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

REPORT
OF
THE AUDITOR-GENERAL
ON
THE NATIONAL GOVERNMENT FUNDS
FOR
THE FINANCIAL YEAR


2024/2025	
 THE NATIONAL ASSEMBLY PAPERS LAID	
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TABLED BY:	DEPUTI MAJORITY LEADER
CLERK-AT TABLE:	FINLAY

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Foreword

This report is a compilation of the audit reports of National Government Funds 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.

Section 24(4) of the Public Finance Management Act, 2012, empowers the Cabinet Secretary for Finance to establish a national government public fund with the approval of the National Assembly. These national public funds are specialized vehicles created to deliver specific functions or implement government programmes that cannot be executed through the regular annual budget framework. Their purpose is to enhance service delivery within national government institutions.

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 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.

Specific reports together with my opinion for each entity are contained the respective Fund's audited financial statements for the year ended 30 June, 2025, which I have submitted to Parliament and to each Accounting Officer.

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 our clients (auditees) for their cooperation throughout the audit process.


FCRA 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 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.

1.5 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

EQUALISATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted receipts of Kshs.2,838,729,096 against actual receipts on comparable basis of Kshs.4,805,729,096 resulting in a revenue overcollection of Kshs.1,967,000,000 or 69% of the budget. This was attributed to reduction of the approved budget after transfers had been made to the Fund based on the original budget estimates. Similarly, the statement reflects actual expenditure of Kshs.4,486,978,218 against approved budget of Kshs.10,304,329,096 resulting in an under-performance of Kshs.5,817,350,878 or 56% of the budget.

The 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 Matter

3. Delayed Implementation of Equalisation Fund Projects

The Second Marginalization Policy was operationalized by the Equalisation Fund Appropriation Act, 2023 which allocated Kshs.10,020,407,910 for the one thousand four hundred and twenty-four (1,424) identified marginalised areas in thirty-four (34) counties. Review of the Fund's performance indicated that six (6) counties, namely, Bomet, Bungoma, Kericho, Kitui, Lamu and Narok with a total appropriation of Kshs.1,365,639,170 had no approved projects as they had not presented project proposals for approval.

Further, only Kshs.2,898,928,827 or 28% of the amount appropriated was requisitioned and transferred to the respective counties. Thirteen (13) counties with a combined approved projects costing Kshs.2,059,851,482 had zero absorption of the appropriated amounts.

In view of the above, there was delayed implementation of projects and the ultimate objective of the Fund might not be achieved.

4. Gaps in the Laws Governing the Equalisation Fund

Review of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 which guides the operations of the Fund revealed the following gaps;

- i. Regulation 8(j) of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 assigns the responsibility of conducting public participation to the Board, in line with Article 201 of the Constitution. However, Regulations 18 and 19 designate this function to the Project Identification and Implementation Committee, of which Board members are not part. This misalignment in roles may lead to confusion in execution and accountability of public participation activities.
- ii. Regulation 15 provides that the County Technical Committee shall be responsible for approving all projects to be financed from the Fund while Regulation 23 provides that the County Executive Committee Member responsible for matters relating to finance shall submit work plans through county technical committee to the Board for approval. It is not clear whose role it is to approve projects.
- iii. Regulation 20(b) provides that County Executive Committee Member for finance shall prepare financial statements for the Fund for each financial year in a form prescribed by the Accounting Standards Board in accordance with the Act and submit to the Secretary of the Board. This requirement is not clear on reporting responsibilities to the Auditor-General by the County Executive Committee Member for finance.

Management has not caused amendments to the law to address the above gaps for effective operation of the Fund.

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. Unauthorized Withdrawal from the Fund

The statement of financial performance reflects an amount of Kshs.4,225,091,212 in respect of transfers to other government entities which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.1,014,809,059 being recovery by the National Treasury. However, the supporting instructions from the Equalization Fund Administrator, authorization by the Controller of Budget and the Treasury Order were not

provided for audit verification. This was contrary to Regulation 30 (2) of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 which require, inter alia, that any withdrawal from the Fund shall be authorized by the Controller of Budget.

The withdrawal from the Fund may have been unauthorized.

7. Non-Compliance with the Constitution

Review of records maintained by the Secretariat revealed that only an amount of Kshs.15,930,000,000 out of the expected Kshs.67,807,602,775 of the total entitlement from the years 2011/2012 to 2024/2025 had been transferred to the Equalisation Fund Account as tabulated below:

Financial Year	Approved Audited Revenues (Kshs.)	Amount of Equalisation Fund Entitlement (Kshs.)	Amount Transferred to the Fund (Kshs.)
2011/2012	468,151,970,000	2,340,759,850	
2012/2013	529,300,000,000	2,646,500,000	
2013/2014	529,300,000,000	2,646,500,000	
2014/2015	776,900,000,000	3,884,500,000	6,400,000,000
2015/2016	776,900,000,000	3,884,500,000	
2016/2017	776,900,000,000	3,884,500,000	6,000,000,000
2017/2018	776,900,000,000	3,884,500,000	
2018/2019	776,900,000,000	3,884,500,000	
2019/2020	776,900,000,000	3,884,500,000	
2020/2021	1,357,698,000,000	6,788,490,000	
2021/2022	1,357,689,000,000	6,788,490,000	
2022/2023	1,413,694,840,000	7,068,474,200	
2023/2024	1,673,715,000,000	8,368,574,000	1,030,000,000
2024/2025	1,570,562,814,725	7,852,814,725	2,500,000,000
Total	13,561,511,624,725	67,807,602,775	15,930,000,000

The National Treasury had not remitted the outstanding balance of Kshs.51,877,602,775 to the Fund as at 30 June, 2025.

In the circumstances, The National Treasury was in breach of the law.

8. Activities Performed by the Board Under Domestic Travels

The statement of financial performance reflects Board expenses of Kshs.26,991,448 which, as disclosed in Note 9 to the financial statements, includes local travel and accommodation expenses of Kshs.9,192,800. Review of the domestic travel and subsistence attributed to Board expenses indicated that the Board members participated in review, monitoring and verification of projects and courtesy calls across various

Counties incurring an amount of Kshs.4,531,800 on activities that were executive functions. As a result, the Board expenses exceeded the budgetary allocation by Kshs.2,151,448 or approximately 9% of their allocation. This was contrary to Part D of Circular OP/CAB.9/1A dated 11 March, 2020 on Management of State Corporations which requires, inter alia, that field/inspection visits, as well as international engagements are an executive function that fall in the domain of executive team led by the Chief Executive Officer.

In the circumstances, the activities were in breach of the Government circular.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

9. Understaffing at the Fund

As previously reported, review of staff records revealed that twenty-five (25) officers were actively serving within the Equalisation Fund Secretariat, compared to the approved establishment of thirty-seven (37). This staffing shortfall raises concerns regarding the Fund's capacity to effectively execute its mandate, as key departments may be operating with inadequate personnel, potentially impacting service delivery and operational efficiency.

In the circumstances, the Fund may not achieve its mandate due to staff shortage.

10. Failure by the Board to Conduct Performance Evaluation

Review of Board activities indicated that the Board of Directors did not conduct self-evaluation of its performance as enshrined in the Mwongozo, the Code of Governance for State Corporations. Management has explained that this was due to absence of a strategic plan from which targets would be set. The delay in having a strategic plan impacted in the board's ability to provide strategic direction to the Fund.

In the circumstances, the Fund operated without set targets and strategic direction.

CONTINGENCIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

- 11.** There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

12. Unresolved Prior Year Matter

In the audit report of the previous year, two issues on unsupported refunds to the Fund and irregular utilization of the Fund were raised under Report on the Financial Statements. However, Management had not resolved the issues as at 30 June, 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

14. 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

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

PETROLEUM DEVELOPMENT LEVY FUND (HOLDING ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

16. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

17. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts budget and actual on comparable basis amounts of Kshs.30,536,464,284 and Kshs.25,916,670,080 respectively, resulting in under-collection of Kshs.4,619,794,204 or 15% of the budget.

Similarly, the statement reflects actual disbursements of Kshs.26,084,498,320 against actual receipts of Kshs.25,916,670,080 resulting in over utilization of Kshs.167,828,240.

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

18. Unsatisfactory Financial Performance of the Fund

The statement of financial performance reflects deficit for the year of Kshs.167,828,240 (2023/2024: deficit of Kshs.606,101,591). The deficit of Kshs.167,828,240 depleted accumulated surplus from Kshs.2,985,237,434 as at 1 July, 2024 to Kshs.2,817,409,194 as at 30 June, 2025.

The deficit trend, if not contained, will continue to deplete the reserves of the Fund to a point that the Fund may not be able to finance its operations and meet its financial obligations as and when they fall due.

My opinion is not modified in respect of these matters.

Other Matter

19. Unresolved Prior Year Matter

In the audit report of the previous year, one issue on irregular borrowing from the Railway Development Levy Fund was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved the issue as at 30 June, 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

21. 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

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

STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

23. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

24. Low Uptake of Loans by State Officers and Public Officers

The State Officers and Public Officers Motor Car Loan Scheme Fund was established in 2015 through Legal Notice No.195 of 25 September, 2015 and pursuant to guidelines provided by Salaries and Remuneration Commission on Car Loan benefit for State Officers and Other Public Officers in December, 2014. The Fund had however experienced low response from state officers and public officers which compelled Management to invest in Treasury Bills so that the allocated funds do not lie idle. The disbursed loans balance of Kshs.402,031,473 remains relatively low at 9% (2024 – 8%) in comparison to the total current assets balance of Kshs.4,355,166,574 as at 30 June, 2025. The objective and purpose for which the Fund was established may not be achieved.

My opinion is not modified in respect to the above matter.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

26. Non-Compliance with Guidelines on Board Expenses

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects Kshs.68,873,646 in respect of use of goods and services. The expenditure includes Board related expenses totalling Kshs.6,683,000. The expenditure represents 10% of total operational and maintenance budget of Kshs.68,875,000 which exceeded the 5% budget ceiling. This was contrary to the provisions of Treasury Circular No. OP/CAB.9/1A dated 11 March, 2020 on the Management of State Corporations which capped Board expenses for a financial year at Kshs.30 million or 5% of the operations and maintenance budget of the State Corporation, whichever is less.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GOVERNMENT CLEARING AGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

28. Unsupported Fund Balances

As previously reported, the statement of financial position reflects balances of Kshs.300,931,776 and Kshs.52,973,896 in respect of the accounts receivable and accounts payable respectively. The balances relate to opening balances brought forward from 2023/2024 and earlier years. However, the amounts were not supported by ledger, trial balance or any verifiable documents from which the receivables and payables were drawn.

In the circumstances, the accuracy and completeness of the accounts receivable and accounts payable balances of Kshs.300,931,776 and Kshs.52,973,896, respectively could not be confirmed.

29. Delay in Winding Up the Fund

As previously reported, the Fund has been dormant for over thirteen (13) years. The National Treasury formed a task force on the winding up of dormant funds which included the Government Clearing Agency Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to drafting of the Revocation Orders which were approved by the Cabinet and later forwarded to the Attorney General for onward transmission to the National Assembly. Even though the orders were forwarded to the Attorney General on 12 April, 2021 and a resubmission done on 31 March, 2021, evidence was not provided that the Repeal Act had been passed by the National Assembly.

In the circumstances, continuous preparation of financial statements for a dormant fund on a going concern basis contravenes the International Public Sector Accounting Standards.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

30. 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

31. 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.

TREASURY MAIN CLEARANCE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

32. Long Outstanding and Unsupported Balances

As reported previously, the statement of financial position reflects a balance of Kshs.12,503,607,446 and Kshs.12,490,478,941 in respect of accounts receivables and accounts payables – creditors respectively. The balances have been outstanding for a long period of time and have not been supported. However, Management has stated that the amounts relate to old balances that have been carried forward for many years and that it has submitted a draft revocation order to the National Assembly to wind up the Fund. However, the orders had not been acted upon by the National Assembly at the time of audit.

In the circumstances and in the absence of provision for doubtful debts, the recoverability of the long outstanding accounts receivables and the discharge of the creditors could not be confirmed.

33. Unsupported Deficit Balance Brought Forward

As reported previously, the statement of financial position reflects a net financial position (closing fund balance) of Kshs.13,128,505. However, the balance was not supported by any reconciliation statement.

In the circumstances, the accuracy of the closing fund balance of Kshs.13,128,505 could not be confirmed.

Emphasis of Matter

34. Delay in Winding Up of the Fund

As reported in the previous year, the Fund has remained dormant for the last fourteen (14) years. Review of correspondences indicate that The National Treasury formed a task force on the winding up of dormant funds which included the Treasury Main Clearance Fund. Thereafter, The National Treasury sought and got legal opinion and recommendations from the Attorney General on the winding up of the Fund. A Cabinet Memorandum on winding up of the dormant funds was forwarded to the Attorney General in September, 2019 who advised that draft revocation orders be prepared on the same.

The Revocation Orders were prepared and submitted to the Cabinet for consideration and approval. On 2 March, 2021, the Head of Public Service communicated the Cabinet approval to the Principal Secretary, National Treasury. The Revocation Orders were submitted to the Attorney General's Office for onward transmission to the National Assembly on 12 April, 2021. However, there was no evidence that the Revocation Orders had been passed by the National Assembly and the process of winding up of the Fund had not been completed by the time of the audit.

My opinion is not modified in respect of this matter.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

36. 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

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

KENYA LOCAL LOANS SUPPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

38. Unsupported Balances

As previously reported, the statement of financial position reflects amounts of Kshs.9,045,400 and Kshs.6,364,973 in respect of the bank balance and accounts receivable- investments at cost respectively. However, the balances were not supported by ledger and schedule of details or any verifiable documents from which the interest is receivable. Further, supporting documents for bank balance were not provided for audit. This constitutes limitation of scope as none of the balances could be tested for existence, ownership, completeness and accuracy among other tests.

In the circumstances, the existence, ownership, completeness and accuracy of the balances reflected in the statement of financial position could not be confirmed.

39. Delay in Winding Up the Fund

As previously reported, the Fund has been dormant since June, 2006. Review of records revealed that The National Treasury had formed a task force on the winding up of dormant funds which included the Kenya Local Loans Support Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. The effort resulted to Revocation Orders which were approved by the Cabinet. However, there was no evidence provided to ascertain that the Repeal Act had been passed by The National Assembly.

In the circumstances, continuous preparation of financial statements on a going concern basis is in contravention of the International Public Sector Accounting Standards.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

- 40.** 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

- 41.** 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.

CREDIT GUARANTEE SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

- 42.** There were no material issues noted during the audit of the financial statements of the Scheme.

Emphasis of Matter

43. 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.5,500,000 and Kshs.1,300,000 respectively resulting in an underfunding of Kshs.4,200,000 or 76% of the budget. Similarly, the Scheme spent Kshs.1,300,000 against an actual receipt of Kshs.1,300,000 resulting to 100% utilization.

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

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

Conclusion

- 45.** 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

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

AFRICAN UNION AND OTHER INTERNATIONAL ORGANIZATIONS SUBSCRIPTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

47. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

48. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget and actual on comparable basis amounts of Kshs.9,657,434,355 and Kshs.5,218,159,319 respectively, resulting in under-funding of Kshs.4,439,275,036 or 46% of the budget. The statement also reflects actual expenditure (subscriptions) of Kshs.4,715,566,967 against actual receipts of Kshs.5,218,159,319 resulting in under-performance of Kshs.502,592,352 or 10% of the budget.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

50. Multiple Laws Guiding Operations of the Fund

As previously reported, I draw your attention to overview on the Fund's financial statements which indicates that the Fund is established under a Gazette Notice No. 10 of 2017, in exercise of Section 23 of the Public Finance Management Act, 2012. The Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 established the African Union and Other International Organizations Subscription Fund through which Kenya's contributions to African Union and Other International Organizations across all Government agencies were to be paid. Until 2017, the Government, through The National Treasury, had been paying subscriptions to International Organizations through Vote R53 – Consolidated Fund Services – Subscriptions to International Organizations under various pieces of legislation namely: International Finance Corporations Act, CAP 466, International Development Association Act, CAP 465, Bretton Woods Agreements Act, CAP 464, the African Development Bank Act, CAP 492 and the Multilateral Investment Guarantee Agency Convention, 1988 (Revised 2010).

Previously, the Ministries, Departments and Agencies (MDAs) had been remitting such subscriptions through their voted provisions within their budgets. The establishment of the African Union and Other International Organizations Subscription Fund therefore rendered all other individual voted provisions to be consolidated and budgeted under one umbrella body, the African Union and Other International Organizations Subscriptions Fund.

Management has not caused the revocation or repealing of the earlier laws to be in tandem with the current legislation and therefore avert the risk of making multiple payments to the international organizations.

In the circumstances, the existence of multiple laws guiding the operations of the Fund may lead to multiple payments to international organizations

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

51. Lack of International Organizations Subscriptions Register

During the year under review, the Fund did not maintain a comprehensive register of all the international organizations to which Kenya has a financial obligation. This is contrary to Regulation 7(2)(a) and (b) of the Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 which requires the officer administering the Fund to control the administration of the Fund and cause to be kept all proper books of account and other books and records relating to the Fund.

In the circumstances, the existence of effective controls over subscriptions to international organisations could not be confirmed.

PUBLIC SERVICE SUPERANNUATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

52. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

53. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects actual receipts of Kshs.77,899,755,972 against final budget of Kshs.44,005,064,395 resulting in excess receipts of Kshs.33,894,691,577 or 77% of the budget.

Further, the statement reflects actual total expenditure of Kshs.561,644,283 and actual receipts of Kshs.77,899,755,972 resulting in under-utilization of Kshs.77,338,111,689 or 99% of actual receipts.

The over collection and under expenditure is an indication of weakness in the budget making process and that some activities in the annual work plan were not implemented by the Fund which may have impacted negatively on the service delivery to the public.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

55. Unremitted Pension Contributions

The statement of financial position and, as disclosed in Note 16 to financial statements, reflects a balance of Kshs.10,606,767,006 in respect of contributions receivable which relates to unremitted employer and employee contributions due to the Fund as at 30 June, 2025. Out of the outstanding amount, Kshs.9,385,345,050 had been received by the end of August, 2025 leaving a balance of Kshs.1,221,421,956 unremitted. This was contrary to Section 8(c) of the Public Service Superannuation Scheme Act, 2012 which states that, not later than ten working days after the end of the month in which the contributions are due, the Government shall remit an amount comprising the member's and the Government's contribution to the custodian. Unless the outstanding balance is paid together with the penalty provided for under Section 6(2) of the Public Service Superannuation Scheme Act, 2012, contributors stand to lose returns that would have been earned had the contributions been received in time.

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

56. Non-Compliance with the Law on Affirmative Action

Review of the Fund's staff establishment revealed that out of the total number of sixty-two (62) employees, none of the employees was under the persons living with disability category. This was contrary to Section 4(f) of the Persons with Disabilities Act, 2025 which requires national government to promote 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.

57. Board Meetings Exceeding the Required Number

During the year under review, the Fund's Board and its Finance, Investment and Strategy Committee held eleven (11) and seven (7) meetings respectively, contrary to Circular Ref. OP/CAB.9/1A of 11 March, 2020 which restricts Board meetings to a minimum of four (4) and a maximum of six (6) for each financial year. Management did not provide evidence of approval of the additional meetings by the Cabinet Secretary as required by the Circular.

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

58. Failure to Adhere to the Gender Rule on Appointments

Review of the composition of Fund's Board of Trustees revealed that during the year under review, the Fund had nine (9) Board of Trustees members out of whom seven (7) or 77% were of the same gender, contrary to the requirements of Article 27(8) of the Constitution of Kenya on equality and freedom from discrimination, which provides that no more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

59. Inadequate Controls on Members' Fund

The statement of financial position reflects members fund balance of Kshs.224,735,988,305. However, the following anomalies were noted:

- i. Section 35 of the Public Services Superannuation Scheme Act, 2012 requires the Fund administrator to register members. However, review of the Fund administrator's system revealed that the following critical information was missing: Fund pension status, contribution amount, date of normal retirement, other personal data including contacts, class, workstation, designation, next of kin and employment history.
- ii. Review of member balances provided for audit revealed that sixteen thousand, seven hundred and one (16,701) members had no gender status, one hundred and ninety-four (194) were above sixty (60) years old but were still active members, 13 had no sponsors while 1 had no personal number.

In the circumstances, existence of an effective controls on member details and data could not be confirmed.

PROVIDENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

60. Unsupported Transfer of Payables

The statement of changes in net assets available for benefits reflects an amount of Kshs.9,715,111 in respect of transfer of payables to the exchequer. However, the supporting documents to support these pending payables as at the time of transfer were not provided for audit.

In the circumstances, the validity of the transfer of payables to the exchequer amounting to Kshs.9,715,111 could not be confirmed.

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

Basis for Conclusion

63. Weaknesses in Collection and Follow-up of Dividend Due

The statement of changes in net assets available for benefits reflects a transfer of receivables to the Principal Secretary, The National Treasury of Kshs.29,967,819 which, as disclosed in Note 9 to the financial statements, is in respect of dividends receivable from Kenya Power and Lighting Company (KPLC) and East African Breweries Limited (EABL). However, the Fund was slow in claiming and following up on the dividends. As at the time of audit, the declared dividends remained unpaid despite being due for remittance months earlier. This delay exposed the government to potential loss of revenue and undermined timely realization of public funds.

In the circumstances, the effectiveness of the follow-up mechanisms for the Fund's dividends could not be confirmed.

EUROPEAN WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

64. Unsupported Benefits Paid and Payable

The statement of changes in net assets available for benefits reflects benefits paid and payable amount of Kshs.54,264. However, Management did not provide evidence to support the continued eligibility of the Fund's remaining pensioners and beneficiaries. Specifically, proof of life confirmations, such as recent life certificates, biometric verification records, or other valid evidence demonstrating that the beneficiaries are alive and entitled to receive benefits, were not provided for review.

In the circumstances, the accuracy, validity and completeness of the benefits paid and payable of Kshs.54,264 could not be confirmed.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

66. Idle Funds

As previously reported, the statement of financial position reflects cash and cash equivalents balance of Kshs.179,240,164 (2023/2024-Kshs.179,294,428) being cash balance held at the Central Bank of Kenya as at 30 June, 2025. Further, and as disclosed in the Statement of Pension Fund Management Responsibilities, the Fund had only one (1) surviving beneficiary who was paid Kshs.54,264 during the year. Although Management indicated that engagements had been initiated with the Central Bank of Kenya (CBK) and the Retirement Benefits Authority (RBA) to explore viable investment options for the idle funds, the matter had not been concluded as at the time of audit in November, 2025. Further, Management sought an exemption from regulatory requirements to enable investment in Government securities through The National Treasury.

In the circumstances, the effective use of the funds held in the Bank could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

67. Weaknesses in Collection and Follow-up of Dividend Due

The statement of financial position changes reflects a dividends receivable balance of Kshs.7,779,086 which, as disclosed in Note 7 to the financial statements, is in respect of dividend income receivable from Kenya Power and Lighting Company (KPLC). However, the Fund has been slow in claiming and following up on these dividends. As at the time of audit, the declared dividends remained unpaid despite being due for remittance months earlier. This delay exposes the government to potential loss of revenue and undermines timely realization of public funds.

In the circumstances, the effectiveness of the follow-up mechanisms on the Fund's dividends could not be confirmed.

ASIAN OFFICERS FAMILY PENSIONS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

68. Unsupported Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.3,204,858 as disclosed in Note 10 to the financial statements relating to personal and government contributions. However, Management did not provide schedules and aging analysis to support the personal and government contribution balances.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.3,204,858 could not be confirmed.

69. Unsupported Benefits Paid and Payable

The statement of changes in net assets available for benefits reflects an amount of Kshs.969,432 in respect of benefits paid and payable. However, Management did not provide evidence to support the continued eligibility of the Fund's remaining pensioners and beneficiaries. Specifically, proof of life confirmations, such as recent life certificates, biometric verification records, or other valid evidence demonstrating that the beneficiaries are alive and entitled to receive benefits, were not provided for audit review.

In the circumstances, the accuracy, validity and completeness of the benefits paid and payable of Kshs.969,432 could not be confirmed.

Emphasis of Matter

70. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts and expenditure budget on a comparable basis of Kshs.7,414,419 and Kshs.5,997 respectively resulting in a budget shortfall of Kshs.7,408,422 or 99% of the budget. However, the Fund spent an amount of Kshs.969,432 against actual receipts of Kshs.5,997 resulting in an over-utilization of Kshs.963,435.

In the circumstances, the significant budget shortfall and over-utilization impact negatively on future sustainability of the Fund.

My opinion is not modified in respect of this matter.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

72. Failure to Constitute a Board of Trustees

As previously reported, review of records revealed that the Asian Officers' Family Pensions Fund has been operating for several years without a duly constituted Board of Trustees, as required under the governing legislation. Although Management has indicated that a Board has been constituted, neither the appointment letters nor the Gazette Notice confirming these appointments were provided for review. This was contrary to Section 3(1)(b) and (4) of the Asian Officers' Family Pensions Act, Cap 194, which requires that the Board comprise four public officers appointed by the Minister (interpreted under the current constitutional framework as the Cabinet Secretary) and that all such appointments and determinations be published in the Gazette.

In the absence of a properly constituted Board, the Fund's accumulated resources have not been invested. This was contrary to Section 5(4) of the same Act, which requires that, as far as practicable, moneys belonging to the Fund be invested in approved securities or employed at interest, under the direction of the Board.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

73. Weaknesses in Collection and Follow-up of Dividend Due

The statement of financial position reflects dividends receivable balance of Kshs.9,525,114 which, as disclosed in Note 7 to the financial statements, is in respect of dividends receivable from Kenya Power and Lighting Company (KPLC). However, the Fund has been slow in claiming and following up on the dividends. As at the time of audit, the declared dividends remained unpaid despite being due for remittance months earlier. The delay exposes the Fund to potential loss of revenue and undermines timely realization of funds.

In the circumstances, the effectiveness of the follow-up mechanisms for the Fund's dividends could not be confirmed.

UNCLAIMED ASSETS TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

74. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

75. Low Rate of Unclaimed Assets Reunification

The statement of changes in net assets reflects receipts brought forward and additional receipts of unclaimed assets during the year balance of Kshs.29,489,209,000 and Kshs.4,768,564,000 respectively, totalling Kshs.34,257,773,000 while claims paid amounted to Kshs.427,458,000 representing a reunification rate of 1% of total assets remitted by holders. The Fund started receiving unclaimed assets from holders in 2014. However, reunification of the assets with the beneficiaries started in 2016. Management has attributed the slow pace of reunification to the following factors:

- i. Non-differentiated claim process prescribed in the law which discourages low value claims due to the cost implications;
- ii. Regulatory regime that prescribes forms which favour physical delivery of documents by claimants and manual processing;
- iii. Nature of unclaimed assets where tracing and location of rightful owners takes time;
- iv. Low awareness levels by beneficiaries; and,
- v. Many receipts of very small amounts without any provision or mechanism to donate, among other factors.

The above factors do not adequately support an effective reunification process. Management however, indicated that it has proposed and adopted several measures to address the low reunification. The Authority is therefore not meeting its mandate of tracing unclaimed assets and reunifying them with the beneficiaries in an efficient and effective manner.

76. Unclaimed Financial Assets under Dispute

Note 7(b)(i) and (ii) to the financial statements reflect balances of Kshs.10,786,303,000 and Kshs.425,676,000 in respect of cash assets and units of shares respectively, which, as disclosed in the Note, represent disputed assets identified by compliance audits that were yet to be remitted to the Authority. Management however, indicated that collection efforts were ongoing spearheaded by an enforcement committee.

My opinion is not modified in respect of these matters.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

78. Idle Funds

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,018,220,000 as disclosed in Note 4 to the financial statements, comprise of cash balance held at the Central Bank of Kenya, one local bank and M-Pesa. Further, and as disclosed at Note 7(c), the Fund paid cash claims amounting to only Kshs.427,457,000 during the year. Given the low rate of reunification, it is not clear why the idle funds were not invested in interest bearing instruments. This was contrary to Section 68(1) of Public Finance Management Act, 2012, which requires an accounting officer for a national government entity to 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 effective, efficient, economical and transparent.

In the circumstances, the effective utilization of the cash balances held could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

PUBLIC PRIVATE PARTNERSHIP PROJECT FACILITATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

80. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

81. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,170,833,974 and Kshs.1,338,482,749 respectively resulting in underfunding of Kshs.832,351,225 or 38% of the budget. The underfunding 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

82. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statement and Report on Lawfulness and Effectiveness in Use of Public resources. Review of the status during the audit of PPP Project Facilitation Fund in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1	Budgetary Control and Performance
2	Lack of Workplans
3	Lack of Updated Fund Regulations
4	Lack of Updated Policy Statement
5	Lack of Fund Manual

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

84. 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

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

STATE DEPARTMENT FOR ECONOMIC PLANNING – VOTE 1072

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

86. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

87. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.72,826,715,098 and Kshs.60,124,797,419 respectively resulting in an under-funding of Kshs.12,701,917,680 or 17% 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

88. Unresolved Prior Year Matter

In the audit report of the previous year, one (1) issue on underfunding of the Fund was raised under the Report on the Financial Statements. The issue remained unresolved as Parliament had not deliberated on the same 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. 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

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

WOMEN ENTERPRISE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

92. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and Note 17 to the financial statements reflects receivables from exchange transactions balance of Kshs.2,542,537,262. Review of the financial records revealed Constituency Women Enterprise Schemes had a total loan of Kshs.1,495,245,894 out of which an amount of Kshs.1,122,162,805 had been outstanding for more than one (1) year contrary to the loans policy of the Fund. Management did not explain the measures instituted to recover the loans.

In addition, review of financial records indicated that an amount of Kshs.695,753,373 were loans in respect of digital loans issued to fifteen thousand, two hundred and thirty-four (15,234) groups in July, August and September, 2023. The loans had been outstanding for more than two years and Management did not demonstrate measures in place to recover the outstanding loans balances.

In the circumstances, the accuracy, completeness and recoverability of the receivables of Kshs.2,542,537,262 could not be confirmed.

93. Non-Performing Loans to Financial Intermediary Partners

Included in the statement of financial position and Note 17 is Kshs.2,542,537,262 in respect of receivables from exchange transactions. The amount includes non-performing loans from eight (8) financial intermediary partners of Kshs.70,255,000. Management had made a provision of Kshs.53,750 in relation to this uncertainty in recovery. However, the basis of the provision and adequacy could not be confirmed.

Further, according to explanations by Management the financial intermediary partners debts outstanding had been handed over to the legal office for follow-up. However, the legal office did not provided evidence to show whether their efforts have been successful and whether they will result in any recovery. It is, therefore, not possible to confirm whether the legal office is actively following-up these cases.

In the circumstances, the accuracy and recoverability of the receivables of Kshs.70,255,000 could not be confirmed.

94. Unsupported Receivables from Exchange Transactions

The statement of financial position and Note 17 to the financial statements reflects receivables from exchange transactions of Kshs.2,542,537,262. Included in the balance is Car and Mortgage Scheme balance of Kshs.258,717,140. However, the balance was not supported with a statement indicating details of the beneficiaries, amounts issued, amounts repaid and loan balance as at 30 June, 2025. Further, Management did not explain the reasons for lack of movement in the account.

In the circumstances, the accuracy and completeness of car and mortgage balance of Kshs.258,717,140 could not be confirmed.

Emphasis of Matter

95. Financial Performance of the Fund

I draw attention to the statement of financial performance indicating that the Fund recorded total revenue and expenditure of Kshs.387,243,057 and Kshs.631,408,884 respectively resulting in a net deficit of Kshs.261,697,301 from the previous year's deficit of Kshs.324,722,613. The Fund therefore continues to operate at a loss, which, if not managed, may affect its future operations and sustainability of services.

The Fund may be unable to meet its financial obligations as and when they fall due and there is a risk the Fund being technically insolvent.

96. 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.531,114,848 and Kshs.387,243,057 respectively resulting in revenue shortfall of Kshs.143,871,791 or 27% of the budget.

Similarly, the statement reflects actual expenditure of Kshs.648,940,357 against an actual receipt of Kshs.387,243,057 resulting to an over expenditure of Kshs.261,697,300.

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

My opinion is not modified in respect of these matters.

Other Matter

97. Unresolved Prior Year Matters

As disclosed under follow-up on the auditor's recommendations on prior years audit issues, the following prior years audit issues remained unresolved as at 30 June, 2025.

Management has not provided reasons for the delay in resolving the prior year's audit issues.

No.	Audit Issue
1	Inaccuracies in the Financial Statements
2	Non-Performing Loans to Financial Intermediary Partners
3	Unsupported Receivables from Exchange Transactions
4	Understatement of Finance Income
5	Non-Disclosure of Inventories
6	Unsupported Gratuity Payments
7	Inaccuracies in Cash and Cash Equivalents Balance
8	Unsupported and Unaccounted for Mobile Money Funds
9	Inaccuracies in Employee Costs
10	Unsupported Training Expenses
11	Material Uncertainty Related to Sustainability of Services
12	Budgetary Control and Performance
13	Non-preparation of Financial Statements for Staff Mortgages and Car Loan Fund
14	Unbalanced Budget
15	Non-Compliance with Fiscal Responsibility Principles
16	Outstanding Imprests and Advances
17	Irregular Board Meetings

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

99. Failure to Prepare Financial Statements for Staff Mortgages and Car Loan Fund

The statement of financial position and Note 17 to the financial statements reflects receivables from exchange transactions balance of Kshs.2,542,537,262. Included in the amount is car and mortgage scheme balance of Kshs.258,717,140. However, the Fund Management did not prepare separate financial statements as required by templates issued by the Public Sector Accounting Standards Board (PSASB) which require separate financial statements as opposed to being shown as a line item in the statement of financial position.

In the circumstances, the financial statements were not prepared in accordance with the financial reporting templates and Management was in breach of the law.

100. Unbalanced Budget

The statement of comparison of budget and actual amounts reflects budgeted revenue and budget expenditure of Kshs.531,114,848 and Kshs.751,187,803 respectively, resulting in an unbalanced budget of Kshs.220,072,955. This is contrary to Regulation

33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that the budget shall be balanced.

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

101. Unapproved Board Meetings

It was observed that Women Enterprise Fund Board held ten (10) Full Board meetings, eight (8) Special Full Board meetings, Five (5) Finance, Human Resource and Administration committee meetings, six (6) Special Finance, Human Resource and Administration committee meetings, Four (4) Audit and Compliance Committee meetings, four (4) Strategy, Innovation and Technology committee meetings, Four (4) Credit Committee meetings, giving rise to a total of forty one (41) board meetings during the 2024/2025 financial year. However, the additional meetings were not approved.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

102. Lack of System Ownership and Weak Internal Controls Over Digital loans

The Women Enterprise Fund does not own or control the system that disbursed Kshs.941,905,755 to women groups. This severely limited WEF authority and oversight in the administration of digital lending.

Further, five hundred and sixty-nine thousand, two hundred and fifty-eight (569,258) members were registered in more than one group. A total of three thousand, eight hundred and nine (3,809) groups with fewer than ten (10) members received payouts amounting to Kshs.189,366,122, while forty (40) groups with more than thirty (30) members were paid Kshs.1,992,550.

Further, a total of six thousand, one hundred and ninety-two (6,192) groups accessed Kshs.307,924,743 using duplicate contract loan IDs. Additionally, three hundred and nineteen (319) groups received amounts below the Kshs.50,000 limit, with a total of Kshs.9,905,755 disbursed below the set threshold.

In the circumstances, the effectiveness of the controls over the disbursement system could not be confirmed.

103. Staff Over-Establishment

Review of the approved staff establishment and staff in post at the Fund revealed there were two hundred and sixty-four (264) Assistant Credit Officer II/III against one hundred and thirty-six (136) captured in the staff establishment resulting to an over-establishment of one hundred and twenty-eight (128) officers.

In the circumstances, the effectiveness of the staff establishment as a Human Resource Management control could not be confirmed.

104. Understaffing

The Fund has an approved staff establishment of three hundred and seventy-eight (378) staff. However, review of the human resource data revealed an under staffing of One hundred and seventy-six (176). Some department such as Corporate Communication & Customer Service Division do not have any staff.

Further, it was noted that two hundred and seventy-three (273) Credit Assistant Officer II were employed as field officers. This is against two hundred and ninety (290) constituencies leading to an understaffing of seventeen (17) officers.

In the circumstances, failure to employ and fill the approved establishment may have negatively affected service delivery to the public.

105. Weakness in Internal Audit Function

Review of internal audit function revealed that the Internal Audit Department did not undertake any internal audit engagements or submit any internal audit reports to the Audit and Compliance Committee for the financial year 2024/2025. This was contrary to Regulation 171 of the Public Finance Management (National Government) Regulations, 2015 which states "(1) The findings and recommendations arising from each internal audit assignment shall be promptly reported to the accounting officers. (2) The final report, including the actions taken by the accounting officer shall be reported to the audit committee in the format determined by the Cabinet Secretary".

Further, review of the staffing levels in the Internal Audit Department revealed that the department has only one member of staff instead of the three provided in the staff establishment. The officer, who is also the head of the internal audit unit is placed in grade WEF 6 contrary to the Head of Public Service Circular dated 11 March, 2020 which directed the Head of Internal Audit to be placed between level 2 and 3 of the grading structures.

In the circumstances, the Fund did not benefit from the oversight role and advice from the Internal Audit Function and hence, the effectiveness of Internal Audit was not fully realized.

106. Breach in Governance Structure

During the audit of Women Enterprises Board expenses for the financial year 2024/2025, it was noted that the Board of Directors participated directly in operational aspects of the staff recruitment process. Specifically, the Board was involved in: Generation of longlists and shortlists of candidates, conducted candidate interviews and Preparing interview results and reports. This was observed in the recruitment of a Senior Officer-Audit & Risk, Assistant Manager-Audit & Risk, Manager-Audit & Risk, Manager-Marketing, Research & Communication, Manager- Finance & Administration, Assistant Manager-HR & Admin. During this process, Board members sat 14 times with the core purpose of recruiting officers for Women Enterprise Fund and were paid allowances from board expense vote without written approval confirming that the process was actually within their mandate and not that of the Human resource department.

In the circumstances, the Board of Directors is in breach of governance structure on segregation of duties.

NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

107. Unsupported Property, Plant and Equipment Balance

The statement of financial position and Note 19 to the financial statements reflects property, plant and equipment balance of Kshs.204,759,347. However, the balance was not supported with a fixed asset register. Management did not explain why an asset register was not maintained as required by Regulation 143 of the Public Finance Management (National Government) Regulations, 2015. Further, review of the financial records revealed that the Fund procured additional assets valued at Kshs.7,261,624 and were not recorded in the asset register. In addition, Management did not provide detailed schedules supporting the additional assets.

Review of the financial statements revealed that depreciation was not charged on assets contrary to IPSAS 45: 26 which states that after recognition, an item of property, plant and equipment shall be carried at its historical costs less any accumulated depreciation. Management explained that the Fund had initiated the process of developing a depreciation policy.

In the circumstances, the accuracy, completeness, existence and ownership of property, plant and equipment balance of Kshs.204,759,347 could not be confirmed and Management was in breach of the law.

108. Unsupported Employee Costs

The statement of financial performance and Note 10 to the financial statements reflects employee costs of Kshs.141,247,075. However, Management did not provide monthly payroll reconciliations as required by Payroll Management Policy for the Public Service. Review of financial records revealed that housing benefits and allowances increased from Kshs.28,072,726 in the previous year to Kshs.48,459,555 in the year under review which was an increase of Kshs.20,386,829 or 73%. However, Management did not provide documents to support the increase. Further, an amount of Kshs.16,153,281 in respect of travel, accommodation, subsistence and other allowances was classified as part of employee costs and hence overstating the balance.

Review of the payroll and payment records revealed that the Fund processed salary payments, benefits, and allowances totalling Kshs.16,018,799 outside the Integrated Personnel and Payroll Database (IPPD) system. The payments were instead made manually through separate payment vouchers and schedules not linked to the government's official payroll management system. In addition, management did not provide evidence that the affected officers were assigned unique IPPD payroll numbers

or that their records were captured within the system for accountability and tracking purposes. The absence of IPPD integration for these staff members makes it difficult to confirm their legitimacy, employment status, and compliance with approved payroll controls.

In the circumstances, the accuracy, completeness and regularity of employee costs of Kshs.141,247,075 could not be confirmed.

109. Unsupported Transfers to Other Government Units

The statement of financial performance and Note 8 to the financial statements reflects transfers to other government units (counties) of Kshs.2,971,214,807 as the disbursed amount and Kshs.2,923,142,056 as the expended amount in the counties. However, the expended amount were not supported with expenditure returns from the counties. .

In the circumstances, the accuracy and completeness of transfers to other government units of Kshs.2,923,142,056 could not be confirmed.

110. Unsupported Expenditures

The statement of financial performance and Note 13(b) to the financial statements reflects monitoring and evaluation expenses of Kshs.88,179,600. Included in the amount are expenditures amounting to Kshs.64,561,308 in respect of various vote heads that were not supported with detailed schedules.

In the circumstances, the accuracy and completeness of monitoring and evaluation expenses of Kshs.88,179,600 could not be confirmed.

111. Unaccounted for Funds

Review of financial records revealed that an amount of Kshs.245,080,103 was disbursed to four (4) counties namely Mombasa, Murang'a, West Pokot and Kajiado. However, only an amount of Kshs.225,128,091 was supported with accounting records resulting in unexplained variance of Kshs.19,952,084.

In the circumstances, it was not possible to confirm how the amount of Kshs.25,302,440 was accounted for.

Other Matter

112. Unresolved Prior Year Matters

In the prior years' audit, one issue on failure to charge depreciation on property plant and equipment raised under Report on the Financial Statements remained unresolved as at 30 June, 2025. Management has not provided reasons for the delay in resolving the prior year's audit issue.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

114. Irregular Expenditure on Civic Education

Review of financial records revealed that an amount of Kshs.50,436,564 was spent on civic education in 10 counties. However, the expenditure was not supported with list of participants, evidence of attendance, training reports, training agenda, advertisements, needs assessment reports and details of items/facilities procured. Further, Management did not provide approved work plans.

In the circumstances, the regularity of expenditure of Kshs.50,436,564 could not be confirmed.

115. Irregularities in Procurement of Goods and Services

Review of financial records revealed that an amount of Kshs.164,939,509 was incurred on procurement of various items in the counties. However, a number of anomalies were noted on how the goods were procured as summarized below;

- i) No request for quotations to the suppliers, contract, and the professional opinions were provided for audit review.
- ii) The appointment letters for the tender opening committee, tender evaluation committee and inspection and acceptance committee members were not provided.
- iii) The tender registers, opening, evaluation, inspection and acceptance minutes and reports were not provided for audit review.
- iv) No evidence was provided indicating notification and acceptance of award to the successful bidder. In addition, regret letters to the unsuccessful bidders were not provided for audit.
- v) No evidence of supplier's valid tax compliance certificates.
- vi) Tender documents for bidders who participated in the tender were not provided for audit review hence not possible to confirm if the procurement process was fair, equitable, transparent, competitive and cost-effective.
- vii) The procurement of goods and services were done from non-prequalified suppliers.
- viii) No procurement plan and no list of registered suppliers was in place.

In the circumstances, the regularity of the expenditure on the procurement of items and services could not be confirmed.

116. Lack of Value-For-Money for Undistributed Items

A physical verification conducted in the month of August, 2025 confirmed that goods, foodstuffs, seedlings and seeds valued at Kshs.46,454,460 had not been distributed to the intended beneficiaries. Management explained that the distribution of the items was awaiting the official launch ceremonies to be led by "the Patron"- Women

Representatives. Further, an amount of Kshs.5,716,200 was spent on drilling of a borehole in Nandi County. However, the borehole was yet to be officially launched. In addition, an amount of Kshs.21,315,813 had been set aside for women economic empowerment programmes in Kisii County. However, the cash had not been distributed to the beneficiaries.

In the circumstances, there was no value for money obtained on funds allocated to counties.

117. Irregular Funding of Economic Empowerment Groups

According to financial records, an amount Kshs.72,211,431 was transferred to various groups. However, a review of the Fund's funding guidelines revealed the following anomalies;

- i) No evidence of group requirements being confirmed prior to the disbursement of funds. Table banking documentation was not availed to support the financial capacity or track record of the applicant groups.
- ii) Application forms from the groups were missing or were not provided for audit review. Latest bank statements, which are a key requirement and precursor to selection, were not provided.
- iii) In some cases, there was no evidence that the office formally announced the rollout of the funding activity as required by the program guidelines.
- iv) Inconsistencies in funding were observed: some groups received 100% of the amounts requested, others received only 20%, while some were denied funding entirely without justified documented reason.
- v) No evidence to support the registration of the groups, needs assessment, filing of returns or their application for the funds.
- vi) Further, there was no acknowledgment documents from the groups that they received the funding.

In the circumstances, Management was in breach of the funding guidelines.

118. Unprocedural Termination of Contract

The proposed construction of a Sexual and Gender-Based Violence (GBV) Rescue Centre at Mombasa County was initiated under the National Government Affirmative Action Fund (NGAAF), with the aim of providing critical support infrastructure for GBV survivors. The project was awarded to a contractor at a contract sum of Kshs.39,646,060. Available information confirmed that the contract was terminated after only 18% of the works were completed. However, Management of the Fund did not seek legal opinion from the Attorney General before termination as required by Regulation 141(5) of the Public Procurement and Asset Disposal Regulations, 2020 which provides that, "a procuring entity shall seek legal advice or clearance from the Attorney General or such person designated in writing by the Attorney General before terminating a contract under the Act or these Regulations."

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

119. Irregular Payment of Special Duty Allowances

It was observed that the NGAAF Board, during its 92nd meeting, resolved to pay special duty allowances to officers who had been deployed due to staff shortages. The resolution was approved by the Accounting Officer, and payments amounting to Kshs.4,986,844 were made to thirty-six (36) officers for duties performed from April 2023 to December 2024, a total of 21 months. However, this period significantly exceeded the six-month limit allowed as per the Public Service Commission (PSC) Manual. Further, review of the payment voucher revealed that clearance certificates were not attached, making it difficult to confirm whether the officers had been properly cleared by their parent institutions prior to payment.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

120. Weaknesses in IT Governance, Security, and Website Management

It was observed that the National Government Affirmative Action Fund (NGAAF) did not have any designated IT personnel to oversee ICT administration and related controls. The IT functions are currently handled by the Head of Partnerships. Although Management indicated that recruitment for an ICT Officer was underway, at the time of audit:

- i) No data backup procedures were in place, either locally or offsite.
- ii) No documented ICT security policies existed.
- iii) No malware protection or active firewall measures were operational on the main server.
- iv) The Authority had no risk identification or mitigation framework for ICT-related vulnerabilities.

Further, audit noted that NGAAF undertook a complete overhaul of its website at a total cost of Kshs.1,836,240. The stated reasons for the overhaul included modernization and improved functionality, including acquisition of the source code. However, the outcomes of the project could not be substantiated, as no post-implementation report or technical evaluation was availed. Further, it was not confirmed whether the Fund obtained the source code for the new website, and the procurement file did not contain a list of prequalified suppliers to verify whether the engaged firm was duly prequalified.

The justification for the overhaul was primarily based on perception rather than technical necessity, with no documented needs assessment or feasibility report.

STATE DEPARTMENT FOR CORRECTIONAL SERVICES – VOTE 1023

PRISON INDUSTRIES REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

121. Inaccuracy of the Financial Statements

The statement of comparison of budget and actual amounts reflects budgeted receipts of Kshs.301,561,203 and budgeted expenditure totaling Kshs.613,544,316 which comprised of recurrent and capital expenditure of Kshs.298,714,507 and Kshs.314,829,809, respectively indicating an unbalanced position with a variance of Kshs.311,983,113. This was also contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which provides that budget shall be balanced.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts could not be confirmed.

122. Unsupported Cash and Cash Equivalents

The statement of financial position reflects a balance of Kshs.10,495,766 in respect of cash and cash equivalents which as disclosed in Note 11 to the financial statements, includes CBK account balance of Kshs.9,162,308. However, one cash book and a single bank account were maintained for recording financial transactions for both the Prison Industries Revolving Fund and the Prisons Farms Revolving Fund, yet the two (2) Funds are distinct and prepare separate sets of financial statements. Further, payments made were commingled making it difficult to distinctly identify and apportion revenues earned by each specific Fund. In addition, cash and cash equivalents balance includes an amount of Kshs.1,143,400 relating to District Treasury which was not supported with a certificate of bank balance, reconciliation and Board of Cash Survey Report.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.10,495,766 could not be confirmed.

123. Unsupported Pay Master General (PMG) Balance

The statement of financial position reflects a balance of Kshs.175,987,430 in respect to Pay Master General (P.M.G.) Account as disclosed in Note 12 to the financial statements. As previously reported, the balance represents amounts held on behalf of the Fund in the former Ministry of Home Affairs Deposits Account which was yet to be transferred to the Fund's bank account. However, documentary evidence to support the P.M.G balance was not provided.

In the circumstances, the existence and recoverability of the P.M.G balance of Kshs.175,987,430 could not be confirmed.

124. Long Outstanding Receivables

The statement of financial position reflects a balance of Kshs.144,795,918 in respect of current receivables from exchange transactions as disclosed in Note 13 to the financial statements. The balance includes an amount of Kshs.6,333,143 and 138,462,775 which have been outstanding for a period between 1 - 2 years and over three (3) years respectively. No explanation was provided for the non-recovery of the long outstanding receivables balance.

In the circumstances, the recoverability of the outstanding receivables balance of Kshs.144,795,918 could not be confirmed.

125. Material Uncertainty Related to Going Concern

I draw attention to Note 21 to the financial statements which discloses that the Fund has existing litigations in regard to motor vehicle number plates. Moreover, a huge amount of money may be required in case the ruling is made in favour of the plaintiff greatly affecting the going concern of the Fund. This indicates existence of material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern.

Emphasis of Matter

126. Budgetary Control Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.301,561,203 and Kshs.78,711,819, respectively, resulting to an under collection of Kshs.222,849,384 or 74% of the budgeted revenue. Further, the Fund spent an amount of Kshs.139,649,940 against actual receipts of Kshs.78,711,819 resulting to an over expenditure of Kshs.60,938,121 or 77% of the actual receipts.

The underfunding affected the planned Fund activities and may have impacted negatively on the planned activities of the Fund.

My opinion is not modified in respect of this matter.

Other Matter

127. Unresolved Prior Year Matters

In the prior years' audit reports, 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 audit of the Fund in 2024/2025 revealed that the issues on unsupported cash (PMG) balance, stalled projects, unsupported cash and cash equivalents and long outstanding creditors remained unresolved.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

129. Stalled Industrial Workshops

Physical verification carried out in the month of August, 2025 revealed that construction of three (3) industrial workshops started in different periods from 2012 to 2019 had stalled while at different levels of completion. Nairobi West Prison Industrial workshop, which started in the year 2012 had stalled at the foundation level due to lack of funding. Although a letter dated 31 October, 2019 from the State Department of Public Works estimated the proposed completion works at Kshs.6,322,000, the total cost of the project could not be ascertained due to unavailability of records. Further, the proposed Embu Main Prison industry workshop and showroom building was started in the year 2019 at an estimated project cost of Kshs.48,820,845. However, the project stalled at ground level at 23% to completion.

In addition, the Embu Women Industry block estimated to cost Kshs.4,503,737, was initially funded with Kshs.250,000 to start construction but stalled at 7% completion due to lack of additional funding.

In the circumstances, value for money for the expenditure incurred on the stalled projects was not obtained.

130. Dilapidated State of Infrastructure at Nyeri Maximum Security Prison Industry

Physical verification carried out in the month of July, 2025 at Nyeri Maximum Security Prison Industry revealed that carpentry section lacked enough tools and modern equipment. The working benches were worn out while the carpentry and upholstery section needed roof repair to enable inmates to work during the rainy season since the old and rusty iron sheets were leaking.

Further, in the tailoring section, all electrical apparatus were faulty with a number of machines grounded and requiring repair or bonding. In addition, most of the machines at the metal/machine workshop were grounded and needed repair or bonding while the entire section needed roof repair to avoid leakages.

In the circumstances, failure to repair and maintain the workshops exposes the inmates to unhealthy working environment and may result in further deterioration of the workshop.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

131. Unserviceable/Obsolete Assets

As reported previously, the property, plant and equipment balance of Kshs.98,786,321 includes an amount of Kshs.2,926,440 relating to scrap machinery as disclosed in Note 16 to the financial statements. The scrap machinery balance of Kshs.2,926,440 has been included in the financial statements over a number of years. Further, review of the asset

register revealed other assets classified as grounded or unserviceable with an estimated value of Kshs.1,237,457. Management did not indicate the measures put in place to dispose or de-recognize the assets to avoid any further deterioration.

In addition, Kamiti Maximum Prison Industry had inventory worth Kshs.135,273,945 which included raw materials of Kshs.89,085,571 from the number plate section. The number plate function was discontinued in 2022 due to its transfer to another government agency. As at the time of our inspection in July 2025, the Prison Industry had obsolete stocks estimated to Kshs.60,447,840. Management did not disclose the plans in place to dispose of the assets to avoid any further deterioration.

In the circumstances, the effectiveness of controls related to asset management could not be confirmed.

PRISON FARMS REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

132. Inaccuracies of the Statement of Cash Flows

The statement of cash flows reflects a balance of Kshs.37,273,958 in respect of net cash flow from operating activities as disclosed in Note 22 to the financial statements. The balance includes an increase in receivables of Kshs.16,523,327. However, the statement of financial position reflects receivables from exchange transactions for the 2023/2024 and 2024/2025 financial years of Kshs.100,210,528 and Kshs.64,458,226, respectively representing a decrease in receivables by Kshs.35,752,302 resulting to an unexplained variance of Kshs.19,228,975.

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

133. Unsupported Revaluation Reserves

The statement of changes in net assets reflects revaluation reserves balance of Kshs.18,470,325 which includes revaluation loss balance of Kshs.1,808,334 in respect of revaluation of biological assets. However, the balance was not supported with evidence of valuation reports for the biological assets from specialist valuers.

In the circumstances, the accuracy and completeness of the revaluation reserves balance of Kshs.18,470,325 could not be confirmed.

134. Commingling of Funds

The statement of financial position reflects a credit cash and cash equivalents (bank) balance of Kshs.1,540,789 as disclosed in Note 11(a) to the financial statements. However, as reported previously, one cash book and a single bank account were maintained in the year under review for recording of financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund, yet the two (2)

Funds are distinct and prepare separate sets of financial statements. Further, payments made were commingled making it difficult to distinctly identify and apportion revenues earned by each specific Fund.

In the circumstances, the accuracy and completeness of the credit bank balance of Kshs.1,540,789 could not be confirmed.

135. Unsupported Pay Master General (PMG) Balance

The statement of financial position reflects a balance of Kshs.56,021,755 in respect of Pay Master General (P.M.G.) Account as disclosed in Note 11 to the financial statements. As reported previously, the balance represents amounts held on behalf of the Fund in the former Ministry of Home Affairs Deposits Account which was yet to be transferred to the Fund's bank account. No documentary evidence was provided to support the balance.

In the circumstances, the existence and recoverability of the P.M.G balance of Kshs.56,021,755 could not be confirmed.

136. Long Outstanding Receivables

The statement of financial position reflects a balance of Kshs.64,458,226 in respect of receivables from exchange transactions. As disclosed in Note 12 to the financial statements, the receivables balance includes a balance of Kshs.6,021,680 which has been outstanding for a period between 1-2 years. However, out of the outstanding balance of Kshs.64,458,226, an amount of Kshs.18,324,328 was paid by various correctional facilities between July and August 2025 leaving a balance of Kshs.46,133,898. No explanation was provided for the non-recovery of the long outstanding receivables balance.

In the circumstances, the recoverability of the long outstanding receivables balance of Kshs.46,133,898 could not be confirmed.

137. Unsupported Inventories Balance

The statement of financial position reflects a balance of Kshs.260,959,638 in respect of inventories as disclosed in Note 13 to the financial statements. The balance includes amounts of Kshs.223,867,934, Kshs.29,889,399 and Kshs.7,202,305 relating to growing crops, harvested crops and farm inputs, respectively. However, the balances were not supported with stock take sheets and Board of Survey Reports to indicate the measurement and recognition of the biological assets as required under International Public Sector Accounting Standards (IPSAS) 27.

In the circumstances, the completeness, existence and fair value of the inventories balance of Kshs.260,959,638 could not be confirmed.

Emphasis of Matter

138. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.274,193,500 and Kshs.72,547,091 respectively

resulting to an underfunding of Kshs.201,646,409 or 74% of the budgeted revenue. Similarly, the Fund spent an amount of Kshs.93,534,801 against actual receipts of Kshs.72,547,091 resulting to an overutilization of Kshs.20,987,710 or 28% of the actual receipts.

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

My opinion is not modified in respect of this matter.

Other Matter

139. Unresolved Prior Year Matters

In the prior years' audit reports, 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 Fund in 2024/2025 revealed that issues on long outstanding receivables, unsupported cash and cash equivalents and failure to use information technology in finance and procurement departments remained unresolved as at 30 June, 2025.

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

Basis for Conclusion

142. Grounded and Unserviceable Assets

Review of the asset register revealed various assets with a scrap value of Kshs.1,096,300 and other assets classified as grounded or unserviceable with an estimated value of Kshs.2,542,355. Management did not indicate the measures put in place to dispose and or de-recognize 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 INTERNAL SECURITY AND NATIONAL
ADMINISTRATION – VOTE 1026**

NATIONAL HUMANITARIAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

143. There were no material issues noted during the audit of the financial statements of the Fund.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

145. Non-Functioning Fund Committee

As reported in the previous year, the Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act, 2012 prescribes the Fund Administration procedures, including the composition and functions of the Committee and Secretariat. However, there was no evidence of an active Committee and Secretariat as provided for in the enabling Act. Further, the Fund had no financial transactions for the last two years with all bank balances transferred back to The National Treasury and the Fund bank account closed. Management has, however, not provided an explanation for failure to wind-up the dormant Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GOVERNMENT PRESS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

147. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.406,575,834 as disclosed in Note 10 to the financial statements. Review of the receivables supporting schedule revealed that a balance of Kshs.363,639,954 has been outstanding for more than three (3) years. Further, there was no policy on the impairment of long outstanding debts casting doubt on the fair statement of the accounts receivables balance.

In the circumstances, the accuracy, valuation and recoverability of the outstanding receivables balance of Kshs.363,639,954 could not be confirmed.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

149. Use of Outdated Price Catalogue

Review of the Government Press Fund price catalogue revealed that the Government Press has been using the same price list for more than fifteen (15) years for sale of publications at the Government Press Bookshop. Although a review of the prices was carried out as per a report dated 28 March, 2024, the Government Press Bookshop continues to use the outdated catalogue price list yet the cost of raw materials for production and maintenance costs of machines and equipment have increased over the years. The Fund may therefore not meet its cost of production due to increased cost of consumables.

In the circumstances, value for money from production made during the year could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

150. Use of Outdated Machines

Physical verification of the Fund's printing factory revealed that the entity relied on outdated machines for printing, some of which date back to the 1940s. The continued use of the outdated machines has led to frequent breakdowns due to wear and tear, resulting in slower production of documents and higher maintenance costs.

In the circumstances, the continued use of these machines impacts on the entity's ability to generate revenue effectively. Further, the efficiency and sustainability of operations could not be confirmed.

151. Weak Controls Over Inventory Management

Physical verification of the stores conducted in October, 2025 revealed significant volumes of inventory in respect of copies of prior years' supplementary estimates books, copies of Kenya Gazette Notices and Acts of Parliament, some of which have since been repealed and are, therefore, outdated and obsolete.

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

152. Inadequate Management of Information Technology (IT) Systems and Operations

Review of the entity's IT systems and operations revealed that Government Press Fund is yet to develop and adapt key ICT parameters including ICT Policies and Procedures Manual, Business Continuity Plans and Disaster Recovery Plans. Further, Government Press Fund did not have an offsite backup storage facility.

In the circumstances, the effectiveness of IT internal controls could not be confirmed.

153. Slow Uptake of Enterprise Resource Planning System

Review of the progress report for the Enterprise Resource Planning (ERP) System dated 28 June, 2024 revealed that the Committee recommended that the ERP system be put to use commencing the start of the 2024-2025 financial year and run concurrently with the manual system. However, at the time of audit in November 2025, Management was still relying primarily on the manual system.

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

**STATE DEPARTMENT FOR THE ARID AND SEMI-ARID LANDS AND
REGIONAL DEVELOPMENT – VOTE 1036**

NATIONAL DROUGHT EMERGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

156. Delay in Receipt of Seed Capital

As reported in the previous year, the Fund has received a cumulative amount of Kshs.483,300,000 against a seed capital of two (2) billion as provided for in Regulation 4(1) of the Public Finance Management (National Drought Emergency Fund) Regulations, 2021 which requires that the initial capital for the fund shall be two (2) billion shillings appropriated by Parliament.

In the circumstances, lack of adequate financial resources for management of Fund activities may slow down its operations which will have a negative impact on service delivery to the Public.

157. Non-Implementation of Approved Projects

Appendix II to the financial statements reflects six (6) projects and four (4) projects with estimated costs of Kshs.334,359,215 and Kshs.114,720,328 that were approved by the Fund Board in the financial years 2023/2024 and 2024/2025 respectively but were not implemented. The Fund Management attributed non-implementation to delayed disbursements from co-financing partners who included the County Governments, local community structures and National Government Constituency Development Fund (NG-CDF).

In the circumstances, failure to implement the projects in the period they were planned disrupts the operations of the subsequent year and denies the public the benefits accruing from the completed projects.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MINISTRY OF DEFENCE – VOTE 1041

NATIONAL PEACE SUPPORT OPERATIONS FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

159. There were no material issues noted during the audit of the financial statements of the Fund.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

161. 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

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

ULINZI PRIME HEALTH SERVICES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

163. There were no material issues noted during the audit of the financial statements of the Fund.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

165. 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

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

**STATE DEPARTMENT FOR HIGHER EDUCATION AND RESEARCH –
VOTE 1065**

HIGHER EDUCATION STUDENTS LOAN SELF PROTECTION SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

167. There were no material issues noted during the audit of the financial statements of the Scheme.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

169. 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

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

STATE DEPARTMENT FOR MEDICAL SERVICES - VOTE 1082

EMERGENCY, CHRONIC AND CRITICAL ILLNESS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

171. Unsupported Benefits Expenses

The statement of profit or loss and other comprehensive income and, as disclosed in Note 6 to the financial statements, reflects benefit expenses of Kshs.1,257,212,219 which includes Emergency Chronic and Critical Illness Fund (ECCIF) benefit expenses, incurred claims liability – Incurred But Not Reported (IBNR) and incurred Claim liability – Outstanding Claim Reserve (OCR) of Kshs.457,700,541, Kshs.344,310,233 and Kshs.455,201,444 respectively. However, the schedule provided to support ECCIF benefit expenses of Kshs.457,700,541 did not include important details including the Social Health Authority member number, names of the beneficiaries and the approved claim amount.

In the circumstances, the accuracy and validity of the benefits expenses of Kshs.1,257,212,219 could not be confirmed.

172. Variances in the Statement of Cash Flows

The statement of cash flows reflects receipts from exchequer of Kshs.4,050,249,982 which differs with the amount of Kshs.1,361,611,544 reflected in the statement of comparison of budget and actual amounts resulting to an unexplained and unreconciled variance of Kshs.2,688,638,438.

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

Emphasis of Matter

173. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue final budget of Kshs.48,784,096,267 and total actual revenue on a comparable basis of Kshs.1,361,611,544 resulting to revenue shortfall of Kshs.47,422,484,723 or 97%.

The underfunding affected some 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

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. Unsupported Transition of Beneficiaries to the Fund

The statement of profit or loss and other comprehensive income and, as disclosed in Note 6 to the financial statements, reflects benefits expenses of Kshs.1,257,212,219. However, documentary evidence supporting depletion of Social Health Insurance Fund benefits by beneficiaries before qualifying and being approved to transition to the Emergency, Chronic and Critical Illness Fund was not provided contrary to Regulation 27(2) of the Social Health Insurance (General) Regulations 2024 which states that for purposes of benefitting under the Emergency, Chronic and Critical Illness Fund, the beneficiary referred to under sub regulation (1), shall transition from the Social Health Insurance Fund to the Emergency, Chronic and Critical Illness Fund after depletion of his or her benefits in the benefits package under the Social Health Insurance Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

176. Lack of Quality Assurance Surveillance Reports

During the year under review, quality assurance surveillance were not carried out contrary to Regulation 35 of Social Health Insurance (General) Regulations, 2024 which states that the Authority shall from time to time conduct quality assurance surveillance in claims management to ensure compliance with the provisions of the Act and these Regulations.

In the circumstances, the effectiveness of internal controls in claims management could not be confirmed.

STATE DEPARTMENT FOR ROADS – VOTE 1091

MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

177. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 16 to the financial statements reflects an amount of Kshs.100,014,781 in respect of current portion of receivables from exchange transactions. Included in the balance were amounts of Kshs.48,710,152 and Kshs.36,337,417 in respect of receivables from Kisii County Government and Nairobi Metropolitan Services respectively, that have been outstanding for a long time. Management vide a letter dated 4 August, 2023 to the State House Comptroller indicated that the debts owed by Nairobi Metropolitan Services had been verified as pending bill awaiting Exchequer release. Although, Management explained that both Kisii County Government and Nairobi Metropolitan Services had been submitted to the National Pending Bill Committee, no feedback on the progress of these debts from the Pending Bills Committee was not provided.

In the circumstances, the accuracy and recoverability of receivables balance of Kshs.85,047,569 could not be confirmed.

178. Lack of Land Ownership Documents

The statement of financial position and as disclosed in Note 18 to the financial statements reflects an amount of Kshs.2,410,030,841 in respect of property, plant and equipment. However, Management did not provide ownership documents and valuation reports for parcels of land where the regional offices are located.

Further, physical verification on the assets at the Fund's Headquarters conducted in the month of October, 2025 revealed that eight thousand one hundred and eighty-six (8,186) machineries valued at Kshs.3,048,906,253 and belonging to various counties have been abandoned at the Fund Headquarters awaiting collection since 2013. No justification was provided as to why counties have not collected the machineries which are deteriorating in value and becoming a health hazard to the Fund staff.

In addition, fourteen (14) unserviceable machineries valued at Kshs.10,327,822 lied idle at the Fund offices. No explanation was provided why the machineries had not been bonded and disposed to save on further deterioration of value. Management did not also provide any reason for the continued existence of the machinery in the Fund books when economic benefits derived could not be ascertained.

In the circumstances, the accuracy and valuation of property, plant and equipment balance of Kshs.2,410,030,841 could not be confirmed.

Emphasis of Matter

179. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.750,000,000 and Kshs.732,329,439 respectively, resulting to over-funding by Kshs.17,670,561. However, the Fund spent an amount of Kshs.523,136,042 against actual receipt of Kshs.732,329,439 resulting to underperformance of Kshs.209,193,397 or 29% 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

180. Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under Report on the Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Fund in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Audit Issue
1	Inaccuracies in Property, Plant and Equipment
2	Long Outstanding Receivables from Exchange Transaction
3	Budgetary Control and Performance
4	Long Outstanding Trade and Other Payables
5	Understaffing Against the Approved Staff Establishment

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

182. 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

183. Weakness in Internal Controls

Review of the Fund records, revealed that most of operations including financial and accounting records are maintained manually and there were no backups. Further, the Fund operated without any documented Risk Management Policy Framework.

In the circumstances, manual operations may lead to misreporting, misrepresentation and loss of data.

ROADS ANNUITY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

185. 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.14,087,000,000 and Kshs.25,680,483,203 respectively, resulting to over-funding of Kshs.11,593,483,203 or 82% of the budget. However, the Fund spent an amount of Kshs.12,894,660,249 against actual receipts of Kshs.25,680,483,203 resulting to an under-utilization of Kshs.12,785,822,954 or 50% of the actual receipts.

The underperformance affected the planned activities and 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 Disclose Subsequent Year Budget Estimates in the Website

Review of the Website as at 30 June, 2025 revealed that the State Department for Roads did not publish the annual estimates prepared on the Annuity Programme Funding and Payment Obligations for the year 2025/2026 and quarterly Fund balances were not published in State Department for Roads website. This was contrary to Regulation 22(a) of the Public Finance Management (Roads Annuity Fund) Regulations, 2015 which states that on annual basis, the Fund shall publish on the website of the ministry responsible for matters relating to roads the estimates prepared of Annuity Programme Funding and Payment Obligations for the forthcoming financial year; and (b) On a quarterly basis, publish on the website of the ministry responsible for matters relating to roads the balance of funds held in the account designated for annuity payment obligations

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

188. Non-Achievement of 10,000 Kilometers Target

The enabling Regulation 2 (2) of Public Finance Management (Roads Annuity Fund) Regulations, 2015, provides that the National Government shall; (a) identify a maximum of ten thousand kilometers priority roads distributed across the country;(b) procure long term contracts for design, finance, construction and maintenance of identified roads under a public private partnership arrangement within the meaning of the Public Private Partnership Act, Cap 430. with payments linked to the completion of roads and performance-based maintenance. However, records reviewed revealed that the Fund only identified four (4) roads with total length of 290 kilometers. The identified roads are Lot 3 - Modogashe-Mandera Roads (143KM), Lot 32-Illasita-Taveta roads (67KM), Lot 15-Identified roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi; Laikipia totalling 45KM; and Lot 1- Identified town roads in Kakamega, Vihiga, Bungoma, Busia totalling 35KM. This was contrary to the Regulations.

Further, records showed that out of the 290 KM identified, only 91 KM had been constructed and put into operation or 1% the target.

In the circumstances, delayed implementation road projects affect service delivery to the public.

189. Avoidable Expenditure in Termination

Review of records revealed that;

189.1 Lot 32 (Illasit-Njukini-Taveta) Road Contract

The Kenya National Highways Authority entered into a contract with a company on 22 May 2019 for construction of Illasit-Njukini- road at an annual annuity cost of Kshs.1,549,760,000 under the Public Private Partnership (PPP) annuity

programme. However, Financial Close was not reached by year 2020 as expected due to non-fulfilment of conditions set by the contracting Authority (KeNHA). Value for money analysis post commercial close done in 2024 on the Project revealed a negative value for money of Kshs.5.098 billion indicating it was not desirable for the contracting Authority to undertake the Project as a Public Private Partnership. Thereafter, the contracting Authority initiated termination of the Annuity Project Agreement resulting to a termination claim of Kshs.436,992,985 as the total cost of termination and a consideration. Had management conducted value for money in good time, termination cost of Kshs.436,992,985 would not have been incurred.

In the circumstances, value for money of the expenditure of Kshs.436,992,985 incurred on the termination of the Project could not be confirmed.

189.2 Lot 3 (Wajir-Habaswein-Samatar and Rhamu-Mandera) Road Contract

Road Annuity Lot 3 Project Agreement signed on the 21 November, 2016 was amended on 21 December, 2018 at annual annuity cost of Kshs.3,150,000,000. However, it did not achieve Financial Close as expected due to non-fulfilment of conditions precedent by the contracting Authority (KeNHA). Value for money analysis and affordability review post commercial close done in 2024 to the Project revealed a negative value for money of Kshs.9,463,000,000 compared to the positive value for money Kshs.844,000,000 in 2018 post commercial close and Kshs.6,004,000,000 in 2015 indicating that it was not desirable for the contracting Authority to undertake the project as a Public Private Partnership. The Contracting Authority, initiated termination of the Annuity Project Agreement which resulted in a termination claim of Kshs.4,098,000,000 by the service provider as indicated vide letter dated 23 June, 2025. Had management conducted value for money in good time, termination cost of Kshs.4,098,000,000 would not have been incurred.

In the circumstances, value for money of the expenditure of Kshs.4,098,000,000 incurred on the termination of Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR TRANSPORT – VOTE 1092

RAILWAY DEVELOPMENT LEVY FUND - (HOLDING ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

191. Unauthorized Expenditure on SGR Loan Repayment

The statement of financial performance and as disclosed in Note 7 to the financial statement reflects transfers to The National Treasury amount of Kshs.32,500,000,000 for repayment of the Standard Gauge Railway (SGR) loan. However, review of the Fund's approved budget for the year under review revealed that an amount of Kshs.25,000,000,000 was allocated for SGR Loan repayment for phase 1 and 2A resulting to an unexplained excess transfer of Kshs.7,500,000,000. Although, the Advisory Committee in their meeting held on 15 October, 2024 recommended revision of the provision to Kshs.30,000,000,000, no evidence was provided to show that the budget was revised. The Fund therefore spent an amount of Kshs.7,500,000,000 or 23% over and above the budgetary allocation contrary to Section 8 (1) of the Kenya Gazette Notice No.99 dated 5 July, 2013 which states that expenditures of the Fund shall be on the basis of, and limited to the annual work programmes and cost estimates.

In the circumstances, regularity of the expenditure totalling Kshs.7,500,000,000 on repayment of SGR-loan could not be confirmed.

Emphasis of Matter

192. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted receipts amount of Kshs.32,000,000,000 and actual receipts amount of Kshs.51,042,268,745 resulting to over-funding of Kshs.19,042,268,745 or 60% of the budget. However, the Fund spent an amount of Kshs.48,818,991,284 against actual receipts of Kshs.51,042,268,745 resulting to an underperformance of Kshs.2,223,277,461.

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

My opinion is not modified in respect of this matter.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

194. Failure to Implement Projects

Review of records revealed that the Fund had budgeted an amount of Kshs.5,254,487,801 to implement six projects namely Upgrade of Railway Training Institute infrastructure, construction of Standard Gauge Railway (SGR) access roads to magongo, SGR overhaul workshop, purchase of SGR passenger locomotives, purchase of SGR locomotive wheelsets and SGR Passenger Ticketing System. However, it was noted that the projects were not implemented. Further, the Fund's bank account showed unspent balance of Kshs.2,223,277,464 an indication that, funds allocated for the projects amounting to Kshs.3,031,210,337 were reallocated and spent for other projects without the approval of the Advisory Committee in contravention of Section 8 (1) of the Kenya Gazette Notice No.99 dated 5 July, 2013 that states that expenditure of the Fund shall be on the basis of, and limited to the annual work programmes and cost estimates which shall be submitted to the Advisory Committee for approval before the beginning of the financial year to which they relate.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

RAILWAY DEVELOPMENT LEVY FUND (OPERATION ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

196. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

197. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts final budget and actual on comparable of Kshs.109,159,293 each resulting to 100% funding. However, the Fund spent Kshs.87,052,714 against actual receipts of Kshs.109,159,293 resulting under-utilization of Kshs.22,106,579 or 20% of the actual receipts.

The under-utilization of the budget affected the planned activities and impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

198. Unresolved Prior Year Matters

In the prior year audit report, one issue was raised under the Report on Financial Statements. This issue includes failure to prepare financial statement. Review of the status during audit of the Fund in 2024/2025 revealed that the financial statements were prepared and submitted to the Auditor-General on 29 August, 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

200. 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

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

**STATE DEPARTMENT FOR HOUSING AND URBAN
DEVELOPMENT – VOTE 1094**

CIVIL SERVANTS HOUSING SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

202. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects amounts of Kshs.512,431,990 and Kshs,8,492,651,794 which, as disclosed in Note 17(a) and 17(b) to the financial statements relates to current receivables from exchange transactions and long-term receivables from exchange transactions, respectively. However, the current receivables from exchange transaction balance of Kshs.512,431,990 includes amounts of Kshs.109,647,558 and Kshs.370,918,055 in respect of amounts owed by the Principal Secretary, State Department for Lands and Physical Planning, and rent and services charge arrears, respectively which has been outstanding for over ten (10) years. The portion for rents arrears increased by Kshs.10,516,792 or 3% during the year under review. Management did not demonstrate efforts to recover the outstanding amount. Further, no provision for bad and doubtful debts has been made in the financial statements

In the circumstances, the accuracy and recoverability of the long outstanding receivables balance could not be confirmed.

Emphasis of Matter

203. Low Uptake of Mortgage Funds

The statement of comparison of budget and actual amounts reflects development budget for loans to civil servants balance of Kshs.2,097,500,000. However, actual amounts disbursed during the year amounted to Kshs.1,003,557,170 or 48% of the budget. As a result, an amount of Kshs.1,093,942,830 or 52% of the budgeted amounts for the Fund were not taken up by the civil servants.

In the circumstances, the overall objectives of the Fund may have not been achieved.

204. 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.2,341,510,000 and Kshs.3,355,464,095 respectively, resulting to over-funding of Kshs.1,013,954,095 or 43% of the budget. However, the Fund spent an amount of Kshs.1,201,140,773 only against actual receipts of Kshs.3,355,464,095 resulting to an under-utilization of Kshs.2,154,323,322 or 64% of the actual receipts.

The underperformance affected the planned activities and impacted negatively on service delivery to the public.

My opinion is not modified on the effect of these matters.

Other Matter

205. Unresolved Prior Year Issues

In the audit report of the previous year, two issues on outstanding receivables from exchange transactions and budgetary control and performance were raised under Report on the Financial Statements. Although Management had indicated that the matters had been resolved, the issues remain outstanding as the same had not been discussed by parliament for a resolution.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

207. 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

208. Lack of Back Up Mechanism

Review of the Fund's operations and management systems revealed that the Fund financial and accounting records are managed and maintained manually. Financial reports, ledgers, trial balance, budgets and financial statements are prepared manually and there was no evidence of backup. Manual operations may lead to misreporting, misrepresentation and loss of data.

In the circumstances, the effectiveness of internal controls on management of operations and financial records could not be confirmed.

209. Lack of a Risk Management Policy/Framework.

During the year under review, the Fund operated without a documented Risk Management Policy. The Fund is exposed to loss of funds through frauds due weak mitigating mechanisms. There is need to explore the application of a Management Information System during this era of data security in order to safeguard the confidentiality, integrity and accessibility.

In absence of Risk Management Policy, effectiveness of internal controls on risk identifications, evaluation, monitoring and mitigation could not be confirmed.

KENYA SLUM UPGRADING, LOW-COST HOUSING AND INFRASTRUCTURE TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

210. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

211. Failure to Recover Dues from the Civil Servants Housing Fund

The statement of financial position and as disclosed in Note 12(a) to the financial statements reflects current and non-current receivables from exchange transactions balance of Kshs.103,609,990 and Kshs.1,206,671,148 respectively, all totalling Ksh.1,310,281,138. Included in this balance is Civil Servants Housing Fund receivable balance of Kshs.65,000,000 which has remained constant from the previous financial year. The receivable arose from two hundred and twenty-seven (227) units which were allocated to Civil Servants Housing Fund with the understanding that they sell the houses for an amount of Kshs.632,150,000 to be remitted to Kenya Slum Upgrading, Low-Cost Housing and Infrastructure Trust Fund. However, an analysis of the mortgage receivables balance revealed that there were no recoveries made on the outstanding balance of Kshs.65,000,000. The balance has been outstanding for two years but no efforts appear to be put in place to recover the dues.

My opinion is not modified in respect of this matter.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

213. 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

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

STATE OFFICERS HOUSE MORTGAGE SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

216. Unresolved Prior Year Issues

During the audit report of the previous year, a number of issues were raised under Report on the Financial Statements and in the Report on Effectiveness of Internal Controls, Risk Management and Governance sections as listed below:

No.	Audit Issue
1	Low Uptake of Mortgage Funds
2	Budgetary Control and Performance
3	Lack of Backup Mechanism
4	Lack of Risk Management Policy/Framework
5	Failure to Establish Internal Audit Committee
6	Non-Performing Loans or Mortgage Arrears

The issues remained unresolved as at 30 June, 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

218. 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

219. Lack of Back Up Mechanism

Review of the Fund's operations and management systems revealed that the Fund financial and accounting records are managed and maintained manually. Financial reports, ledgers, trial balance, budgets and financial statements are prepared manually and there was no evidence of a backup. There is therefore an urgent need to explore the

application of a Management Information System in order to safeguard the confidentiality, integrity and accessibility. Further, manual operations may lead to misreporting, misrepresentation and loss of data.

In the circumstances, the effectiveness of internal controls on management of operations and financial records could not be confirmed.

220. Lack of a Risk Management Policy

During the year under review, the Fund operated without a documented Risk Management Policy. The Fund did not have a mechanism to assess the risk and mitigating responses in case the risks crystallize.

In the circumstances, the existence of effective mechanism on risk management could not be confirmed.

AFFORDABLE HOUSING FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

222. Land Ownership Status

The statement of financial position reflects property, plant and equipment balance of Kshs.53,873,271,342 which, as disclosed Note 14 to the financial statements constitutes Work-in-Progress. The amount represents the cost of construction of affordable houses and other related infrastructural development across the Country. It was noted that the value of land had not been disclosed as the Fund had not procured any land but constructed houses based on vested lands by the National Government entities and County Governments.

The statement also reflects inventories balances of Kshs.211,480,000 which, as disclosed in Note 13 to the financial statements, comprises of the already completed projects for houses held for sale for the Affordable Housing Project at Mukuru and Homa Bay County.

Further, the audit established that various ownership and land tenure arrangements were employed across Affordable Housing Programme (AHP) projects. These include parcels with registered title deeds, letters of allotment, or certificates of official land search as shown below:

No.	Land Ownership Status	Number of Projects
1	Projects With Title Deeds	14
2	Projects with Letters of Allotment	9
3	Projects with a Certificate of Search	23

No.	Land Ownership Status	Number of Projects
4	Projects on Community Land	2
5	Projects without Land Documentation	269

A number of projects were implemented on community land or land held under customary arrangements, and this may precipitate challenge on how the sectional title deeds will be processed without the original land ownership documents.

My opinion is not modified in respect of this matter.

Other Matter

223. Unresolved Prior Year Matter

In the prior year audit report, one issue was raised under the Report on the Financial Statements on lack of an approved operational instruments. Review of the status during audit of the Fund in 2024/2025 revealed that the matter remained unresolved.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

225. Delays in Allocation of Housing Levy to County Committees

The statement of financial position reflects trade and other payables balance of Kshs.459,409,938 as disclosed in Note 23 to the financial statements. This balance relates to funds owed to County Committees which had not been remitted by the Fund since inception. This was contrary to Section 11(4)(c) of the Affordable Housing Act, 2024 which states that despite the provisions of subsection (2), the Board shall allocate out of the Fund not less than point five percent (0.5%) of the monies to the County Committees for the administration of the County Committees as may be approved by the Cabinet Secretary for the time being responsible for 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

226. Failure to Onboard Taxpayers with Affordable Housing Obligation

Review of records revealed that the Affordable Housing Fund rely solely on the proceeds submitted by Kenya Revenue Authority (KRA) who in turn rely solely on what has been remitted by the institutions. The Board relies on KRA records while KRA relies on the institutional remittances. The Board does not therefore have a mechanism to know what

it expects based on accurate data. Similarly, KRA does not have power through the Affordable Housing Act, 2024, to enforce compliance by employers.

Further, analysis of taxpayer data from Kenya Revenue Authority (KRA) iTax in respect of Pay As You Earn (PAYE) and Housing Levy deductions revealed that six thousand, three hundred and ninety (6,390) taxpayers were found in the PAYE register but were missing in the Housing Levy records. Management explained that although the Authority is mandated to collect Affordable Housing Levy, enforcement of the levy is not within its purview.

In the circumstances, the Fund may have unrealized revenue from institutions that fail to deduct or conceal deducted amounts thus undermining the implementation of the Affordable Housing Policy.

227. Performance on Delivery of Affordable Houses

The Fourth Medium Term Plan 2023-2027 “Bottom-Up Economic Transformation Agenda for Inclusive Growth”, provides that under the Housing and Settlement Pillar, 200,000 affordable housing units will be constructed annually. Out of these, 60,000 units will be financed through Government support while 140,000 units will be financed through the National Housing Development Fund. Further, it seeks to increase the number of low-cost mortgages from 30,000 to one (1) million. However, review of records on current target achievements against actual performance revealed that the Fund’s had underperformed on delivery of the affordable houses against set targets with only 3,611 units having been completed.

In the circumstances, effectiveness of the ability of the Fund to deliver to the public the target housing units could not be confirmed.

NATIONAL HOUSING DEVELOPMENT FUND FOR ELEVEN MONTHS PERIOD ENDED 31 MAY, 2025 - NATIONAL HOUSING CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

228. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

229. 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.33,606,000 and Kshs.76,636,000 respectively, resulting to an over-funding of Kshs.43,030,000. Similarly, the Fund spent Kshs.3,399,000 against actual receipts of Kshs.76,636,000 resulting to underutilization of

Kshs.73,237,000 or 96% of actual receipts. This is because the funds were earmarked to be transferred to the Affordable Housing Board.

230. Transfer of Fund Operations

The Fund transferred its operations on 31 May, 2025 as provided in Section 61(2) of the Affordable Housing Act, 2024 which vested the operation of the Fund to the Voluntary Saving Scheme. The Fund therefore prepared financial statements for eleven (11) months ended 31 May, 2025. Review of the handover records reveal that assets, liabilities, cashbooks, bank certificates and bank reconciliations were correctly included in the handover report dated 29 May, 2025 signed by the Managing Director National Housing Corporation. However, handover report signed by the two parties to show concurrence was not provided for audit review.

Further, cash balances in the National Housing Development Fund had not been transferred to the Voluntary Saving Scheme because the Board had not provided details of bank account where funds were to be deposited as at 31 May, 2025. Although transmission of the full amount of Kshs.498,695,015 was subsequently done in the month of June and July, 2025, there were no jointly signed handover report and evidence of the Fund Administrator notifying the contributors and creating an account of each contributor. The transfer process was yet to be concluded at the time of audit in November, 2025.

My opinion is not modified in respect of these matters.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

232. 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

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

STATE DEPARTMENT FOR PUBLIC WORKS – VOTE 1095

STORES AND SERVICES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

234. Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements

Review of the financial statements revealed disclosure omissions and errors while the financial statements were not strictly prepared in accordance with the approved Public Sector Accounting Standards Board (PSASB) Reporting Template. It was noted that page headers were not reflected in all pages, the date of approval of the financial statements was not indicated and the Fund's Accounting Officer and Head of Supplies passport photo were not attached and the report not signed by the Chief Executive Officer.

In the circumstances, Management was in breach of the PSASB reporting template.

235. Unsupported Long Outstanding Receivables Balance

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,232,261 as disclosed in Note 7 to the financial statements. The balance has been outstanding for over three years casting doubt on its recoverability yet no provision for bad and doubtful debts has been made in financial statements. Further, debtors supporting schedules were not provided for audit review.

In the circumstances, the accuracy and recoverability of the receivables balance of Kshs.1,232,261 could not be confirmed.

236. Unsupported Inventories Balance

The statement of financial position and as disclosed in Note 8 to the financial statements reflects inventories balance of Kshs.197,048,168. However, supporting stock sheets and ledgers were not provided for audit review. Further, the stocks balance has remained the same for many years implying that the stocks may have become obsolete resulting to loss of public funds.

In the circumstances, the accuracy and existence of the inventory balance of Kshs.197,048,168 could not be confirmed.

237. Unsupported Trade and Other Payables Balance

The statement of financial position reflects an amount of Kshs.76,808,202 in respect of trade and other payables from exchange transactions as disclosed in Note 9 to the financial statements. Included in the amount is Kshs.19,641,489 relating to a suspense

account balance that was not supported by analysis/or documents indicating the source of the suspense.

Further, trade and other payables from exchange transactions balance of Kshs.76,808,202 included payments received in advance amounting to Kshs.57,166,713 which were not supported by way of bank statements and/or a schedule indicating dates when the deposits were made.

In the circumstances, the accuracy, existence and completeness of trade and other payables balance of Kshs.76,808,202 could not be confirmed.

238. Long Term Portion of Borrowing/Unsupported Bank Overdraft

The statement of financial position reflects borrowings/bank overdraft from CBK amounting to Kshs.283,595,154 as disclosed in Note 10 to the financial statements. However, no supporting documents or explanation were given regarding the nature, purpose and approval of the overdraft. Further, the overdraft has been outstanding for a long time and may have attracted interest and penalties resulting to loss of public funds.

In the circumstances, the accuracy, completeness and existence of the bank overdraft balance could not be confirmed.

239. Doubtful Sustainability of Services for the Stores Fund

The statement of financial performance reflects sale of goods of Kshs.35,899. This is an indication of a very low activity level. Further, the statement of financial position reflects total assets of Kshs.199,335,815 against liabilities balance of Kshs.360,403,356 resulting to a negative working capital of Kshs.161,103,440. Non-current liabilities also include a long outstanding bank overdraft of Kshs.283,595,154 which has not been analyzed and settled to improve the liquidity of the Fund. Further, there was no budgetary allocation for the Fund as evidenced by Nil balances in the statement of comparison of budget and actual amounts. Management should assess the viability of the Fund with a view to winding it up.

Although the Statement of Directors' Responsibilities in page xvii of the financial statement shows the Fund as a going concern, the future operations of the Fund depends on the recommendations of the Supplies Branch Transition Committee as all other parameters indicate that the Fund cannot sustain its activities.

In the circumstances, the continued existence of the Fund is dependent on Government financial assistance.

240. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under 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. Review of the status during the audit of the Fund during the 2024/2025 financial year revealed that issues on inventories, bulk purchase of stores, trade and other payables and sale of goods 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

241. 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

242. 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.

STATE DEPARTMENT FOR LANDS AND PHYSICAL PLANNING – VOTE 1112

LAND SETTLEMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

243. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.11,583,511,540 which, as disclosed in Note 12 to the financial statements comprises of long-term loan repayment of Kshs.6,514,399,692, long term interest receivable balance of Kshs.5,003,157,641 and development loan balance of Kshs.65,954,207. The ageing analysis of the receivables indicates that an amount of Kshs.11,419,904,194 or 91% of the total receivables had been outstanding for more than three (3) years. Management attributed this to settlers' general slow pace of loan repayment caused by the tedious manual bill processing and dispatch process that were previously in place.

Further, the schedule of the outstanding loans and interest receivables revealed that the Fund had some long outstanding loans some of which had accumulated for more than sixty (60) years. The Fund did not have a policy on evaluation and management of accounts receivables which can be used to determine the recoverability of the outstanding loans. Management made no provision for bad debt or proposed any write-off despite the remote chances in the recovery of the debts that are over sixty (60) years old.

In the circumstances, the accuracy and valuation of the long receivables from exchange transactions could not be confirmed.

Emphasis of Matter

244. Budgetary Control and Performance

The statement comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,679,724,346 and Kshs.2,187,076,752 respectively, resulting to under-funding of Kshs.492,647,594 or 18% of the budget. Similarly, the Fund spent an amount of Kshs.1,777,408,869 against actual receipts of Kshs.2,187,076,752 resulting to an under-utilization of Kshs.409,667,883 or 19% of the actual receipts. Further, the statement of comparison of budget and actual amounts did not reflect the total expenditure balances in each column as required by the reporting template.

The under-funding and under-expenditure 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

245. 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 Fund in 2024/2025 revealed that the following four (4) issues remained unresolved:

No.	Audit Issue
1	Long Outstanding Receivables from Exchange Transactions
2	Budgetary Control and Performance
3	Undistributed Land
3.1	Kisima Njoro For Resettlement of IDPs in Nakuru County
3.2	Mikanjuni Farm in Kilifi County
3.3	Kadza Ndani Land in Mombasa County
3.4	Mazrui Farm in Kilifi County
4	Lack of Risk Management Policy

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. Delayed Land Distribution

As previously reported, the Fund had purchased various parcels of land valued at Kshs.10,191,872,625 across the Country for resettlement of informal settlers as detailed below:

No.	Land Location Details	Acreage	Amount (Kshs)	Current Status
1	Kisima Njoro - Nakuru County	1,112	396,984,000	The delay in settlement was occasioned by several court cases. However, the court cases were dismissed in favour of the State Department.
2	Mikanjuni Farm - Kilifi County	91	377,000,000	An approval letter for the preparation of title deeds was issue to the Cabinet Secretary.

No.	Land Location Details	Acreage	Amount (Kshs)	Current Status
3	Kadza Ndani - Mombasa County	28.4	378,000,000	Planning and Surveying have been completed resulting in 390 plots.
4	Mazrui Farm - Kilifi County	1,497.38	445,461,625	The Directorate is in initial stage of planning, surveying and allocating squatters.
5	Kedong Ranch – Nakuru County	-	8,594,427,000	The process of identifying and allocating the beneficiaries was still ongoing.
Total			10,191,872,625	

The above parcels of land were purchased for the settlement of informal settlers including Internally Displaced Persons (IDPs). However, review of records revealed that the settlement process had not been completed despite purchase of the land. The Fund attributed this to various reasons namely, numerous court cases, planning of land to cater for amenities and public utility plots which was still on-going, the final allocation in terms of acreage per squatter was yet to be determined and the Directorate is in initial stage of planning, survey and allocation of the informal settlers

Further, it was noted that the Fund had finalized the exercise for Mikanju farm in Kilifi and Kadza Ndani Land in Mombasa and an approval letter for preparation of title deeds issued to the Cabinet Secretary from Director – Directorate of Land Adjudication and Settlement.

In the circumstances, the value for money for the expenditure of Kshs.10,191,872,625 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

248. Lack of Risk Management Policy

The Fund's Institutional Risk Management Policy Framework (IRMPF) Steering Committee had been constituted. However, the Fund 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 exists.

In the circumstances, Management was not in a position to evaluate, rank and prioritize critical risks and channel resources towards mitigating identified risks.

STATE DEPARTMENT FOR SPORTS – VOTE 1132

SPORTS, ARTS AND SOCIAL DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

249. Lack of Service Agreement on Betting Tax Collection

The statement of financial performance and Note 7 to the financial statements reflects Kshs.15,516,450,642 as proceeds from betting and lotteries tax. The betting tax revenue was collected by the Kenya Revenue Authority (KRA) and channeled to the Fund through the State Department for Sports. However, Service Agreement between the Kenya Revenue Authority and the Fund, clearly outlining the types of taxes or revenues that the Authority is authorized to collect, reporting obligations and remittance timelines were not provided for audit verification.

In the circumstances, the completeness and accuracy of proceeds from betting and lotteries tax of Kshs.15,516,450,642 could not be confirmed.

250. Long Outstanding Payables

The statement of financial position and Note 20 to the financial statements reflects trade and other payables balance of Kshs.52,797,605. The balance includes an amount of Kshs.11,761,215 awarded by the Court to a tenant arising from a dispute over a tenancy agreement. However, the balance has been outstanding for more than two (2) years exposing the Fund to possibility of sanctions which may lead to extra charges.

In the circumstances, the completeness and accuracy of the balance of Kshs.11,761,215 could not be confirmed.

Emphasis of Matter

251. Undisclosed Guarantee Issued by the Fund in a Securitization Process

Review of documents after the year end revealed that the Sports, Arts and Social Development Fund had offered a guarantee to investors who subscribed to a bond for the purposes of raising Kshs.44,516,053,525 for the construction of Talanta Stadium in Nairobi County. The guarantee was offered by the Fund through the State Department for Sports on behalf of the Government of Kenya after approval from The National Treasury. Under the terms of the guarantee, Sports, Arts and Social Development Fund was to make monthly remittance to the investors towards the repayments of the principal loan plus interest over a period of fifteen (15) years. The monthly payments were secured by the future revenue from betting activities as remitted to the Fund by the State Department for Sports. However, the full documentation supporting the transaction were not provided for audit and financial statements disclosures were also omitted.

In the circumstances, the audit was unable to verify the reliability of the securitization model employed and confirm that adequate internal control and oversight mechanisms were established.

252. Undisclosed Contingent Liability in Respect of Assigned Receivables

In the securitization process, the Project was expected to incur an interest of 7.93 % per annum on the value of the bond of Kshs.44,516,053,525 over a 15 years period. However, the resultant contingent liability relating to receivables amounting to Kshs.97,500,000,000 consisting of the principal and interest which is fully payable at the maturity of the 15 years bond was not disclosed in the financial statements. Further, the disclosure pertaining to the future contingent liabilities was also omitted from the financial statements for the period under review.

In the circumstances, the completeness and valuation of contingent liabilities in the financial statements could not be confirmed

253. Contingent Liabilities Related to Refundable Rent Deposits

Review of documents revealed that the Fund has matters in Court regarding refundable deposits in relation to Talanta Plaza. The cases originated after the Fund acquired the building from National Olympics Committee of Kenya who had signed contracts with various tenants for sale of office spaces between the years 2012 and 2013 under an off-plan agreement. At the time of audit, three (3) of the cases were ongoing in Court while seven (7) other purchasers were awaiting an outcome of an out of Court settlement and the full amount in dispute had not been determined.

In the circumstances, due to ongoing litigations and unresolved negotiations with uncertain financial impact, the Fund is exposed to contingent liabilities.

My opinion is not modified in respect of these matters

Other Matter

254. 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 the Use of Public Resources, and Report on effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit of the Fund in 2024/2025 revealed that matters on long outstanding accounts payables, delay in disbursements of funds to sporting federations and lack of internal audit function and audit committee remained unresolved as at 30 June, 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

256. Lack of Lease Agreements

The statement of financial position and Note 19 to the financial statements reflects property, plant and equipment balance of Kshs.2,966,584,814 which includes

Kshs.2,765,014,915 as the cost of Sports, Arts and Social Development Fund-owned Talanta Plaza building. During physical verification, it was observed that four (4) floors are being occupied by the State Department for Sports while one (1) floor was being utilized by State Department for Youth Affairs and Creative Economy. However, lease agreements for the two State Departments were not provided for audit verification.

In the circumstances, the regularity of the tenancy could not be confirmed.

257. Non-Adherence to the Disbursement Proportions

The statement of financial performance and Note 16 to the financial statements reflect transfer to other Government implementing agencies of Kshs.17,979,613,191. The transfer includes an amount of Kshs.14,012,973,698 (78%) which was transfers towards promotion and development of sports, Kshs.1,478,980,306 (8%) transferred towards promotion and development of arts and an amount of Kshs.487,659,187 (3%) that was transferred towards social development including Universal Health Care. However, the analysis showed that the Fund surpassed the recommended percentage of disbursements towards sports development by fifty four percent (54%) in contravention of Regulation 4(2) of the Public Finance Management (Sports, Arts, and Social Development Fund), 2018 which states that an amount not exceeding thirty five percent (35%) to be apportioned to the promotion and development of sports.

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

258. Delay in Disbursement of Funds to Sporting Federations

The review of Board minutes approving disbursements of funds to Sporting Federations revealed that the Fund had not disbursed an amount of Kshs.87,868,135 due to the National Olympics Committee of Kenya relating to Paris 2022 Olympic games. Such delays in fund disbursement can hinder the planning and implementation of essential operational elements, including security, staffing, and logistics, thereby adversely affecting the Federation's reputation and the country's ability to host major events.

In the circumstances, the delay in disbursements of approved funds to sporting Federations exposes the Federations to the risk of failing to meet their international commitments which may result in sanctions to the country for non-compliance.

REPORT ON EFFECTIVENESS⁷ OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

259. Non-Operational Audit Committee

Review of Board documents revealed that the Fund has established an Audit Committee. However, the Audit Committee met only once during the year. This was contrary to Regulation 179 (1) of the Public Finance Management Regulations (National Government), 2015 which states that the Audit Committee shall meet at least once in every three (3) months. The absence of a functioning Audit Committee may hinder accountability for financial performance and compliance.

In the circumstances, the effectiveness of the internal control system could not be confirmed.

260. Lack of an Offsite Data Storage Facility, Continuity Plan and Disaster Recovery Plan

Review of the Information Communication Technology (ICT) Systems revealed that the Fund does not have a secure offsite storage facility for its data, an ICT Continuity Plan and a Disaster Recovery Plan. This may lead to loss of data, confidentiality, integrity and accessibility in case of a disaster.

In the circumstances, the existence of an effective, internal control system on organizational data could not be confirmed.

STATE DEPARTMENT FOR ENERGY – VOTE 1152

PETROLEUM DEVELOPMENT LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

261. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

262. Unresolved Prior Year Matters

In the prior years' audit report, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Fund in 2024/2025 revealed that matters on budgetary control and performance, irregular utilization of the fund resources and excess withholding tax on interest Income remained unresolved as at 30 June, 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

264. Irregular Utilization of the Fund Resources

The statement of financial performance and as disclosed in Note 8 to the financial statements reflect transfers to other Government entities totalling Kshs.545,000,000. The Fund Management transferred the funds to various Government entities and one private entity, all of which have no responsibility in the oil and petroleum industry, contrary to Section 4(4) of the Petroleum Development Fund Act No. 4 of 1991 (Revised 2012), which provides that there shall be paid out of the petroleum development funds such monies as are necessary for the development of common facilities for distribution or testing of oil products and matters relating to the development of the oil industry.

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

265. Un-Authorized Outsourcing of Audit Services

Management signed an agreement with Kenya Association of Manufacturers on 10 January, 2006 with an initial expiry date of three years from the date of signing for the Formation of a Centre for Energy Efficiency and Conservation, the Ministry of Energy was required to disburse funds at least annually to Kenya Association of Manufactures to

operate the Centre. This Agreement has been extended severally with addendums extending the arrangement to 10 January, 2027.

In the year under review, Kshs.35,000,000 was disbursed to this private entity. However, a private audit firm was outsourced to carry out an independent financial audit of the Ministry of Energy and Petroleum resources implemented by Kenya Association of Manufactures on special purpose financial statements without approval of the Auditor-General on this engagement. This is contrary to the requirements of Section 23(1) of the Public Audit Act, 2015 which provides that for purposes of carrying out his or her functions under this Act, the Auditor-General may outsource audit services from duly registered audit firms whose partners and staff are not employees of the Office of the Auditor-General and the public service to assist in an examination and audit of accounts.

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

266. Non-Transfer of Unspent Funds

The State Department for Energy transferred unspent funds of the previous year amounting to Kshs.24,568,025 on 17 October, 2024 to the National Exchequer Account. However, a balance of Kshs.4,532,032 was not transferred contrary to Regulation 84 of the Public Finance Management (National Government) Regulations, 2015 which requires that not later than the 31 January of each year, each Accounting Officer shall surrender to the National Exchequer Account unexpended voted money or excess Appropriations-in-Aid, as confirmed by Auditor-General in the audit report.

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

267. Un-Budgeted Transfer of Funds

Review of the Fund's bank account transactions revealed total transfers of Kshs.35,000,000 to Kenya Association of Manufacturers during the year. However, this was above the approved budget of Kshs.30,000,000 by Kshs.5,000,000 and the State Department expended excess funds contrary to Regulation 44(2) of the Public Finance Management (National Government) Regulations, 2015 that requires National Government entities to execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the Contingencies Fund, or supplementary estimates.

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

268. Formation of Centre for Energy Efficiency and Conservation

The Ministry of Energy and Petroleum entered into an agreement with the Kenya Association of Manufacturers for the formation of a Centre for Energy Efficiency and Conservation with the aim to help industries reduce energy waste and costs through audits, technical services, and training on 10 January, 2006. However, there was no evidence provided for audit review on the results of this partnership yet the Ministry through the State Department for Energy transfers funds to this entity each year.

This partnership should have resulted in, inter alia, energy audits, specialized trainings, certification upon trainings of citizens, exchange programmes and resource audits to bridge gap between the country and its competitors.

In the circumstances, value-for-money of funds transferred to the private entity each year could not be ascertained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

270. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

271. Unresolved Prior Year Audit Matters

In the prior years' audit report, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Fund in 2024/2025 revealed that the following matters remained unresolved, although Management stated they were resolved.

No	Audit Issue
1	Low Contribution to the Fund
2	Irregular Funding of the Program
3	Unaccounted for Energy Saving Jikos
4	Unsupported Reimbursement of Rehabilitation Works
5	Irregular Procurement of Seedlings in Gakanga Beat Forest (Nyeri County) and Maragoli Hills Forest (Vihiga County)

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

273. Low Contribution to the Fund

As previously reported, review of the projected contributions towards the Fund based on the 2019/2029 action plan revealed that out of the expected contribution of Kshs.824,000,000 only, Kshs.314,000,000 or 38% was realized from four (4) agencies while four (4) agencies had not made any contributions over the last six (6) years up to 2024/2025 as detailed below:

Organization	Contribution Allocation for the Last 6 Years (Kshs)	Total Contribution Received (Kshs)	Outstanding Balance (Kshs)
Ministry of Energy (MOE)	263,600,000	302,000,000	(38,400,000)
Kenya Electricity Transmission Company (KETRACO)	2,500,000	0	2,500,000
Geothermal Development Company (GDC)	27,000,000	0	27,000,000
Nuclear Power and Energy Agency (NuPEA)	6,000,000	0	6,000,000
Kenya Power and Lighting Company Limited (KPLC)	5,000,000	4,000,000	1,000,000
Energy and Petroleum Regulatory Authority (EPRA)	10,000,000	6,000,000	4,000,000
Kenya Electricity Generating Company PLC (KenGen),	5,000,000	2,000,000	3,000,000
Rural Electrification & Renewable Energy Corporation (REREC)	27,000,000	0	27,000,000
Total	346,100,000	314,000,000	32,100,000

Management attributed the non-contribution to the Fund to the Presidential directive to all Ministries, Departments and Agencies (MDAs) and Semi-Autonomous Government Agencies (SAGAs) to grow fifteen billion trees by 2030. The target for the Cabinet Secretary, therefore, was cascaded to the SAGAs as an indirect contribution towards the energy and environment programme.

In the circumstances, the non-contribution to the Fund is a violation of the terms of the agreement and may negatively impact the operations of the fund and its ability to achieve the intended goals and objectives.

274. Irregular Funding of the Program

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects transfers from other Government entities amounting to

Kshs.83,000,000. Included in the amount is Kshs.80,000,000 transferred from Petroleum Development Levy Fund Account in two tranches of Kshs.40,000,000 each on 24 October, 2024 and 25 March, 2025, respectively. However, the Fund has no responsibility in the oil and petroleum industry. The transfer was contrary to Section 4(4) of the Petroleum Development Fund Act No.4 of 1991 (Revised 2012) which provides that there shall be paid out of the Fund such moneys as are necessary to supplement distribution and retail outlets in areas inadequately served by the current oil marketing companies and for such matters relating to the development of the petroleum industry as may be determined by the Minister with the approval of the Minister for the time being responsible for finance.

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

275. Unsupported Afforestation Expenses

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects an amount of Kshs.101,077,681 in respect of the use of goods and services. Included in the amount is Kshs.54,543,910 in respect of afforestation expenses. The amount further includes an expenditure of Kshs.13,077,400 paid as daily subsistence allowances for Community Forest Association Administrative Officers, the Kenya Forest Service staff and casual labour. However, appointment letters of casual workers, original muster rolls showing record of days worked by the casual labourers, attendance registers to support meetings, and reports of the quarterly meetings were not provided for review.

In the circumstances, value for money in the use of public funds could not be ascertained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR LIVESTOCK DEVELOPMENT – VOTE 1162

VETERINARY SERVICES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

277. Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 9 to the financial statements reflects cash and cash equivalents balance of Kshs.110,655,925. Review of related documents revealed the following anomalies;

277.1 Failure to Maintain E-citizen Revenue Cashbook

The Fund received transfers in block figures from The National Treasury totalling Kshs.93,499,815 in its current account being revenue collected in the E-citizen platform. However, these funds were not supported in detail since the Fund failed to maintain a revenue cash book for recording individual revenue transactions collected through the E-Citizen platform. Further, E-citizen revenue reconciliations were not done and the Fund could not establish if there were any discrepancies between actual E-Citizen individual receipt transactions and receipt as per Pesaflow statement.

277.2 Undisclosed and Unaccounted for Bank Accounts

Review of expenditure records provided for audit including Authority to Incur Expenditure (A.I.Es) revealed that during the financial year under review, the Fund transferred A.I.Es totalling Kshs.6,870,000 to its respective eleven (11) regional bank accounts. However, the detailed cash and cash equivalent analysis in Note 9(b) only discloses eight bank accounts leaving three undisclosed bank accounts. Although Management explained that the other three (3) accounts receive funds from VSDF and Parent Ministry recurrent and development funds thus they cannot be recognized solely as VSDF accounts, no documentary evidence was provided to support this. In addition, no documents were provided in support of the VSDF balances held in these accounts.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.110,655,925 could not be confirmed.

278. Unconfirmed Inventory Balances

The statement of financial position and Note 11 to the financial statements reflects consumable stores balance of Kshs.22,735,347. However, Management did not provide annual stock take report to support the balance. Further enquiry revealed that no stock take exercise was conducted at the closure of the financial year. In addition, a stock take report for an exercise conducted as at 30 September, 2025 revealed that the store contained expired, unserviceable and obsolete items worth Kshs.6,686,938 whose date

of purchase dated back to the financial year 2009/2010. It is unclear why these items have never been subjected to a disposal process.

In the circumstances, the accuracy and completeness of inventory balance of Kshs.22,814,451 could not be confirmed.

Emphasis of Matter

279. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.200,000,000 and Kshs.154,639,768 respectively resulting to an under-funding of Kshs.45,360,232 or 23 % of the budget. Similarly, the Fund spent Kshs.177,979,984 against actual receipts of Kshs.154,639,768 5 resulting to an over-expenditure of Kshs.23,340,216.

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

My opinion is not modified in respect of this matter.

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 use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

282. Lack of a Financial Policies and Procedures Manual

The Fund lacks a financial policies and procedures manual to guide financial systems, roles, and responsibilities. As a result, there is no formal framework to support effective financial management, ensure compliance with generally accepted accounting principles, safeguard assets, promote accuracy and transparency, or provide a benchmark against which internal audit can assess compliance and the effectiveness of internal controls.

In the circumstances, effectiveness of the systems of internal control could not be confirmed.

283. Weak Internal Controls in Transport Department

Review of work tickets provided for audit revealed that some were neither closed nor checked since there were no details filled on summary of work ticket section where one

is required to indicate total distance covered, fuel drawn and checked by head of Transport section. In the absence of the above procedure, authenticity of actual fuel consumed during the year under review could not be confirmed.

In the circumstances, effectiveness of the systems of internal control could not be confirmed.

STATE DEPARTMENT FOR THE BLUE ECONOMY AND FISHERIES – VOTE 1166

FISH LEVY TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

284. Material Uncertainty Relating to Going Concern

The Executive Office of the President, annex V of Issue No. 1 of 2025 categorized the Fund as one of the public entities to be declassified and have its functions reverted to the parent Ministry with a strengthened and focused governance structure. Further, the contract of the Fund's acting Chief Executive Officer (CEO) expired on 30 June, 2025 and as was indicated in the above circular, renewal of contracts for officers serving in state corporations earmarked for reforms was suspended. The above conditions indicate the existence of material uncertainty relating to going concern. However, Management continued to prepare the financial statements on a going concern basis contrary to Paragraph 43 of the International Public Sector Accounting Standards (IPSAS) 1 on presentation of financial statements, which provides that when preparing financial statements, an assessment of an entity's ability to continue as a going concern should be made. In addition, Management did not disclose that fact, as well as the basis on which the financial statements are prepared.

In the circumstances, the financial statements are not fairly presented and disclosed due to the failure by Management to disclose the material uncertainty related to going concern.

Other Matter

285. Unresolved Prior Year Matters

In the prior years' audit reports, several issues on lack of board trustees, inadequate staff and delayed exchequer releases were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Fund in 2024/2025 revealed that the matters remained unresolved.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

287. Unexecuted Functions of the Fund

Review of the Fund's operations and activities during the year revealed that Management did not undertake the following functions in accordance with the Fund's mandate as outlined in the Fisheries Management and Development Act, 2016 and Fisheries Management (Fish Levy Trust Fund) Order, 2024;

- i. Institution of policies and procedures to promote management of fisheries in the Country;
- ii. Mobilization or institution of measures and policies for mobilizing funds and availing resources for grants, fisheries awards, capacity building and dissemination;
- iii. Maintaining a register of members who include Fishers, gear makers, traders and processors involved in fishing activities to identify them. Further, Management had no developed procedures and policies for loaning members;
- iv. Setting aside resources earmarked for urgent mitigation of adverse impacts caused by climate change and other natural disasters that may affect the livelihoods of fishers; and
- v. Development of a plan or manual to promote public awareness on fisheries conservation and management.

In the circumstances, the Fund is operating below the expected capacity and may be in breach of law.

288. Failure to Collect Fish Levy

During the year under review, no levies were collected and deposited into the Fish Levy Trust Fund, despite the gazettelement of the Fisheries Management and Development Order, 2024 in July, 2024. Management had not commenced the registration of Fisher Folks and Beach Management Units as required under Section 28 of the Fisheries Management and Development Act, 2016 and had not established policies, systems and procedures on the collection of the fishing levy.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

289. Lack of Board of Trustees and Fund Management

During the year under review, the Fund did not have in place a Board of Trustees. As a result, the financial statements were not signed by the Chairman of the Board or any Board Member. In addition, the financial statements included an unsigned report of the

Directors on page xviii and an unsigned statement of the Board of Trustees' responsibilities on page xx. Although the Acting Managing Trustee had on several occasions written to the Cabinet Secretary responsible for fisheries regarding the lack of the Board as required in Section 28(4) of the Fisheries Management and Development Act, 2016, the members of the Board of Trustees had yet to be appointed.

In addition, the Fund did not have an operational management team during the year under review. The Fund was managed by an Acting CEO and three (3) technical staff seconded from the State Department for Blue Economy and Fisheries, who could not sufficiently manage the affairs of the Fund. The secondment was made without a request or approval of the Board as required in Clause 10 9 of the Fisheries Management (Fish Levy Trust Fund) Order, 2024.

In the circumstances, the Fund may not achieve its mandate in an effective and efficient manner in the absence of a properly constituted Board of Trustees and Management team.

STATE DEPARTMENT FOR AGRICULTURE – VOTE 1169

COMMODITIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualification

290. Long Outstanding Non-Current Receivables

The statement of position and as reflected under Note 20 to the financial statements reflects an amount of Kshs.9,213,875,000 in respect to gross loans and advances which includes Kshs.7,536,265,000, Kshs.1,658,540,000, Kshs.18,167,000 and Kshs.903,000 in relation to sugar, coffee, coconut and cashew nut respectively. The loans have remained outstanding for an extended period, resulting in provision for doubtful debts of Kshs.6,860,232,000. In addition, a review of the non-performing loan portfolio report discloses balance of Kshs.6,584,527,373, 1,129,438,670 and Kshs.16,047,263 in relation to sugar, coffee and coconut loan portfolio respectively totalling Kshs.7,730,013,306 classified as non-performing loans in the system. Therefore, the recoverability of the outstanding loan balance is in doubt and the Fund is highly exposed to credit risk due to potential losses of its portfolio as a result of non-payment.

In the circumstances, the impact on the Fund's ability to operate as a going concern may be greatly affected and its objective to support agricultural development may not be achieved.

Emphasis of Matter

291. Sustainability of Loans

As previously reported, the Fund wrote-off long outstanding loans amounting to Kshs.12,355,764,000 owed by Sugar Companies and the due process was followed, obtaining necessary approvals from Parliament and The National Treasury through National Treasury letter dated 27 March, 2024.

However, this substantial loan write-off raises significant financial implications for the Fund. Management and The National Treasury have not provided an assessment of how the elimination of these loans without compensation affects the Fund's financial reserves and overall sustainability of the Fund.

The write-off represents a direct reduction in the Fund's reserves, potentially limiting its capacity to extend future financial support to agricultural stakeholders or other sectors.

In the circumstances, the impact on the Fund's ability to operate as a going concern may be greatly affected and its objective to support agricultural development may not be achieved.

292. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.311,100,000 and Kshs.225,916,000 respectively, resulting in underfunding of Kshs.85,184,000 or 28% of the budget. Similarly, the Fund spent Kshs.293,955,000 against actual receipt of Kshs.225,916,000 resulting to over expenditure of Kshs.68,039,000 or 22% of the budget.

In the circumstances, the underfunding affected the planned activities and may have impacted negatively on service delivery

My opinion is not modified in respect of these matters.

Other Matter

293. 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 some of the issues or given any explanation for failure to resolve them as at 30 June, 2025 as detailed below:

No.	Audit Issue
1	Sustainability of Loans
2	Long Outstanding Receivables
3	Due from Related Parties
4	Due from Related Parties
5	Transitioning of Coffee Development Fund and Sugar Development Fund
6	Lack of Regulations for the Commodities Fund
7	Dependence on Annual Funding from the Exchequer
8	Staff Under Establishment

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

295. Non-Compliance with Fiscal Responsibility of Wage Bill

During the year under review, Commodities Fund had a wage bill of Kshs.141,097,000 in relation to staff costs and total revenue of Kshs.225,916,000 as at 30 June, 2025. The analysis revealed that staff costs accounted for 63% of total revenue, contrary to Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35

percent of the national government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution.

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

296. Deficiency in Post Debt Recovery Unit Collections Against Portfolio

The statement of financial position and Note 20 to the financial statements reflects Kshs.1,601,575,000 in respect to long term receivables from exchange transaction-Loans. An analysis of the debt recovery unit portfolio reveals a critically low collection rate following the handover of files from credit department. Despite the debt recovery unit's mandate for intensive recovery, the total amount collected of Kshs.20,772,585 represents only a small fraction of the outstanding balances indicating a challenge in converting recovery efforts into cash.

In the circumstances, the low collection rate may impact negatively the Funds loan portfolio.

297. Transitioning of Coffee Development Fund and Sugar Development Fund to Commodities Fund

As previously reported, the Commodities Fund is an agency under the Ministry of Agriculture and Livestock Development established under Section 9 of the Crops Act of 2013 and operationalized on 1 August, 2014. Coffee Development Fund and Sugar Development Fund were wound up in the process. However, the winding up procedures did not conform to Section 24(9) of the Public Finance Management Act, 2012 on the winding up of a national public fund and neither did the Crops Act, 2013 articulate the transition of the functions, assets and liabilities of the Funds therein.

The Commodities Fund Management failed to provide evidence that the Fund was directly under the control of the Agriculture and Food Authority as per Section 10(2) of Crops Act, 2013 which states that the Authority shall, from time to time, make rules for the better management of the Fund in the best interest of farmers where by the Authority refers to Agriculture and Food Authority established under the Agriculture and Food Authority Act, 2013.

Further, the Fund does not have existing regulations guiding its operations and administrative management as expected and articulated in Section 10(2) of the Crops Act 2013. Further, specific guidelines on the establishment of the Board, appointment and or establishment of the office of the Managing Trustee, the term, duties and operations have not been articulated in law.

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

298. Lack of Regulations for the Commodity Fund

As previously reported, Section 9 of the Crops Act, 2013 established the Commodities Fund which was to provide sustainable affordable credit and advances to farmers for all or any of the following purposes; farm improvement, farm inputs, farming operations, price stabilization and any other lawful purpose approved by the Authority. The Fund was to be

financed by monies paid as license fees, commission, export or import agency fees and fees that may accrue to or vest in the Authority in the course of exercise of its functions under the Act, funds from any other lawful source approved by the Trustees and funds appropriated by Parliament for this purpose.

The Fund has no Regulation contrary to Section 24(11) of the Public Finance Management Act, 2012 which provides for the management, governance, structure, operation, scope, winding up procedures and functionality and other provisions including financial for the Fund since its inception in 2013.

Further, the Fund does not have existing Regulations guiding its operations and administrative management as expected and articulated in Section 10(2) of the Crops Act, 2013. Further, specific guidelines on the establishment of the Board, appointment and or establishment of the office of the Managing Trustee, the term, duties and operations have not been articulated in law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

299. Failure to Appoint Board Member Registered with Professional Body

A review of the Trustees qualifications revealed that the Commodities Fund Trustees did not have a member with financial expertise who is registered with a professional body contrary to Paragraph of 1.1 of Chapter 1(6) of Mwongozo Code of Governance, 2015 which states that at least one Board member should be a financial expert meaning that he or she should have necessary qualification and expertise in financial management or accounting and is a bonafide member of a professional body regulating the Accountancy profession and in compliance with the requirements thereof.

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

COMMODITIES FUND STAFF MORTGAGE AND CAR LOAN SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

300. Funds Held at Housing Finance Company Limited

Housing Finance Limited reflect cash and cash equivalent balance of Kshs.13,789,968 and long-term receivables portfolio of Kshs.24,931,026 as at 30 June, 2025. Even though transition has occurred, the entire long-term receivables portfolio, being a material financial asset still remains in the books of HFC Limited and has not been transferred to the intended financial institution.

In the circumstance, Clause 11.2 of the agreement between Commodities Fund and HFC Limited which states that the existing mortgages shall immediately at the expiry of the notice revert to HFC's prevailing commercial mortgage rate of interest and HFC shall release the deposits in the back up account and free fund account to Commodities Fund has not been adhered to.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

302. Irregular Charge of Management Fees by Financing Institutions

Review of the contract between Co-operative Bank of Kenya Limited and Commodities Fund (Comfund) on 10 February, 2022 under schedule II on terms and conditions of the staff mortgage loans scheme states that administrative fees of 3% per annum on a reducing balance will be paid by borrower. This is contrary to the Clause 14(b) of The Commodities Fund (Comfund) Staff Mortgage Scheme and Motor Car Loan Scheme Guidelines of 8 April, 2025 which states that the financial institution managing this scheme may charge management cost for not more than two per centum per annum of the value of the loan to cover its management costs.

In the circumstances, there may be losses to members due to excess deductions.

303. Slow Transition from Housing Finance Company to Cooperative Bank

The Commodities Fund transition from HFC Limited to Co-operative Bank was initiated in 18 May, 2021. This was a result of HFC altering the terms and conditions of its mortgage agreement, and a mutual agreement not being reached. Further, Co-operative Bank was appointed as the new service provider for the mortgage scheme in February, 2022. The transition was initially expected to be completed within three (3) months. However, the process remains ongoing four years later.

Further, there was no evidence the Scheme sought legal advice or clearance from the Attorney-General or such person designated in writing by the Attorney-General before terminating a contract and the terminated contract was not reported to the Authority on a quarterly basis as required by Regulation 141(5)(6) of the Public Procurement and Disposal Regulations, 2020.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

305. Failure to Disclose the Fair Value of Fully Depreciated Assets

The statement of financial position reflects property, plant and equipment balance with a netbook value of Kshs.147,200 as disclosed in Note 16 to the financial statements. Review of the schedule provided to support the balance revealed that property, plant and equipment balance whose initial acquisition cost totalled Kshs.39,094,532 had been fully depreciated. However, most of the property, plant and equipment were still in use and the fully depreciated assets might indicate a possible material variance between the fair value and the carrying value of the assets. Further, the Fund did not disclose the carrying amount of temporarily idle, retired from active use and held for disposal property, plant and equipment.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.147,200 could not be confirmed.

306. Long Outstanding Receivables from Exchange Transactions Balance

The statement of financial position reflects receivables from exchange transactions balance of Kshs.7,804,209 as disclosed in Note 14 to the financial statements. Review of the debtors ageing analysis revealed that debtors have been long outstanding, some dating back to the years 2003 to 2021. Further, the statement of financial performance did not include any provision for bad debts, thus casting doubt on the fair statement of the debtors. In addition, the receivables balance was not supported with relevant documents including individual debtors' statements, copies of actual invoices to show what was being paid for and a debtors' policy to guide the management of debtors.

In the circumstances, the accuracy, completeness and recoverability of receivables from exchange transactions balance of Kshs.7,804,209 could not be confirmed.

307. Unsupported Long Outstanding Creditors

The statement of financial position and as disclosed in Note 12 of the financial statements, reflects a current liabilities balance of Kshs.1,498,598. Review of the creditors' supporting ledger revealed that several creditors' balances remained outstanding over several financial years without movement or settlement. Further, the supporting ledger schedule lacked key details, such as invoice numbers and Local Purchase Order (LPO) references.

In the circumstances, the accuracy and completeness of creditors balance of Kshs.1,498,598 could not be confirmed.

Emphasis of Matter

308. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted income and actual on comparable basis of Kshs.16,950,000 and Kshs.14,405,219 respectively resulting to an under-funding of Kshs.2,544,781 or 15% of the budget. Similarly, the Fund spent Kshs.10,405,317 against actual receipts of Kshs.14,405,219 resulting to an under-utilization of Kshs.3,999,902 or 28% of the actual receipts.

Further, the budget was not approved by the Board since the Fund had no Board mandated for approving budget before submission to The National Treasury.

The underfunding and under absorption 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

309. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under Report on the Financial Statements, Emphasis of Matter, Other Matter, 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 or given any explanation for failure to resolve them as at 30 June, 2025 as detailed below:

No.	Audit Issue
1	Misstatement of Property, Plant and Equipment
2	Long Outstanding Current Liabilities
3	Long Outstanding Accounts Receivable Balances
4	Lack of Approved and Balanced Budget
5	Failure to Appoint Members of the Board of Directors
6	Internal Controls Weaknesses

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

311. Revenue Collected Using Unapproved Rates

Note 7 to the financial statements discloses revenue from exchange transactions – rendering of services of Kshs.14,405,219. However, the Fund collected revenue based on rates introduced without formal approval from The National Treasury. Further, there

were no minutes/memo from the Agricultural Information Resource Centre supporting the introduction of the rendering of services which were to be effective from 1 August, 2022. In the absence of approved rates, revenue collected exposes the Fund to the risk of potential disputes over the validity of the charges levied.

In the circumstances, the regularity of the revenue collected could not be confirmed.

312. Management of Imprest

The statement of financial performance reflects an amount of Kshs.10,105,660 in respect of use of goods and services. Included in this amount is Kshs.2,887,150 in relation to daily subsistence and transport allowances as disclosed in Note 8 to the financial statements. However, the following unsatisfactory matters were observed;

312.1 Irregular Payment of Daily Subsistence and Transport Allowance

Review of documents provided in support of the expenditure revealed that an amount totalling Kshs.906,700 was advanced as imprest to staff to attend eCitizen Pesaflo Training at a city hotel. However, the Hotel is only twenty three (23) kilometers from Agricultural Information Recourse Center. This was contrary to the SRC circular dated 7 August, 2023 on allowances in the public service which directs that Daily Subsistence Allowance shall not be payable for locations that are within 50 km radius of the respective duty station.

Further, an amount of Kshs.367,500 was paid as lunch allowances to staff at the Centre who did normal office duties contrary to Regulation 93(3) of the Public Finance Management (National Government) Regulations, 2015 which states that Temporary Imprest shall be issued for duties away from the duty station.

312.2 Irregular use of Imprest

Included in the amount for use of goods and services is Kshs.4,039,620 in respect of publishing and printing costs. However, review of payment vouchers revealed that imprest totalling Kshs.930,700 was issued to procure goods and services instead of using the procurement process as guided by the Public Procurement and Asset Disposal Act, 2015. This was contrary to Regulation 115(1) of the Public Finance Management (National Government) Regulations, 2015 which states that all purchases of goods, works and services shall comply with the provisions prescribed in the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the value for money of the expenditure of Kshs.930,700 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

313. Failure to Appoint Members to the Board of Directors

During the year under audit, it was noted that the Fund did not have a dully appointed and functional Board of Directors as envisaged in Exchequer and Audit (Agriculture

Information Centres Revolving Fund) Regulations, 1993. Further, the supervision and administration of the Fund, overall policy guidance on the intended use of the Fund and execution of the Centre's programmes may not be realized without a Board of Management in place as envisaged by the Legal Notice 163 of 1993.

In the circumstances, the internal controls, governance structure and risk management within the Fund may not have worked effectively.

314. Lack of Financial Policy and Procedures Manual

Agricultural Information Resource Centre Revolving Fund had not developed or approved financial policy and procedures manual to guide the collection, recording, and management of revenue and other financial transactions. As a result, activities relating to revenue were being carried out without standardized procedures or documented internal controls.

Similarly, the Fund did not have or use any National Treasury Published Financial Manuals.

In the circumstances, effectiveness of the systems of the internal controls could not be confirmed.

315. Information Systems Controls Weakness

Review of Key Entity Information in the financial statements revealed that the Centre's primary activity was to collect, collate, process and disseminate agricultural information using various platforms to a wide spectrum of stakeholders. However, the Centre may fail to realize any of these objectives due to the following weaknesses emanating from entity information systems;

- i. The Centre had no Business Continuity and Disaster Recovery Plans as well as security policy on maintenance of information across the organization.
- ii. The Centre had no backup system and a documented retention strategy in place thus, exposing it to risk in case of a disaster.
- iii. There was no training for staff in ICT Department within the year under review.
- iv. The Centre had an official email domain which was based at the parent ministry. However, most of the staff who interacted with the auditors shared organization's data through their personal emails.
- v. The Centre's central server room was in a dilapidated state and lacked a proper power backup to support LAN and switches across the departments and a reliable AC to control the room temperatures in the server room.
- vi. The Centre did not have a policy in place to cover physical access to IT and its environs. It lacked a formal, documented and tested emergency procedures in place to guide in case of an emergency.

- vii. The entity did not have a documented approved procedure and or guidelines on user account management and program change management thus, exposing it to fraudulent access to its systems and likely loss of data confidentiality and integrity.
- viii. The internet connectivity was not secured, thus exposing the organization's data to unwarranted access creating a high operational risk.

In the circumstances, the effectiveness of the IT internal control systems could not be confirmed.

STATE DEPARTMENT FOR COOPERATIVES – VOTE 1173

CO-OPERATIVE SOCIETIES LIQUIDATION ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

316. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

317. Unresolved Prior Year Matters

In the audit report for the previous year, several issues were raised under the Report on Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. They include; incomplete financial statements, unsupported expenditure and non-disclosure of assets and liabilities managed by the liquidators. The issues remain unresolved as Parliament has not deliberated on them.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

319. 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

320. Non-Disclosure of Assets and Liabilities Managed by the Liquidators

As previously reported, review of the records provided for audit revealed that Fund's Management did not disclose the identity and value of assets and liabilities managed by the liquidators. Further, most of the liquidators are officers of the State Department for Cooperatives appointed by the Commissioner and some societies have high value assets including land and rental properties. In addition, there was no information on any other money or revenue generated in the offices of the Liquidators.

In the circumstances, the effectiveness of internal controls, risk management and governance on assets and liabilities managed by the liquidators could not be confirmed.

MANAGEMENT AND SUPERVISION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

321. Variances in the Comparative Balances

The statement of financial performance and statement of cash flows reflect Audit and Supervision fee comparative amount of Kshs.12,169,993 which varies with the prior year's audited amount of Kshs.11,973,463 resulting in unexplained variance of Kshs.196,525.

In addition, the statement of financial position reflects debtors and accumulated surplus comparative balances of Kshs.17,784,276 and Kshs.11,864,054 respectively compared to the prior year's audited amounts of Kshs.17,587,751 and Kshs.11,973,468.

In the circumstances, the accuracy and completeness of comparative amounts could not be confirmed.

322. Unconfirmed Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.5,346,450 as disclosed in Note 8 to the financial statements. However, and as previously reported the Fund does not have its own separate bank account and cashbook but utilizes the deposit account for the State Department for Co-operatives. It was therefore not possible to trace the receipts to the cash book and in the bank statement. This was contrary to Section 68(2)(b) of the Public Finance Management Act, 2012 which requires an accounting officer to ensure that the entity keeps financial and accounting records that comply with the Act.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.5,346,450 could not be confirmed.

323. Long Outstanding Debtors

The statement of financial position reflects debtors balance of Kshs.11,287,204 as disclosed in Note 9 to the financial statements. However, included in the balance is cooperatives' debtors balance of Kshs.10,219,347 which has remained outstanding for more than ten (10) years and no provision for bad and doubtful debts has been made.

In the circumstances, the accuracy, completeness and recoverability of the cooperatives debtors' balance of Kshs.10,219,347 could not be confirmed.

Other Matter

324. 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 Fund in 2024/2025 revealed the following eight (8) issues remained unresolved.

No.	Audit Issue
1	Cash and Cash Equivalents – Unconfirmed Balance
2	Inaccuracies in Statement of Cash Flows
3	Unsupported Debtors Balance
4	Failure to Remit Appropriations-In-Aid to The National Treasury
5	Irregular Retention Revenue
6	Unsupported Retention Payables
7	Budgetary Control and Performance
8	Irregular Payment of Meal Allowance

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

326. 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

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

COFFEE CHERRY ADVANCE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

328. Long Outstanding Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.1,715,187,818 as disclosed in Note 15 to the financial statements. However, included in the balance is Kshs.215,187,818 which has been outstanding for more than three (3) years. Further, the balance includes Kshs.81,072,482 paid by the Fund on behalf of the liquidator which have been outstanding for more than three (3) years. Management did not provide explanation for the delays in recovery or actions being taken to recover the long overdue amounts. In addition, no provisions for bad and doubtful debts have been made despite its doubtful nature.

In the circumstances, the accuracy and recoverability of the trade receivables balance of Kshs.215,187,818 could not be confirmed.

Emphasis of Matter

329. 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.6,771,193,548 and Kshs.5,275,433,663 respectively resulting in an under-funding of Kshs.1,495,759,885 or 22% of the budget.

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

330. Delay in Exchequer Releases

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.1,715,187,818 as disclosed in Note 15 to the financial statements which includes exchequer releases amount of Kshs.1,500,000,000 received in July 2025. However, the amount related to approved receipts budget for the year under review.

In the circumstances, the delay in receipt of exchequer releases affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

332. 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

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

YOUTH ENTERPRISE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

334. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 20(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.3,120,269,905. However, review of records and aging analysis revealed loan categories with an amount of Kshs.2,049,197,207 which had not been serviced for a period of more than three (3) years.

Further, included in trade receivables balance was an amount of Kshs.32,914,331 relating to loan repayments from unidentified borrowers, with some remaining unidentified for more than three (3) years. Reconciliations were not done in order to update and allocate borrowers accounts which could lead to misstatement of receivables from exchange transactions balance. However, Management indicated commitment to reconcile the accounts and allocate the balances to respective borrowers' accounts.

In the circumstances, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.3,120,269,905 could not be confirmed.

Emphasis of Matter

335. Budgetary Control and Performance

The statement of comparison of budget and actuals reflects budgeted employee costs of Kshs.167,990,290 against actual employee costs of Kshs.241,619,140 resulting in an over expenditure of Kshs.73,628,850 or 44% of the budgeted amount. Management did not provide approvals for the reallocations that facilitated the over expenditure.

In the circumstances, Management is in breach of budgetary and legal requirements.

My opinion is not modified in respect of this matter.

Other Matter

336. Unresolved Prior Year Matters

In the prior year audit report five (5) 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 Fund in 2024/2025 revealed that the matters remained unresolved as detailed below:

No.	Audit Issue
1	Long Outstanding Receivables from Exchange Transactions
2	Undisposed Inventories
3	Budgetary Control and Performance
4	Understaffing
5	Officers in Acting Capacity

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

338. 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

339. Human Resource Matters

339.1 Understaffing

Review of the approved staff establishment revealed that the Fund had an authorized staff capacity of two hundred and forty-one (241) officers. However, it was confirmed that the Fund had only two hundred and twenty-two (225) officers in various categories of establishment resulting in a variance of sixteen (16) officers. However, Management did not explain measures being undertaken to bridge the gap.

In the circumstances, the understaffing may affect service delivery and timely execution of key functions in the Fund.

339.2 Officers in Acting Capacity

Review of the human resource records revealed that out of the Management team of twenty-four (24) officers, fourteen (14) had been in an acting capacity for several years. This was contrary to the Human Resource Policies and Procedures Manual for the Public Service, 2016 C.14(1) and C.15 (4) which provides that acting allowance and special duty allowance should not be payable to an officer for more than six (6) months.

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

**STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM
ENTERPRISES (MSME) DEVELOPMENT – VOTE 1176**

FINANCIAL INCLUSION FUND (HUSTLERS' FUND)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

340. Inaccuracies in the Financial Statements

The statement of cash flows reflects a net cash out flow used in operating activities of Kshs.22,302,115. However, Note 20 to the financial statements on cash generated from operations, reflects a net cash out flow from operating activities of Kshs.1,513,344,843 resulting to an unexplained variance of Kshs.1,491,042,728.

Further, the statement of financial position as disclosed in Note 12 to the financial statements reflects customers' contributions plus interest balance of Kshs.1,363,260,978, while the database provided for audit indicates Kshs.1,131,285,337, resulting to a variance of Kshs.231,975,641.

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

341. Unconfirmed Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,398,531,204, as disclosed in Note 10 to the financial statements. Included in the balance is Kshs.2,324,648,133 described as clients' savings account, which was not supported by a certificate of bank balance, cash book or bank reconciliation statements. In addition, Note 12 to the financial statements reflects total customers' savings of Kshs.4,292,820,791 resulting to an unexplained variance of Kshs.1,968,172,658.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,398,531,204 could not be confirmed.

342. Unsupported Receivables

The statement of financial position reflects receivables balance of Kshs.15,232,948,671 as disclosed in Note 11(a) to the financial statements. The amount excludes debits and credit entries relating to five (5) and one (1) service providers respectively, as detailed below:

Service Provider	Amount (Kshs.)
Duplicated disbursed Telkom	2,520,146
Duplicate Airtel	5,280,468
Suspense Safaricom	12,174,624
Suspense Telkom/KCB	574,141

Service Provider	Amount (Kshs.)
Airtel Suspense	301,240
Airtel deposit error on repayment	(984,705)
Client Saving Receivables	18,903,230

Management cleared the items in revised financial statements submitted on 9 December, 2025. However, the supporting documentation including journal vouchers for clearance was not provided for audit.

In the circumstances, the accuracy, completeness and recoverability of accounts receivables balance of Kshs.15,232,948,671 could not be confirmed.

343. High Non-Performing Loans

The statement of financial position reflects receivables balance of Kshs.15,232,948,671 as disclosed in Note 11(a) to the financial statements. Included in the amount is Kshs.13,608,730,680 and Kshs.1,622,381,748 in respect of principal loan and interest receivable from the borrowers respectively. Further, Note 11(b) to the financial statements provides aging analysis for receivables from exchange transactions and reflects a nil balance for current receivables less than one (1) year. However, review of the records revealed the accrued receivables for the year amount to Kshs.2,049,423,499, comprising of principal receivable of Kshs.1,523,038,664 and interest receivable of Kshs.526,384,835.

Further, as at 30 June, 2025, Kshs.13,222,296,317 (87%) of the receivable amount outstanding, had been outstanding for more than one (1) year, casting doubt on the Fund's ability to recover the loans.

In the circumstances, the recoverability of the non-performing loans of Kshs.15,232,948,671 could not be confirmed.

Emphasis of Matter

344. 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.266,712,182 and Kshs.218,661,434 respectively, resulting in an under-realization of Kshs.48,050,748 or 18 % of the budget. Similarly, the Fund spent an amount of Kshs.121,974,415 against actual receipts of Kshs.218,661,434 resulting in under-utilization of Kshs.96,687,019 or 44% of the actual receipts.

The under-realization 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 Matter

345. 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 of Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit of the Fund in 2024/2025 financial year, revealed the following sixteen (16) issues remain unresolved.

No.	Audit Issue
1	Unsupported Cash and Cash Equivalents
2	Unsupported Receivables
3	Unconfirmed Interest Income
4	Long Outstanding Payables
5	High Non-Performing Loans
6	Irregularly Closed Loan Accounts
7	Duplicated Outstanding Loans
8	Over Reliance on the Service Providers
9	Underage Customers
10	Budget Control and Performance – Under-Realization and Under-Utilization
11	Lack of Procurement Documents for Service Providers
12	Under Staffing
13	Irregular Acting Beyond Six (6) Months
14	Failure to Establish Internal Audit Unit and Audit Committee
15	Lack of Proper Loan Management System/ERP System
16.	Unrecovered Revenue from Service Providers

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

347. Introduction of New Financial Product Without Authorization

The statement of cash flows reflects loan disbursements amounting to Kshs.17,937,605,028 for the year under review. During the period, the Fund introduced a new financial product, the Bridge Loan, and disbursed 1,344,531 loans amounting to Kshs.5,300,641,729. However, Management did not provide any documentary evidence to demonstrate that the Product was formally approved by the Fund's Board of Trustees, the Parent Ministry, or The National Treasury. Further, no policy documents, operational guidelines, or approval minutes relating to the establishment and administration of the product were provided for review. This was contrary to Regulation 20 of the Public Finance Management (National Government) Regulations, 2015 which requires all new

programmes, projects, or products to be approved by the relevant authorities before implementation. This exposes the Fund to the risk of issuing unauthorized credit products, potential misuse of public funds, and challenges in enforcing loan recovery.

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

348. Irregular Closure of Loan Accounts

Review of loan accounts revealed that three hundred and eighty-six thousand, seven hundred and thirty-five (386,735) Safaricom loan accounts were marked as closed despite the principal amounts not having been fully repaid. The outstanding principal on these accounts amounted to Kshs.377,490,360, which should have been recovered before account closure. Management did not provide any evidence to justify or support the closure of these accounts. This was contrary to Regulation 23 (1) of the Public Finance Management (Financial Inclusion Fund) Regulations, 2022 which requires that a financial product or service advanced under these Regulations shall be repaid in full within the period determined in the agreement, and that all sums due to the Fund are recoverable as a debt owed to the Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

349. Lack of Reconciliation on Trade and Other Payables

The statement of financial position reflects trade and other payables totaling Kshs.817,299,492, as disclosed in Note 19 to the financial statements. However, review of records provided for audit revealed that interest payable to the Service Providers totaling Kshs.599,820,906 had remained outstanding for more than two (2) years without settlement. In addition, the comparative amount in the Note to the financial statements was erroneously stated as Kshs.555,025,195 instead of Kshs.599,820,906.

Further, Note 19 to the financial statements reflects aging analysis for trade and other payables of a nil balance for borrowers less than one (1) year. However, the total outstanding payables for the year amounted to Kshs.217,478,586.

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

350. Irregular Withdrawals from Customer Savings Accounts

The statement of financial position reflects customer savings amounting to Kshs.4,292,820,791, as disclosed in Note 12 to the financial statements. However, analysis of customer transactions revealed that thirty-seven thousand and forty-two (37,042) customers withdrew amounts exceeding their available savings, resulting in overdrawn balances totalling Kshs.24,391,077.

In the circumstances, the effectiveness of system controls governing savings withdrawals and validation of available balances, could not be confirmed.

351. Additional Loans Advanced to Beneficiaries with Outstanding Loan Balances

Review of the loan records revealed that the Fund disbursed twenty-six thousand one hundred and seventeen (26,117) loans totalling Kshs.24,583,314 to eleven thousand five hundred and fifty (11,550) customers despite these customers having active outstanding loans, indicating weaknesses in credit control and loan-limit enforcement.

Further, the statement of financial position reflects a revolving fund balance of Kshs.14,398,822,364, as further reflected in the statement of changes in net assets. Review of documents provided for audit indicated that since the Fund's establishment, it has received Kshs.14,800,000,000 from the Exchequer, out of which Kshs.14,400,000,000 was for onward lending to the target clients while Kshs.401,000,000 was to be used to match the long-term savings of the clients who had borrowed more than five times. However, Management does not have a credit policy and collection strategy for non-performing loans.

In the circumstances, the effectiveness of internal controls on management and recovery of the outstanding loans could not be confirmed.

352. Over Reliance on the Service Providers

As previously reported, the Fund lacks direct control over key loan management processes - namely disbursements, repayments, savings withdrawals and maintenance of loan records. These functions are performed entirely by service providers, with the Fund relying solely on their systems and the data they generate. In the absence of an independent loan management system, the Fund is unable to validate the completeness, accuracy or integrity of the information provided.

This reliance exposes the Fund to substantial operational risks (including system errors and unauthorized transactions), financial risks (such as misstated balances and unverifiable recoveries), and data-integrity risks (including incomplete or inaccurate loan records).

In the circumstances, the reliability of the loan management system could not be confirmed.

353. Under Staffing

As previously reported, the Fund's Human Resource Instruments indicate that the Public Service Commission approved the staff establishment for the Fund of a total of 119 staff. However, the Fund had not recruited staff to fill in positions as per the approved staff establishment but relied on members of staff deployed from the State Department for Micro, Small and Medium Enterprises Development. The total number of staff seconded from the State Department were only eighteen (18) staff, resulting to a shortfall of one

hundred and one (101) members of staff. The Fund is operating with a very limited number of staff therefore, negatively affecting its service delivery.

In the circumstances, optimal operation of the Fund could not be confirmed.

354. Loans Without Limit and Unverified Customers

Review of the registered customers database revealed that loan limits had not been set for four million, two hundred and seventy-four thousand and nine (4,274,009) registered customers. Further analysis indicated that thirty eight thousand eight hundred and ninety three (38,893) of these customers were issued with loans totaling Kshs.60,434,159.

Further, the statement of cash flows reflects loans disbursement for the year under review amounting to Kshs.17,937,605,028. However, one hundred and four thousand, six hundred and thirty one (104,631) loans amounting to Kshs.116,465,155 were disbursed to customers whose National Identity Cards numbers were not captured in the customers' database.

In the circumstances, the issuance of loans to customers without established loan limits points to inadequate credit assessment controls and increases the risk of lending to unqualified or unverified customers.

**STATE DEPARTMENT FOR LABOUR AND SKILLS DEVELOPMENT –
VOTE 1184**

OCCUPATIONAL SAFETY AND HEALTH FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

355. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

356. Unresolved Prior Year Audit Matters

In the prior years' audit reports; 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, respectively. Review of status of 2024/2025 revealed matters which remained unresolved as detailed below:

No.	Financial Year	Audit Issue
1	2023/2024	Budgetary control and performance
2	2023/2024	Unprocedural Procurement of Use of Goods and Services
3	2023/2024	Lack of Contractual Agreement with Media Houses
4	2023/2024	Irregular Payments of Allowances to staffs
5	2023/2024	Failure to Deduct PAYE
6	2023/2024	Unprocedural Procurement on Repairs and Maintenance
7	2023/2024	Irregularities in Procurement of Fixed Assets
8	2023/2024	Failure to Carry Out Risk Assessment
9	2023/2024	Irregular Appointment of Ad-hoc Quotations Evaluation Committee
10	2023/2024	Incomplete Fixed Asset Register
11	2022/2023	Failure to review Occupational Safety Health Act 2007
12	2022/2023	Failure to review the building Operational Works of Engineering Construction (BOWEC) rules, 1984
13	2022/2023	Lack of autonomy
14	2022/2023	Understaffing
15	2021/2022	Variance in comparative balance-Specialized plant and equipment

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. Unprocedural Procurement of Conference and Delegations Services

The statement of financial performance and as disclosed in Note 10 to the financial statements, reflects use of goods and services of Kshs.161,078,458 which includes conferences and delegations expenditure of Kshs.18,693,802, out of which conference facilities, catering services, tea and snacks of Kshs.1,820,280 were procured by use of imprests issued to staff as low value procurements despite the Fund having a list of prequalified suppliers contrary to Regulation 92(a) of the Public Procurement and Asset Disposal Regulations, 2020 which states that a procuring entity may use low value procurement method under Section 107(b) of the Act, where the estimated cost of the goods, works or services being procured per item per financial year is as per the threshold matrix in the Second Schedule (Maximum level of expenditure under this method is Kshs.50,000 per item per financial year).

In the circumstances, Management was in breach of law.

359. Failure to Deduct Pay as You Earn from Council and Secretariat Members

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects council expenses of Kshs.8,758,260, out of which pay as you earn (PAYE) tax of Kshs.1,030,800 from allowances paid to various council members and secretariat staff was not deducted and remitted to KRA contrary to Section 37(1) of the Income Tax Act Cap 470, which states that an employer paying emoluments to an employee shall deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed.

In the circumstances, Management was in breach of law.

360. Non-Compliance on Council Membership

The statement of financial performance and, as disclosed in Note 11 to the financial statements, reflects council expenses of Kshs.8,758,260. Review of the Council Report in the financial statements and board minutes revealed that the Council had thirteen (13) members contrary to Section 1.1(3) of Mwongozo Code of Governance, 2015 which states that the board membership of all State Corporations should be between seven (7) and nine (9) members.

In the circumstances, Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

361. Failure to Carry out Internal Audits

During the year under review, no internal audit was conducted in respect of the activities and operations of the Fund 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, failure to carry out internal audits exposes the Fund to risks including weakened controls and operational inefficiencies.

**STATE DEPARTMENT FOR SOCIAL PROTECTION AND SENIOR
CITIZEN AFFAIRS – VOTE 1185**

**THE NATIONAL ASSISTANCE TRUST FUND FOR VICTIMS OF
TRAFFICKING IN PERSONS**

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

362. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

363. Unresolved Prior Year Matters

In the prior year's audit report, two (2) issues were raised under the Report on Effectiveness of Internal Controls, Risk Management and Governance. These were lack of a Board Charter and lack of a substantive Fund Secretary. Review of the status during audit of the Fund in 2024/2025 revealed that the two issues remained unresolved.

Other Information

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

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

Conclusion

365. 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

366. Lack of Board Charter

During the year under review the Fund did not have an approved Board Charter contrary to Section 1.11 of Mwongozo Code of Governance for State Corporations, 2015 which states that the Board should develop and adopt a Board Charter and that the Board Charter should clearly define the roles, responsibilities and functions of the Board in the governance of the organization.

In the circumstances, there was limited clarity on roles, responsibilities and processes of board operations which may impact negatively on the Board's effectiveness.

367. Lack of Substantive Fund Secretary

Review of the financial statements revealed that the Fund Secretary has been on acting appointment since 6 February, 2020 contrary to The National Treasury's Circular Number OP/CAB.9/1A which sets the limit of acting Secretary to a maximum of six (6) months. Satisfactory explanation on failure to fill the position substantively was not provided.

In the circumstances, lack of substantive appointments could affect the effective performance of officers on acting appointment.

368. Expired Term of Board of Trustees

During the year under review, the term of the Board of Trustees expired on 14 March, 2025 and as at the time of the audit in November, 2025 a new Board had not been constituted. This was contrary to Section 24 of the Counter Trafficking in Persons Act, 2010 which states that the Fund shall be administered by a Board of Trustee.

In the circumstances, the effectiveness of governance and oversight of the Fund's operations could not be confirmed.

STREET FAMILIES REHABILITATION TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

369. Inaccuracies in Land Balance

The statement of financial position and as in Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.34,720,321. The balance includes land at Kshs.25,000,000 which was revalued from Kshs.38,000,000 implying revaluation loss of Kshs.13,000,000 which was not explained since land has indefinite useful life. Further, it was noted that a parcel of land was under investigation by Ethics and Anti-Corruption Commission over allegations of irregularities in its purchase. In addition, review of the fixed asset register revealed that the Fund received a donation of a parcel of land in the year 2007 measuring 2.6 Hectares located in Nairobi but which was not included in the financial statements.

In the circumstances, the accuracy, completeness, ownership and valuation of land balance of Kshs.25,000,000 could not be confirmed.

370. Inaccuracies in Fuel and Oil Expenditure

The statement of financial performance and Note 7 to the financial statements reflects use of goods and services amount of Kshs.141,040,846 out of which Kshs.1,244,528 relates to fuel and oil. However, review of payment vouchers amounting to Kshs.1,190,630 revealed that they were erroneously recorded at Kshs.20,528 resulting to a variance of Kshs.1,170,102. Further, prepaid fuel amount of Kshs.963,159 was not disclosed and recognized in the financial statements as a prepayment. In addition, review of the fuel statements revealed an amount of Kshs.739,945, was consumed using various general fuel cards that were not attached to any specific vehicle and did not indicate the vehicle registration numbers.

In the circumstances, the accuracy and completeness of fuel and oil expenditure of Kshs.1,244,528 could not be confirmed.

Other Matter

371. Unresolved Prior Year Audit 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, respectively. Review of the status during audit of the Fund in 2024/2025 revealed that the following matters remained unresolved.

No.	Audit Issue
1	Inaccuracies in Use of Goods and Services
2	Variances Between Financial Statements and Supporting Schedules
3	Variances in Information Communication Technology Equipment
4	Land Donated by Kenya Pipeline Company Limited not Transferred
5	Parcels of Land in Muranga and Laikipia Without Title Deeds
7	Budgetary and Control Performance
8	Fund's Performance
9	Unresolved Prior Year Matters
10	Irregular Payment of Daily Subsistence Allowances
11	Failure to Carry out Risk Assessment

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

373. Lack of Training Need Assessment Reports

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects use of goods and services amount of Kshs.141,040,846 which includes training expenses of Kshs.11,961,933. However, there was no training needs assessment report that was used in determining the training needs of the employees. This was contrary to Section H3 of Public Service Commission Human Resource Manual, 2016 which states that training in the Public Service shall be based on training needs assessment which shall be conducted after every three (3) years in each State Department.

In the circumstances, Management was in breach of the Human Resource Policies Manual.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

374. Failure to Perform Internal Audit Function

During the year under review, there was no evidence of performing internal audits on the Fund's activities and operations. This was 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 internal controls, risk management and governance could not be confirmed.

STATE DEPARTMENT FOR PETROLEUM – VOTE 1193

PETROLEUM DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

375. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

376. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Lawfulness and Effectiveness in the Use of Public Resources. Review of the status during audit of the Fund in 2024/2025 revealed that lack of governance framework for stabilization of petroleum prices remained unresolved.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

378. 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

379. Lack of Sustainability Assessment on Stabilization of Petroleum Prices Program

The statement of financial performance reflects transfers to other government entities amounting to Kshs.24,545,482,509. As disclosed in Note 6 to the financial statements, the amount includes Kshs.13,181,443,068 incurred on oil market price stabilization. Review of documents relating to the stabilization program revealed a letter from The National Treasury dated 21 July, 2022 which advised the State Department to form a multi-agency team to review the resource requirement and assess the sustainability of the fuel price stabilization programme. However, Management did not constitute the taskforce and continued to make payments towards petroleum price stabilization.

In the circumstances, the existence of mechanisms to guide budgeting and financing stabilization of petroleum pump prices program could not be ascertained.

PETROLEUM TRAINING LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

380. Uncollected Revenue from Oil and Gas Exploration Blocks

The statement of financial performance reflects fines, penalties and levies balance of Kshs.80,317,552 as disclosed in Note 17.3 to the financial statements. Review of the production sharing contracts entered with International Oil Companies (IOCs) revealed outstanding Training Fund remittances from four (4) IOCs amounting to Kshs.118,355,250 as detailed below:

- i. Clause 13(2) of the Product Sharing Contract between the Government of the Republic of Kenya, Tullow Kenya BV and Swala Energy (Kenya) Ltd for Block 12B, on 16 February, 2012 required the Companies to remit one hundred and seventy-five thousand dollars (USD 175,000) equivalent of Kshs.22,636,250 per year during the second additional exploration period towards the Petroleum Training Fund. However, no payments were made to the Fund during the year under review.
- ii. The Product Sharing Contract between the Government of the Republic of Kenya and Centric Energy (Kenya) Limited for Block 10BA dated 27 January, 2010 provided that the Company shall pay seventy-five thousand dollars (USD 75,000) equivalent of Kshs.9,701,250 per year during the second additional exploration period to the Petroleum Training Fund. However, no payments were made to the Fund during the year under review.
- iii. Turkana Drilling Consortium (Kenya) Limited was required contribute five hundred thousand dollars (USD 500,000) equivalent of Kshs.64,675,000 per year during the second additional exploration period into the Petroleum Training Fund under the PSC for Block 10BB entered into with Government of the Republic of Kenya on 25 October, 2007. However, the Company was yet to make the payments as at 30 June, 2025.
- iv. A contribution of one hundred and sixty-five thousand dollars (USD165,000) equivalent of Kshs.21,342,750 per year during the second additional exploration period was due from Platform Resources INC in respect of Block 13T. This was in accordance with clause 13(2) of the Product Sharing Contract between the Government of the Republic of Kenya dated 17 September, 2008. However, the Company was yet to make any payments towards the Fund.

In addition, the amount was not recognized as revenue in the statement of financial performance as required by IPSAS 23 - Revenue from Non-Exchange Transactions.

In the circumstances, the accuracy of the fines, levies and penalties revenue of Kshs.80,317,552 could not be confirmed.

381. Long Outstanding Receivables

The statement of financial position and Note 17.9 to the financial statement reflects other receivable balance of Kshs.3,685,837,094. An ageing analysis provided in support of the balance indicated that Tullow Kenya BV had an outstanding balance of USD 1,232,492 equivalent to Kshs.159,287,266, which had been outstanding for three (3) years. However, a letter to Cabinet Secretary for Energy and Petroleum from Tullow Kenya BV, dated 30 September, 2024 indicated that the Company had no outstanding annual training fees balance.

In addition, a letter from Energy and Petroleum Regulatory Authority (EPRA) to the Ministry of Energy and Petroleum dated 13 June, 2025 indicated that Tullow Oil PLC had made a public announcement on 15 April, 2025 regarding a binding terms agreement entered into with Gulf Energy Limited to transfer its 100% stake in Blocks 10BA, 10BB, 13T and 12B held by Tullow Kenya BV. The letter further indicated that discussions were ongoing to complete the transaction. However, there was no evidence, provided on settlement of outstanding Petroleum Fund remittances or a reconciliation of the amount owed by the Company against remittances received.

Further review of the aging analysis provided for audit revealed that some of the receivables amount dated back to 2011. Management did not provide evidence to indicate efforts made to recover the receivables.

In the circumstances, accuracy and completeness of the accounts receivable balance of Kshs.3,685,837,094 could not be confirmed.

382. Unaccounted for Receivables

Review of the Production Sharing Contract (PSC) between that of National Oil Corporation of Kenya and the Ministry of Energy and Petroleum revealed that the Corporation was awarded exploration rights for Block 14T on 15 November, 2010, for an initial exploration period for three (3) years. However, the Corporation had been executing the PSC under an Initial Exploration Period for a period of fourteen (14) years.

Further, the Corporation had not paid Training Fund levies since 2010 amounting to USD 712,500 or Kshs.92,083,500, at a rate of USD 50,000 or Kshs.6,462,000 per annum, to the State Department of Petroleum. In addition, the outstanding amount which had accrued over the years was not disclosed in the financial statements of the Fund.

In the circumstances, accuracy of the accounts receivable balance of Kshs.3,685,837,094 could not be confirmed.

Emphasis of Matter

383. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2025 reflects fines, penalties and levies final budget of Kshs.195,435,716 and

an actual comparable basis amount of Kshs.96,467,757. This resulted to an under collection of Kshs.98,967,959 equivalent to 51% of the final budget.

The under collection may have affected the planned activities during the year.

My opinion is not modified in respect of this matter.

Other Matter

384. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and an issue under the Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Fund in 2024/2025 revealed that matters on inclusion of non - training receipts, long outstanding receivables and outstanding imprest remained unresolved.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

386. 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

387. Doubtful Receivables

The statement of financial position and as disclosed in Note 17.9 to the financial statements reflects other receivables balance of Kshs.3,685,837,094. Included in this amount was USD 285,144 equivalent of Kshs.36,860,565 classified as irrecoverable and earmarked for write-off.

This amount was owed by a Company which was indicated as deregistered vide a Gazette Notice No.10421 on 11 December, 2020 by the Business Registration Services. However, review of the quoted gazette notice revealed that the Company was not among the listed dissolved companies, therefore the registration status could not be confirmed.

In the circumstances, the existence of an effective enforcement mechanism and strategies for debt recovery could not be ascertained

STATE DEPARTMENT FOR WILDLIFE – VOTE 1203

WILDLIFE CONSERVATION TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

388. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

389. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects actual expenditure of Kshs.38,321,372 against actual receipts of Kshs.202,773,515 resulting to an under absorption of Kshs.164,452,143 or 81% of the actual receipts.

The under absorption affected the planned activities and may have impacted negatively on service delivery.

My opinion is not modified in respect of this matter.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

391. Non-Compliance with Public Sector Accounting Standards Board (PSASB) Reporting Template

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- i. Omission of mandatory sections from the Table of Contents: Chairman's Statement, Report of the Chief Executive Officer and Appendices
- ii. The table of contents was not numbered correctly after key management team statement.
- iii. In the statement of financial position, cash and cash equivalents was referenced as Note 13 instead of the correct Note 10, and trade and other payables is referenced as Note 11 instead of the correct Note 12.

In the circumstances, Management was in breach of PSASB guidelines.

392. Failure to Remit 30% Withholding Tax on Sitting Allowances

During the audit, it was noted that the Fund paid sitting allowances to members and deducted the applicable 30% withholding taxes totalling Kshs.1,936,400 but failed to remit withholding tax to KRA, despite availability of funds in the Funds account. This was contrary to Income Tax Act (Cap 470), Laws of Kenya, Section 35(3)(f) which states that all sitting allowances paid to Board members, committee members, or officials are subject to withholding tax at the rate of 30%.

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

393. Unbalanced Budget

Review of the statement of comparison of budget and actual amounts revealed that Management prepared an unbalanced budget that reflects budgeted revenue of Kshs.202,773,515 and budgeted expenditure of Kshs.203,000,000. This was 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 following guidelines shall be observed at all times during budget formulation and approval-(c) budget shall be balanced'.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

394. Implementation of Activity Not Included in the Approved Annual Work Plan

Review of expenditure records revealed that a total of Kshs.1,939,500 was spent on an activity described as PPG phase GEF-8 Kenya Global Wildlife Program (GWP) child Project which was implemented during the year under review. However, the activity was not included in the approved annual work plan. No evidence of prior approval or formal amendment to the annual work plan was provided for audit.

In the circumstances, the Fund's activities may have been implemented without proper prioritization or alignment with the Fund's objectives.

395. Lack of Internal Audit Unit and Audit Committee

During the year under review, the Fund had not constituted an internal audit unit and an audit committee to conduct performance appraisals as required by Regulation 166(1) of the Public Finance Management (National Government) Regulations, 2015. Further, the Fund did not have an audit committee in place that should review the internal audit reports.

In the circumstances, existence of effective internal controls and governance mechanisms could not be confirmed.

396. Policy Documents not Approved by Public Service Commission

During the year under review, it was noted that human resource policies and procedures manual, career guidelines and organization structure had been approved by the Fund's Board but had not been approved by Public Service Commission (PSC).

In the circumstances, the Fund was not compliant with good governance and accountability requirements.

397. Understaffing

Review of the Funds operations revealed that the Fund was understaffed. The staff establishment had been approved by the Fund's Board but not the Public Service Commission (PSC).

In the circumstances, Management may not fill the vacant positions to enable it carry out its functions effectively.

398. Lack of a Strategic Plan

Review of the Fund's operations revealed that the Fund did not have a strategic plan. Management is likely to face challenges in adaptability to market changes, missing growth opportunities, internal conflict, and a reduced ability to track progress or achieve long-term success.

In the circumstances, the Fund may not have a clear strategic direction thereby affecting performance.

399. Failure of the Board to Appoint a Substantive Accounting Officer

The Board was appointed/gazetted in July 2023. However, the Board, for two years, had not appointed an Accounting Officer for the Fund. In addition, review of submitted financial statements revealed that they were signed by an officer not formally appointed as the CEO/Accounting officer of the Fund.

In the circumstances, failure to appoint a substantive Accounting Officer undermines accountability and exposes the Fund to governance and compliance risks.

STATE DEPARTMENT FOR GENDER AND AFFIRMATIVE ACTION – VOTE 1212

UWEZO FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

400. Unconfirmed Recoverability of the Long Outstanding Loans

The statement of financial position reflects long term receivables – outstanding loans balance of Kshs.4,188,880,827 as disclosed in Note 21 to the financial statements. However, the balance has been outstanding for over three (3) years.

In the circumstances, the recoverability, accuracy and completeness of long-term receivables–outstanding loans amount of Kshs.4,188,880,827 could not be confirmed.

401. Receipts in Bank Statement Not in Cash Book

The statement of financial position reflects cash and cash equivalents of Kshs.1,824,638,636 as disclosed in Note 17 to the financial statements. However, review of the bank reconciliation statements revealed receipts amounting to Kshs.127,091,150 in the bank statements but not in the cash books which dates back to 2018. Further, no official receipts had been issued to the groups that deposited the funds. In addition, the loan accounts of the affected groups were not adjusted to reflect the repayments.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,824,638,636 could not be confirmed.

402. Inaccuracies Under Cash Generated from Operations

Note 24 to the financial statements reflects debit net cash flows balance from operating activities of Kshs.41,935,584 which includes Kshs.2,821,293 in respect of contributed assets. However, the amount relates to purchase of property, plant and equipment which has already been captured in the statement of cash flows.

In the circumstances, the accuracy and completeness of cash generated from operations of Kshs.2,821,293 could not be confirmed.

Emphasis of Matter

403. Financial Performance

The statement of financial performance reflects a deficit of Kshs.47,025,312 for the year under review. Although, Management and as disclosed under the statement of Directors/Fund Committee responsibilities states that the Fund will remain a going concern for at least the next twelve months from the date of this statement, strategies need to be put in place to avert such occurrences in the future.

In the circumstances, the Fund is likely to face financial challenges in future if strategies are not put in place to reverse the trend.

404. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis of Kshs.384,979,540 and Kshs.400,469,160 resulting in over-collection of Kshs.15,906,327. However, the Fund spent Kshs.200,566,127 against the final approved budget of Kshs.388,442,540 resulting to an under-expenditure of Kshs.187,876,413 or 48% of the budget.

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 these matters.

Other Matter

405. Unresolved Prior Year Matters

In the audit report of the previous year, issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in the Use of Public Resources. Review of the status during audit of the Fund 2024/2025 revealed that the following six (6) issues remained unsolved.

No.	Audit Issue
1.	Long Term Receivables
2.	Lack of Provision for Bad and Doubtful Debts
3.	Non-Distinction between Current and Non-Current Receivables
4.	Financial Performance
5.	Budgetary Control and Performance
6.	Unrecovered Administrative Fees

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. Staff Under-Establishment

The Fund has an in post of twenty nine (29) members of staff representing 7% of its approved establishment of three hundred and ninety-three (393) members of staff. Review of records indicated that the twenty nine (29) members of staff are on secondment from several State Departments.

Further, at the constituency level, the Fund has employed one (1) member of staff from the State Department of Youth Affairs and Creative Economy who are officials supporting the Fund's objectives in disbursing loans and other support to youth groups within their respective regions. It was observed that these officers are responsible for the whole constituency which are very expansive.

In the circumstances, failure to adequately staff the Fund with employees of requisite skills and tenure of service may impede its effective service delivery to the citizens.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

408. Lack of a Disaster Recovery Plan and Business Continuity Plan

Review of the Fund's ICT environment revealed that there was no disaster recovery business continuity plan in place. In case of any disaster, the Fund may not be able to recover any information because its' operations are manual system. In the absence of a disaster recovery plan/business continuity plan, the Fund lacks a blueprint for identifying, preventing and mitigating against disasters and ensuring its operations are not interrupted.

In the circumstances, existence of effective disaster management measures could not be confirmed.

STATE DEPARTMENT FOR PUBLIC SERVICE – VOTE 1213

NATIONAL YOUTH SERVICE - MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

409. Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.4,102,663,927 as reflected in Note 14 to the financial statements. The balance includes plant and machinery, heavy commercial vehicles and light motor vehicles amounts of Kshs.2,593,174,442, Kshs.1,425,737,637 and Kshs.82,210,369 respectively. However, as previously reported, Management had not valued the assets for financial reporting purposes since inception and the depreciation policy has not been approved by the Council. Further, furniture and fittings such as executive tables, chairs and cabinets have not been tagged.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.4,102,663,927 could not be confirmed.

410. Long-Outstanding Sundry Creditors Balance

The statement of financial position reflects sundry creditors balance of Kshs.8,579,223 as disclosed in Note 16 to the financial statements. The balance relates to various vendors and has been outstanding for long period of time. Further, the aging analysis of the sundry creditors was not provided for audit review.

In the circumstances, accuracy of sundry creditors balance of Kshs.8,579,223 could not be confirmed.

411. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.619,899,674 as disclosed in Note 11(b) to the financial statements. The balance relates to debts from hire of buses, hire of machines, fire engines and borehole drilling. Further, the balance includes debts of Kshs.432,163,530 owed by the disbanded Nairobi Metropolitan Services (NMS) which have been outstanding for over five (5) years. In addition, Management has not made a provision for bad and doubtful debts to factor the risk of possible non recovery of this debt.

In the circumstances, the accuracy and recoverability of the receivables totalling Kshs.619,899,674 could not be confirmed.

Emphasis of Matter

412. 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.560,890,934 and Kshs.283,910,597 resulting to an under funding of Kshs.276,980,337 or 49% of the budget. Similarly, the Fund spent an amount of Kshs.367,248,121 against total receipts of Kshs.283,910,597 resulting to an over absorption of Kshs.83,337,524 or 29% 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

413. Unresolved Prior Year Matters

In the prior year's 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 Youth Service - Mechanical and Transport Fund 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Audit Issue
1	Inaccuracies in Financial Statements-Variances Between the Financial Statements and the Ledgers
2	Inaccuracies of the Opening Balances
3	Long Outstanding Receivables from Exchange Transactions
4	Long Outstanding Receivables from Non-Exchange transactions
5	Unconfirmed Property, Plant and Equipment Balance
6	Legal Status of National Youth Service-Mechanical and Transport Fund
7	Grounded Motor Vehicles, Plant and Equipment

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

415. Legal Status of the Fund

As previously reported, the National Youth Service - Mechanical and Transport Fund was established in January, 2011 by the NYS-Mechanical and Transport Fund Regulation, 2011. The Fund is subject to Regulation 207(1)(i) of the Public Finance Management (National Government) Regulations, 2015 which states that the initial approval for

establishment of a national public Fund shall be for a maximum period of ten (10) years, beyond which Cabinet and Parliament approvals shall be sought. However, by the time of the audit, the Fund's lifespan was thirteen (13) years. Although Management indicated that the Cabinet Secretary granted two extensions, the approval for extension by the Cabinet was not provided for audit review.

Further, the process of winding up had not commenced in line with Regulation 209(1) of the Public Finance Management (National Government) Regulations, 2015 which states that, where the lifespan of Fund lapses, within six (6) months from the date of the lapse, the winding up shall commence.

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

416. Failure to Review Revenue Rates

The statement of financial performance reflects generated revenue totalling Kshs.283,910,597. However, the prevailing service rates that were used have not been reviewed since 9 June, 2011. This was contrary to the provisions of Regulation 66 of the Public Finance Management (National Government) Regulations, 2015, which mandates the Accounting Officer to periodically review the fees charged for services rendered and obtain the necessary approvals from The National Treasury.

Further, review of customer files indicated lack of formal, binding contracts between the Fund and its clients. Lack of enforceable agreements increases the risk of payment defaults, contributing to increased accounts receivables balance.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

417. Grounded Motor Vehicles, Plant and Equipment

As previously reported, the Fund's assets register revealed that one hundred and thirty (130) motor vehicles, plant machinery and equipment have been grounded for a long time due to various mechanical reasons. Management has not made any efforts to repair or to seek approval for the disposal of the assets. These assets continue to deteriorate and any salvage value that could have been realized may be lost.

In the circumstances, the existence of effective measures for assets management could not be confirmed.

STATE LAW OFFICE AND DEPARTMENT OF JUSTICE – VOTE 1252

CRIMINAL ASSETS RECOVERY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

418. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

419. Unresolved Prior Year Matters

In the prior year audit report, three issues were raised under the Report on Financial Statements and the Report on the Effectiveness of Internal Controls, Risk Management, and Governance. These include inaccuracies in the financial statements, undetermined ownership of assets, and decrease in the value of recovered assets. Review of the status during audit of the Fund in financial year 2024/2025 revealed that the issues on undetermined ownership of assets and decrease in the value of recovered assets remained unresolved.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

422. Undetermined Ownership of Assets

The statement of financial position reflects property, plant, and equipment (forfeited assets) balance of Kshs.121,135,000 as disclosed under Note 13 to the financial statements. However, ownership documents for seventeen (17) forfeited immovable assets/properties and logbooks for nineteen (19) motor vehicles valued at Kshs.25,110,000 were not provided for audit.

In the circumstances, the ownership status of these assets remains unclear even after the end of the Judicial appeal process.

423. Inadequate Preservation of Seized Assets

Review of the asset register revealed that the Agency had recovered a total of ninety-two (92) movable assets, which are currently stored in various locations across the country. As previously reported, some of the recovered motor vehicles have been parked since 2019. The prolonged preservation period between confiscation and the conclusion of judicial processes may result in a significant depreciation and loss of value for these assets.

In the circumstances, the existence of effective mechanisms for the preservation and maintenance of the seized assets could not be confirmed.

NATIONAL INTELLIGENCE SERVICE – VOTE 1281

INTELLIGENCE SERVICE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

424. There were no material issues noted during the audit of the financial statements of the Fund.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES – VOTE 1311

POLITICAL PARTIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

428. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

429. Under-Funding of the Political Parties

The statement of comparison of budget and actual amounts reflects actual transfers from other Government entities' revenue of Kshs.1,228,300,000. However, the amount was not in compliance with Section 24(1)(a) of the Political Parties Fund Act, 2011, (Revised 2022) on funding of political parties, which requires that allocations be at least 0.3% of all the National Government's share of revenue as outlined in the annual Division of Revenue Act. The underfunding may have negatively affected the planned activities for the forty-eight (48) eligible political parties that were to receive funding.

My opinion is not modified in respect of this matter.

Other Matter

430. Unresolved Prior Year Matters

In the previous year's audit report, issues were raised on Underfunding of Political Parties, and Failure by Political Parties to Maintain Offices in the Counties under the Report on Lawfulness and Effectiveness in the Use of Public Resources. However, Management did not disclose the matters under the Progress on Follow-up of Prior Year Auditor's recommendations section of the financial statements. Further, the issues remained unresolved as at 30 June 2025.

Other Information

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

432. Failure by Political Parties to Maintain Offices in the Counties

Review of political party registration documents at the Office of the Registrar of Political Parties indicated that parties funded by the Political Parties Fund provided addresses for their headquarters and County offices prior to registration. However, as previously

reported, field visits conducted to verify the existence of these offices revealed that the majority of parties did not maintain offices in more than half of the Counties. This was contrary to Section 7(f)(iii) of the Political Parties Act, 2011. Political parties attributed the closure of their County offices to inadequate funding from the Political Parties Fund, which hindered their ability to afford rent for the offices after registration. Further, the lack of funding prevented the recruitment of staff to operate the offices in the Counties, forcing the parties to rely on volunteers to carry out party activities in the Counties.

In the circumstances, the Political Parties were in breach of the law.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

PARLIAMENTARY SERVICE COMMISSION – VOTE 2041

PARLIAMENTARY CATERING FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

- 434.** There were no material issues noted during the audit of the financial statements of the Fund.

Other Information

- 435.** There were no material issues relating to Other Information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

- 436.** 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

437. Lack of Asset Verification

Review of the Fund's inventory records revealed that Management did not conduct periodic physical inspections of assets during the year under review. Therefore, there is limited tracking and verification of property, plant and equipment, increasing the risk of loss of assets.

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

Appendices

Appendix A: Unmodified Opinion

No. National Government Funds

1. Equalisation Fund – The National Treasury
2. Contingencies Fund – The National Treasury
3. Petroleum Development Levy Fund (Holding Account) – The National Treasury
4. State Officers and Public Officers Motor Car Loan Scheme Fund – The National Treasury
5. Credit Guarantee Scheme - The National Treasury
6. African Union and Other International Organizations Subscription Fund – The National Treasury
7. Public Service Superannuation Fund – The National Treasury
8. Unclaimed Assets Trust Fund - The National Treasury
9. Public Private Partnership Project Facilitation Fund – The National Treasury
10. National Government Constituencies Development Fund – State Department for Economic Planning
11. National Humanitarian Fund – State Department for Internal Security and National Administration
12. National Drought Emergency Fund – State Department for The Arid and Semi-Arid Lands and Regional Development
13. National Peace Support Operations Fund – Ministry of Defence
14. Ulinzi Prime Health Services Fund – Ministry of Defence
15. Higher Education Students Loan Self Protection Scheme - State Department for Higher Education and Research
16. Roads Annuity Fund – State Department for Roads
17. Railway Development Levy Fund (Operation Account) – State Department for Transport

Appendix A: Unmodified Opinion

18. Kenya Slum Upgrading Low-Cost Housing and Infrastructure Trust Fund – State Department for Housing and Urban Development
19. State Officers House Mortgage Scheme Fund – State Department for Housing and Urban Development
20. Affordable Housing Fund – State Department for Housing and Urban Development
21. National Housing Development Fund for Eleven Months Period Ended 31 May, 2025 - National Housing Corporation
22. Petroleum Development Levy Fund – State Department for Energy
23. Kenya Energy Sector Environment and Social Responsibility Programme Fund – State Department for Energy
24. Co-operative Societies Liquidation Account – State Department for Co-operatives
25. Occupational Safety and Health Fund – State Department for Labour and Skills Development
26. The National Assistance Trust Fund for Victims of Trafficking in Persons – State Department for Social Protection and Senior Citizen Affairs
27. Petroleum Development Levy Fund – State Department for Petroleum
28. Wildlife Conservation Trust Fund - State Department for Wildlife
29. Criminal Assets Recovery Fund – State Law Office and Department of Justice
30. Intelligence Service Development Fund – National Intelligence Service
31. Political Parties Fund – Office of the Registrar of Political Parties
32. Parliamentary Catering Fund – Parliamentary Service Commission

Appendix B: Qualified Opinion

No. National Government Funds

1. Provident Fund – The National Treasury
2. European Widows and Orphans Pensions Fund – The National Treasury
3. Asian Officers Family Pensions Fund – The National Treasury
4. Women Enterprise Fund – State Department for Economic Planning
5. National Government Affirmative Action Fund – State Department for Economic Planning
6. Government Press Fund – State Department for Internal Security and National Administration
7. Prison Industries Revolving Fund – State Department for Correctional Services
8. Prison Farms Revolving Fund – State Department for Correctional Services
9. Emergency, Chronic and Critical Illness Fund - State Department for Medical Services
10. Mechanical and Transport Fund – State Department for Roads
11. Railway Development Levy Fund (Holding Account) – State Department for Transport
12. Civil Servants Housing Scheme Fund – State Department for Housing and Urban Development
13. Land Settlement Fund – State Department for Lands and Physical Planning
14. Sports, Arts and Social Development Fund – State Department for Sports
15. Veterinary Services Development Fund – State Department for Livestock Development
16. Fish Levy Trust Fund – State Department for The Blue Economy and Fisheries
17. Commodities Fund – State Department for Agriculture
18. Commodities Fund Staff Mortgage and Car Loan Scheme - State Department for Agriculture

Appendix B: Qualified Opinion

19. Agricultural Information Resource Centre Revolving Fund – State Department for Agriculture
20. Management and Supervision Fund – State Department for Co-operatives
21. Coffee Cherry Advance Revolving Fund - State Department for Co-operatives
22. Youth Enterprise Development Fund – State Department for Co-operatives
23. Financial Inclusion Fund (Hustlers' Fund) – State Department for Co-operatives
24. Street Families Rehabilitation Trust Fund – State Department for Social Protection and Senior Citizen Affairs
25. Petroleum Training Levy Fund – State Department for Petroleum
26. Uwezo Fund – State Department for Gender and Affirmative Action
27. National Youth Service - Mechanical and Transport Fund – State Department for Public Service

Appendix C: Adverse Opinion

No. National Government Funds

1. Treasury Main Clearance Fund – The National Treasury

Appendix D: Disclaimer of Opinion

No. National Government Funds

1. Government Clearing Agency Fund – The National Treasury
2. Kenya Local Loans Support Fund – The National Treasury
3. Stores and Services Fund – State Department for Public Works

