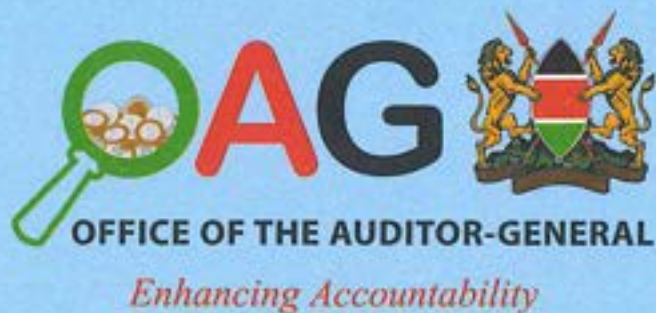


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

CAPITAL MARKETS AUTHORITY

FOR THE YEAR ENDED
30 JUNE, 2025

REPUBLIC OF KENYA

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Enhancing Accountability

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on the Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Capital Markets Authority set out on pages 57 to 99, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by M/s Ronalds LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information

Report of the Auditor-General on Capital Markets Authority for the year ended 30 June, 2025

and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Capital Markets Authority as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Capital Markets Authority Act, Cap.485A of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Capital Markets Authority Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

Key audit matter	How the matter was addressed
Estimation of expected credit loss model on financial assets The Authority applies IPSAS 41 – 'Financial Instruments' in estimation of expected credit loss. The financial assets subjected to expected credit loss model are receivables, staff loans and advances, held to maturity investments and cash at bank as shown in notes 13, 14, 15 and 16 of the financial statements. The determination of the values in the expected credit loss model requires significant judgements hence an increased level of audit focus is applied. The key areas include;	The following audit procedures were conducted; We obtained an understanding of the basis and parameters used to determine the expected credit losses and evaluated if it is in accordance with IPSAS 41 requirements. On sample basis, we assessed the segmentation of the financial assets by reviewing the

Key audit matter	How the matter was addressed
- Assessment criteria of the risk of default occurring in the financial statements and the determination criteria for significant increase in credit risk. The segmentation of the financial assets into a 12 month or a lifetime probability of Default relies on the above assessment and determination criteria. - The assumptions and parameters used in determining the Probability of Default, Loss Given Default and Exposures at Default for the categories of financial assets in the financial statements. - The reasonableness and the supportability of the forward-looking information used in the model. Therefore, there is complexity in determining the level of accuracy and reasonableness of the Management estimates with regards to expected credit loss.	credit performance and the aging analysis to determine compliance with model requirements. We performed subsequent tests on significant account balances' receipt after the year end. We assessed the appropriateness of the assumptions used in the model by recalculating the Probability of Default, Loss Given Default and Exposure at Default. Review of the appropriateness of the assumptions used in determining forward-looking information by assessing the internal and publicly available information.

Other Information

The Directors are responsible for the other information set out on page 4 and 55 which comprises of Key Entity Information and Management, the Board of Directors, Key Management Team, the Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The other information does not include the financial statements and our auditor's report thereon.

In connection with my audit on the Authority's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and, accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Irregular Procurement of Insurance Brokerage Services for Medical Cover

During the year under review, an insurance brokerage firm was awarded a contract for provision of insurance brokerage services for medical cover at a contract sum of Kshs.11,901,512 through a Tender Number: CMA/RT 00/2024-2025 using restricted tendering method without any justification contrary to Section 102 (1)(c) of the Public Procurement and Asset Disposal Act, 2015 which gives conditions under which restricted tender can be used including where the competition for contract, because of the complex or specialized nature of the goods, works or services is restricted to prequalified tenderers and evidence to the effect that there are only a few known suppliers of the goods, works and services.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of an Internal Procurement Policy Manual

A review of the operations in the Procurement Department indicates that it lacks a formal Internal Procurement Manual which is essential for translating legal and policy

frameworks into practical, organization-specific procedures. The absence of a manual creates a gap in operational consistency and clarity which can lead to inconsistent application of procurement practices across departments, increased risk of non-compliance, inefficiencies and a lack of clearly defined internal control measures.

In the circumstances, the lack of an internal procurement policy manual could impact negatively on the overall internal controls over procurement.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the

International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 September, 2025