REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

HIGHER EDUCATION LOANS BOARD

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON HIGHER EDUCATION LOANS BOARD FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Higher Education Loans Board set out on pages 1 to 29 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 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Higher Education Loans Board 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 Higher Education Loans Board Act, 1995 and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under the Report on Financial statements, Lawfulness and Effectiveness in the Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Board in 2024/2025 revealed that the following seven (7) matters remained unresolved as at 30 June, 2025:

No.	Issues
1.	Irregularities in matured student loan balances
2.	Non-implementation of the in Duplum rule
3.	Failure to allocate repayment amount to outstanding principal
4.	Long outstanding receivables from exchange transactions
5.	Failure to refund payroll over deductions
6.	Challenges of new funding model for higher education
7.	Failure to use the approved means testing instruments

Other Information

The Directors are responsible for the Other Information set out on pages iv to lxii which comprise of Key Entity Information and Management, Board Directors, Key

Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives for FY 2024/2025, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the Statement of Directors' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. High Default Rate on Students' Loan

Analysis of loan book as at 30 June, 2025 revealed that seven hundred thirty-one thousand seven hundred and eighty-nine (731,789) loan accounts had matured with a running balance of Kshs.115,367,738,886. Included in the matured loans are five hundred and sixty-three thousand nine hundred and forty-nine (563,949) loan accounts with a running balance of Kshs.89,869,844,221 with no repayment of principal, interest, ledger fee or insurance fee during the year, heightening the loan default rate (exposure risk) as detailed below:

Aging Band	Number of Loan Accounts	% in Default	Cumulative Balance (Kshs)	Default Rate
0-5 Years	281,459	50%	39,634,487,086	44%
5-10 Years	191,766	34%	33,429,698,077	37%
10-15 Years	32,608	6%	8,007,785,747	9%
15-20 Years	11,337	2%	2,917,593,302	3%
20-25 Years	8,118	1%	1,578,580,192	2%
25-30 Years	11,408	2%	1,904,286,954	2%
30-35 Years	13,372	2%	1,622,193,560	2%
35+ Years	13,881	2%	775,219,304	1%
Grand Total	**563,949**	**100%**	**89,869,844,221**	**100%**

In the circumstances, the high default rate may affect the sustainability of the students' loans fund which may in turn limit loans availability to students in future.

2. Ineffective Debt Recovery Strategy

Note 26(a)(iii) to the financial statements discloses non-current portion of receivables from exchange transactions. The balance of Kshs.15,829,623 is net of provision for bad and doubtful debts of Kshs.185,816,311. Although Management has taken measures to collect the debts including issuance of written notices and engagement of lawyers, the strategy has not borne fruit.

In the circumstances, the effectiveness of debt recovery strategies employed by the Board could not be confirmed.

3. Failure to Deduct Capacity Building Levy on Office Cleaning Services

The statement of financial performance reflects use of goods and services amount of Kshs.422,398,643 as disclosed in Note 12 to the financial statements which includes office cleaning and maintenance expenses amounting to Kshs.3,406,533. Review of payments for goods and services - cleaning services to the service provider revealed that there was no deduction of the public procurement capacity building levy of 0.03%, contrary to the Levy Order 2023 issued by the Public Procurement Regulatory Authority.

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

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

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

Conclusion

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

Basis for Conclusion

Challenges of New Funding Model for Higher Education

As reported previously, the Government adopted the New Funding Model (NFM) for higher education and effective 2023. The model shifts towards a student-centered funding approach and aims to make education more equitable, accessible, and sustainable. It emphasizes allocating resources based on financial need while addressing challenges such as affordability, inclusivity, and institutional sustainability. The Means Testing Instrument (MTI) used for assessing financial capacity of the students categorizes them into five financial bands, 1 to 5. The Instrument ensures targeted support through scholarships, loans, and household contributions. However, review of documents and interviews with the Fund Management revealed critical challenges the model is facing amongst them:-

i. Inaccurate data submission by applicants leading to distorted MTI scores;

ii. Limited public awareness leading to information gap to the intended beneficiaries;

iii. Delays in funds disbursement in the form of loans and scholarships disrupting students' ability to pay tuition fees, access accommodation, and cover living expenses;

iv. Inclusivity concerns where vulnerable groups, such as students with disabilities or those from marginalized regions, face difficulties accessing the funds they need;

v. Emerging concerns on unique challenges, such as those faced by Muslim students who require sharia-compliant financial products, further hinder inclusivity;

vi. Loan repayment burden due to high unemployment and underemployment rates make it challenging for graduates to repay their loans, increasing default rates and threatening the sustainability of the revolving fund;

vii. There is no coordination between the other government agencies dealing with the higher education students support, namely the Board and the State Department for Technical and Vocational Education and Training; and

viii. The model is not integrated with the Kenya Universities Central Placement Service system to ensure seamless tracking of students from placements in the universities to funding.

On 20 December, 2024, the High Court declared the NFM unconstitutional for being discriminatory as it violates students right to education. Further, the ruling clarified Government's responsibility in funding public universities and passing the responsibility to parents was a violation of the Constitution as the legitimate expectation of the citizens was violated.

In the circumstances, the effectiveness of the New Funding Model for higher education in supporting students funding requirements could not be confirmed.

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 Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Board'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 cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 December, 2025