to Kshs.7,835,028,579 of which Kshs.5,297,259,249 had been paid as at time of audit in November 2025. The projects continue to experience a number of challenges including delays, scope changes, terminations, re-tendering and slow payment of certified works. These challenges have collectively contributed to time and cost overruns and have placed the achievement of the full project development objectives by the closing date at risk.

My opinion is not modified in respect of these matters.

Other Matter

1433. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved some of the issues or given any explanation for failure to resolve them as at 30 June, 2025 as follows;

No.	Audit Issue
1.	Payments Exceeding the Contract Ceiling Amount and Expired Contract
2.	Water distribution works for Mtwapa Town
3.	Increased Consultancy Costs for Services for the Design and Supervision of Water Supply and Sanitation Works
4.	Delay in Completion of Construction of Storage Warehouse for Pipes, Fittings and Portable Equipment Lot 1
5.	Abandoned and Stalled Works for Construction of Ablution Blocks
6.	Contract for the Supply of Upgrade of Water Distribution Systems to Voi, Mwatate, Wundanyi and Taveta
7.	Construction and Equipping of a Combined Water and Waste Water Quality Testing Laboratory
8.	Abandoned Construction of Office Block at Voi Town Lot II
9.	Contract for Water Distribution Works for Watamu Town - Lot 2B
10.	Construction of Faecal Sludge Treatment Plant in Watamu Town Lot 3B
11.	Delay in Completion of Faecal Sludge Treatment Plant in Malindi Town
12.	Irregular Variation of the Contract Sum for Consultancy Services for Design
13.	Delay in Construction of Ablution Blocks in Mombasa County

No.	Audit Issue
14.	Improvement of Storm Water Outlets and combined Sewer Overflows in Mombasa Island
15.	Rehabilitation and Extension of Mombasa Water Supply Distribution Works
16.	Additional Costs Occasioned by Delay in Completion of Kipevu Waste Water Treatment Plant and Additional Costs
17.	Construction of Short-Term Water Distribution System Lot 1A at Mombasa North Mainland by Coastal Water Works Development Agency
18.	Avoidable Costs -Interest on Delayed Payments
19.	Misapplication of Projects Funds

Other Information

1434. There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1435. Non-Compliance with International Public Sector Accounting Standards (IPSAS) 33 on First Time Adoption

The audit of quarterly financial reports revealed that the Project has not transitioned to the IPSAS accrual basis as required for first-time adoption. There was no evidence of an implementation plan for transitioning to IPSAS accrual basis, including staff training, system upgrades, or policy updates to support accrual accounting. In addition, Management had not prepared its opening statement of financial position as at 1 July, 2024.

In the circumstances, Management was not in compliance with the requirements of transition to IPSAS Accrual.

1436. Garissa Water and Sewerage Company

The statement of financial position reflects property, plant and equipment balance of Kshs.14,450,491,834. The following observations were made;

1436.1. Construction of Office Block in Garissa and a Laboratory/Administration Building in Dadaab

Included in this balance are additions in respect to construction of an office block in Garissa and a laboratory/administration building in Dadaab amounting to Kshs.55,356,059 with a 6-month duration starting 2 December, 2024. As at the time of audit in July, 2025, an amount of Kshs.8,160,464 had been paid. The Project, originally due to end on 2 June, 2025, received a 4-month extension to 3 October, 2025 with defect liability period ending on 4 April, 2026. As of 31 March, 2025, progress was 9% against a 67%-time lapse, and the contractor was not on-site.

Physical verification done in July 2025 revealed that the Garissa office block has been done only up to the first-floor slab and the Dadaab laboratory has been done up to lintel beams, with extensive pending works remaining in superstructure, walling, roofing, finishes, fittings, installations, furniture, car shed, and septic tank.

In the circumstances, value for money for the expenditure incurred could not be confirmed.

1436.2. Delay in Rehabilitation and Construction of Boreholes Group 3

Included in this balance are additions in respect to rehabilitation and construction of Boreholes - Group 3 amount of Kshs.151,679,740 with an original contract period of eight (8) months, commencing on 9 April, 2021 and initially scheduled for completion on 9 December, 2021. However, the contract has since been subjected to seven successive time extensions of approximately 44 months with an eight-month defects liability period extending to 2 May, 2026
As per the Progress Report dated 30 June, 2025, the overall progress of the permanent works stood at 82% as stated: Works at Bogyar, Bulla Nyanya, Bulla Kaheir, Weldoni and Mathargisi are at 95%, 88%, 85% 87% and 87% progress respectively and are almost complete with the elevated tank and minor finishes remaining while works at Mathamaraoub and Biyamathow are both at 90% with the soak pits and water dispensing platform not done. For the two sites at 5% all the civil works are pending while for all the other sites except Bogya, the tanks and some finishing works are remaining to be executed and joint inspections.

In the circumstances, the project may not be completed on time and the intended purpose of the project may not be achieved.

1437. Kwale Water and Sewerage Company

The statement of financial position reflects property, plant and equipment balance of Kshs.14,450,491,834. The following observations were made;

1437.1. Contract for Construction of Collector, Transmission Lines, Borehole, Drilling and Auxiliary Works

Included in this balance is an amount of Kshs.326,646,326 additions in respect to construction of collector and transmission lines, boreholes, and auxiliary works vide a contract agreement dated 14 September, 2021 at an original contract price of Kshs.688,606,879 and a contract period of 12 months with a completion date of 30 September, 2022. However, the contract has undergone multiple variations, extending the completion date by 33 months to 30 June, 2025 and increasing the contract sum by an amount of Kshs.126,213,529 to Kshs.814,820,407. As of 31 May, 2025, physical progress stood at only 57%. In addition, the original performance bond of Kshs.20,658,207 expired on 30 April, 2025 and was neither renewed nor adjusted upwards to reflect the increased contract sum, leaving the project without valid security for over six months. Further, against certified works of Kshs.326,646,326, payments of Kshs.322,689,010 were made, retaining only Kshs.3,957,316 or 1.21% instead of