REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA ACCREDITATION SERVICE

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA ACCREDITATION SERVICE 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.

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 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

I have audited the accompanying financial statements of Kenya Accreditation Service set out on page 1 to 44, which comprise the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Accreditation Service 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 Public Finance Management Act, 2012 and the Kenya Accreditation Service Act Cap 496A Laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Accreditation Service 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.

Emphasis of Matter

1. Uncertainty on Sustainability of Services

The statement of financial position reflects total current liabilities balance of Kshs.232,333,370 (2023-2024: Kshs.160,712,032) against current assets of Kshs.209,532,941 (2023-2024: Kshs.109,004,429) resulting to a negative working capital of Kshs.22,800,429 (2023-2024: Kshs.51,707,603).

The financial statements have been prepared on the assumption that the entity is a going concern and will continue in operation in the next twelve months from the approval of the financial statements, if strategies are not put in place to improve on the financial performance, the Service is likely to face financial challenges in the near future.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis of Kshs.472,100,000 and Kshs.473,242,503 respectively, resulting to an overcollection of Kshs.1,142,503 of the budget. However, the Service spent a total of Kshs.383,333,353 against actual receipts of Kshs.473,242,503 resulting to an under-absorption of Kshs.89,909,150 or 19% of the receipts.

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

My opinion is not modified in respect of these matters.

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 Issues

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in the Use of Public Resources, which were unresolved as at 30 June, 2025.

Other Information

The Management is responsible for the other information set out on page v to xxxviii which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities**.** The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Remission of Surplus to the National Treasury

The statement of financial position reflects trade and other payables of Kshs.70,854,964 as disclosed in Note 22 to the financial statements. Included in this amount is surplus for the financial year 2023/2024 of Kshs.12,916,993 which was not remitted to the National Treasury as required by law. The Management acted contrary to Regulation 219(2) of the Public Finance Management (National Government) Regulations, 2015 which requires ninety per centum of the surplus funds reported in the audited financial statements be remitted into Consolidated Fund.

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

2. Long-Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables of Kshs.70,854,964 as disclosed in Note 22 to the financial statements. Included in the balance are payables of Kshs.2,791,304 which have been outstanding for more than one (1) year. No satisfactory explanation was provided for not clearing these outstanding liabilities.

In the circumstances, business operations, liquidity and livelihoods of the creditors and by extension their beneficiaries may be affected negatively due to failure by the Service to pay the amounts due to them.

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

The statement of financial performance reflects employee costs of Kshs.195,111,790 as disclosed in Note 10 to the financial statements. Review of the payroll revealed that ten (10) employees over-committed their salaries beyond two thirds (2/3) of their basic salaries. This was contrary to the Human Resource Policies and Procedures Manual for the Public Service, May 2016 Section C.1 (3) which stipulates that public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

In the circumstances, the Management was in breach of laid down regulations on administration of the payroll.

4. Long-Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions of Kshs.61,698,917 as disclosed in Note 17 to the financial statements. Included in the balance are receivables of Kshs.22,639,301 which have been outstanding for more than one (1) year. This is contrary to the Kenya Accreditation Service Finance Manual Part 9.7 which provides for steps on how to follow up on debts which have remained outstanding for more than 30 days. Further, Note 9.7.1 of the manual requires the Service to send notices of suspension to the clients after the final reminder has been issued. It also requires the withdrawal of accreditation after 6 months of non - payments.

In the circumstances, the absence of active and intentional collection of the long-outstanding debts, including enforcement of the existing debt collection mechanisms, may lead to loss of revenue.

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 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 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

Board not Properly Constituted

The statement of financial performance reflects Board expenses of Kshs.10,289,864 as disclosed in Note 11 to the financial statements. Review of the Board members' profiles revealed that no independent Board member had qualification in finance and consumer protection as prescribed. This is contrary to Section 7(1d) of the Kenya Accreditation Service Act, 2019 which prescribes that the management of the Service shall vest in a Board of Directors which shall consist of five (5) other members, appointed by the Cabinet Secretary being two (2) persons with professional qualifications in the fields of science and technology, law, trade, business or industry; two (2) persons, one with professional qualifications in finance, and another person with professional qualifications in law or human resource management; and one (1) person with professional qualifications in consumer protection.

In the circumstances, failure to properly constitute the Board may impact on the effectiveness and oversight role of the Board.

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

Responsibilities of the Management and 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 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 Service'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 are responsible for overseeing the Service'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 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

17 September, 2025