REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA ANIMAL GENETIC RESOURCES CENTRE

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA ANIMAL GENETIC RESOURCES CENTRE 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.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, 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

Qualified Opinion

I have audited the accompanying financial statements of Kenya Animal Genetic Resources Centre set out on pages 1 to 30, 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 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.

Basis for Qualified Opinion

1. Rental Revenue

The statement of financial performance reflects rental revenue from facilities and equipment of Kshs.984,300 as disclosed in Note 8 to the financial statements. The Centre owns several houses which had been rented out to staff at an average rent of Kshs.1,500 per month. However, the Centre Management does not maintain a house register indicating the number of houses, rent charged and current occupancy.

In addition, the following anomalies were noted:

i. Not all tenancy agreements between tenants and the Centre Management were in place. In addition, the tenancy agreements which were provided for audit review were incomplete since they lacked information on monthly rent charged, tenancy period and the Landlord's signature.

ii. The valuation report for the houses by the Ministry of Lands and Physical Planning dated 29 September, 2021 revealed that the Centre had sixty-six (66) houses with varying market rent out of which, two (2) houses had been recommended for demolition to create space for re-development. However, the demolition had not been done as at the time of audit in November, 2025 resulting to loss of rental income.

iii. The valuation report indicates that some of the houses are fitted with asbestos roof thus posing a health hazard to the occupants.

In the circumstances, the accuracy and completeness of revenue from facilities and equipment of Kshs.984,300 could not be confirmed.

2. Lack of Ownership Documents

The statement of financial position and as disclosed in Note 23 to the financial statements reflect property, plant and equipment balance of Kshs.749,092,523 which excludes seven (7) parcels of land of unknown value, measuring a total of 168.442 ha. However, ownership documents were not provided for audit review.

In the circumstances, the ownership of property, plant and equipment could not be confirmed

3. Failure to Value Biological Assets

The statement of financial position reflects biological assets balance of Kshs.15,100,131 as disclosed in Note 24 to the financial statements. However, the biological assets had not been valued. In addition, Management did not include the value of trees owned by the Centre.

In the circumstances, the accuracy and valuation of the biological assets balance of Kshs.15,100,131 could not be confirmed.

4. Unsupported Refundable Deposits from Customers

The statement of financial position and as disclosed in Note 27 to the financial statements reflect refundable deposits from customers' of Kshs.13,889,920. However, the deposit account bank statement was not provided for audit review.

In the circumstances, the accuracy and completeness of refundable deposits from customers amounting to Kshs.13,889,920 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Animal Genetic Resources Centre 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 qualified opinion.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted final receipts of Kshs.593,440,000 and actual receipts on comparable basis of Kshs.433,956,882 resulting to under funding of Kshs.159,483,118 or approximately 27% of the final budget.

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

2. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables of Kshs.261,505,563 as disclosed in Note 25 to the financial statements. Included in the balance are trade payables and payments received in advance amounting to Kshs.3,865,523 and Kshs.8,114,139 respectively which had been outstanding for more than one (1) year.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge

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. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

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 shown below;

Summary of Issues

1. Lack of Ownership Documents for Property, Plant and Equipment
2. Unsupported Refundable Deposits from Customers
3. Failure to Maintain an Update Assets Register
4. Outstanding Trade and Other Payables
5. Long Outstanding Receivable from Exchange Transactions
6. Non-Functional Nitrogen Production Plant
7. Construction of Laboratory Block Including Animal Holding Area
8. Procurement of Mobile Embryo Transfer Laboratory
9. Unauthorized Bank Accounts
10. Lack of Risk Management Strategy

Other Information

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

In connection with my audit on the Resource Centre'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. Irregularities in Management of Imprest

Review of the cash book and payment vouchers revealed the following issues on management of imprest;

i. Management issue imprest as an expenditure instead of a prepayment contrary to Regulation 91(1) of the Public Finance Management (National Government) Regulations, 2015 which states that an imprest means a form of cash advance or a float which the Accounting Officer may authorize to be issued to officers who in the course of duty are required to make payments which cannot conveniently be made through the cash office of a Government entity or bank account.

ii. The entity paid quarter per diem to employees and Board members who had been facilitated from other quarters. This was contrary to Circular No.OP/CAB.308/018 dated 02 October, 2023 which stopped the payment of quarter per diem.

iii. Management does not maintain an imprest register contrary to Regulation 93(4)(c) of the Public Finance Management (National Government) Regulations, 2015 which states that before issuing temporary imprests under Paragraph (2), the Accounting Officer shall ensure that the applicant imprest has been recorded in the imprest register including the amount applied for.

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

2. Compensation for Employees

2.1 Irregular Payment of House Allowance

Analysis of the payroll records revealed that ninety-nine (99) staff were paid house allowances of Kshs.2,351,400 while the house allowances approved for the equivalent job groups by Salaries and Remuneration Commission (SRC) was Kshs.1,274,400 resulting in unexplained variance of Kshs.1,077,000. Further, eighty (80) employees were earning allowances exceeding 40% of their gross pay which was contrary to the SRC guidelines on Allowances Policy Guideline for the Public Service of October, 2021 that capped allowances for public servants at 40% of their gross monthly pay.

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

2.2 Non-Compliance with the Laws on Affirmative Action

Review of human resource records revealed that the entity had a staff establishment of one hundred and fifty-two (152) out of which none were Persons Living with Disabilities. This was contrary to Section B. 23 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that the Government shall implement the principle that at least five (5) percent of all appointments shall be for persons with disabilities.

In addition, out of one hundred and fifty-two (152), only forty-two (42) employees were female representing approximately 28% of the total workforce. This was contrary to Section B.22 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016, which states that the Government will endeavour to have a gender balanced Civil Service by ensuring that not more than two thirds (2/3) of positions in its establishment are filled by either gender.

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

3. Project Implementations

3.1 Irregular Award

During the year under review, the Kenya Animal Genetic Resources Centre initiated procurement processes through request for quotation method for various construction-related works. Upon evaluation, three (3) contracts were awarded to three firms at a total contract sum of Kshs.13,970,973. However, review of the bid documents submitted revealed that the same technical personnel, were listed in the bid submissions of all three firms, with identical résumés and academic certificates attached as part of the technical proposals, an indication that the firms were owned by the same people.

In the circumstances, value for money of Kshs.13,970,973 spent on the projects could not be confirmed.

3.2 Construction of Laboratory Block at Lower Kabete

Management entered into a contract through direct procurement method with a Company on 30 August, 2022 for the construction of laboratory block including animal holding area at Kenya Animal Genetic Resources Centre - Lower Kabete (Phase 1) at the original contract sum of Kshs.51,944,301 with a contract period of fifty-two (52) weeks commencing on 17 October, 2022 with an expected completion date of 15 January, 2024. Subsequently, an amendment to the scope of works was made giving rise to additional contract sum of Kshs.12,981,432 representing an approximate 25% increase. However, it was noted that the contract was varied before lapse of twelve (12) months period contrary to Section 139(3) of the Public Procurement and Asset Disposal Act, 2015 which states that no contract price shall be varied upwards within twelve (12) months from the date of the signing of the contract. As at the time of audit, payment certificates amounting to Kshs.49,976,428 had been processed.

In February, 2025, the Contractor requested and was granted a two-month extension by the Board. However, an amended contract agreement which includes the amended scope of works was not provided audit review.

In the circumstances, value for Kshs.49,976,428 spent on the project could not be confirmed.

3.3 Supply, Installation and Commissioning of Liquid Nitrogen Plant

During the year under review, Management entered into a contract dated 21 June, 2024 with a Company for the supply, installation and commissioning of a Liquid Nitrogen Plant, at a contract sum of Kshs.154,210,600. The procurement was conducted through the direct procurement method which had been reported to Public Procurement Regulatory Authority (PPRA). Review of procurement records revealed that invitation, opening and evaluation of the tender were conducted on 7th, 12th and 13th June, 2024 respectively.

A pre-inspection and due diligence exercise was conducted in November, 2024 at the Stirling Cryogenics manufacturing facility in the Netherlands. The Inspection Committee confirmed that the specifications were met and recommended that the supplier proceed as per the contract terms.

However, the following issues were noted during the audit review:

i. There was no documentary evidence provided to demonstrate that the Stirling Liquid Nitrogen Plant was available only from a specific supplier with exclusive rights or that no reasonable alternatives existed in the market

ii. The supplier's past performance and capacity was not adequately substantiated as the highest previous contract executed by the supplier was valued at Kshs.2,620,000 which was significantly lower than the current award.

iii. The past projects performed by the Company mostly involved supply of laboratory equipment, calibration services and temperature monitoring systems and none was comparable in complexity or scope to the supply and installation of a Liquid Nitrogen Plant.

iv. Documentation was not provided to confirm that the supplier had previously handled projects involving procurement, installation and commissioning of industrial plant equipment or facilities of a similar magnitude.

v. As at the time of audit, the plant had been delivered to the site in May, 2025 pending installation and commissioning.

In the circumstances, value for money could not be confirmed.

3.4 Failure to Economically Utilize Entity Assets

Field visit conducted in July, 2025 to various KAGRC centers revealed that the Nitrogen production plant located at the Sotik Centre had ceased operations since 4 June, 2025. Interviews with on-site staff indicated that the suspension of operations was due to disconnection of electricity supply by Kenya Power, arising from unpaid electricity bills amounting to approximately Kshs.2.5 million. However, review of production and sales reports revealed that in the months leading up to the disconnection, the Centre had generated significant revenue from the sale of Liquid Nitrogen and semen, with the value of sales exceeding the amount owed for electricity. Further, the Nitrogen plant at Eldoret center was not operational, reportedly due to high costs of repairs and maintenance and lack of spare parts.

Field visit to Kirinyaga Goat A.I Centre in July, 2025 revealed that the nitrogen production plant broke down in September, 2023 and had not been repaired since then. This had affected production of liquid nitrogen and storage of buck semen.

In the circumstances, value for money from the unutilized assets could not be confirmed.

3.5 Failure to Prepare and Submit Quarterly Financial Statements

During the year under review, Management did not prepare and submit quarterly reports to The National Treasury contrary to Section 83(1)and (2) of the Public Finance Management Act, 2012 which requires an Accounting Officer for a National Government entity to prepare a report for each quarter of the financial year in respect of the entity and not later than fifteen (15) days after the end of each quarter and submit the quarterly reports to The National Treasury.

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

4. Unauthorized Opening of Bank Accounts

The Centre had three (3) bank accounts at ABSA Bank which had been opened without prior approval from The National Treasury. In a memo referenced KAGRC/11/11/Vol III/259 dated 12 March, 2024, Management wrote to The National Treasury through their Parent Ministry seeking authority to continue operating the three (3) accounts. As at 30 June, 2025 the authority to continue operating the bank accounts had not been granted.

In addition, one of the bank accounts with a balance of Kshs.8,322 had been used to receive funds for East Africa Agricultural Productivity Project which had been completed in financial year 2015/2016. During the year under review the account attracted bank charges of Kshs.39,600.

In the circumstances, the effectiveness of internal controls on management of bank accounts could not be confirmed.

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, based on the audit procedures performed, except for the effect of the matters 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

1. Staff Under-Establishment

During the year under review, human resource records provided for audit, revealed that the Centre had a staff establishment of one hundred and seventy-one (171) against one hundred and fifty-two (152) staff members in post thus resulting in an overall under establishment of nineteen (19). Further, it was noted that there were no substantive staff in the critical positions of Director Corporate Services, Director Extension services, Director of Strategy and Planning, Corporate Secretary and Director Research and Technical Services and as such the entity lacks critical leadership to help deliver on its mandate. In addition, the internal audit function revealed that the Centre's Career Guideline establishes four (4) grades of internal auditors while staff members in post were two (2) thus resulting in an overall under establishment of two (2) personnel.

In the circumstances, the effectiveness of service delivery to the public could not be confirmed

2. Failure of the Centre to Submit Reports to The Cabinet Secretary

During the year under review, review of reports and discussions with the Centre Management revealed that the Centre Management did not submit reports on the operations of the Centre to the Cabinet Secretary. This was contrary to Paragraph 16(1) of the Kenya Animal Genetic Resources Centre Order Number 110 of 2011, which mandates the Centre Management to prepare and submit reports of the operations of the Centre within three (3) months after the end of each financial year.

In the circumstances, the Centre Management did not comply with Kenya Animal Genetic Resources Centre Order.

3. Internal Audit Operations

3.1 Lack of an Internal Audit Software

Audit review revealed that the internal audit processes were not automated. Automation ensures that the Function conforms to international professional practices framework in terms of documentation of internal audit methodologies, documentation of laws and regulations with which internal auditors are required to comply with and adhere in addition to the standards.

3.2 Failure to Conduct Self-Assessment by the Audit Committee

Review of internal audit documents and discussions with the internal audit function staff revealed that the Audit Committee had not conducted the annual self-assessment contrary to Section 4.8.1 (a) of Gazette Notice No.2691 on Audit committee guidelines for national government regulation which requires the Committee to assess its performance and achievements against its mandate, roles, duties and responsibilities that should be captured in the calendar of activities on an annual basis.

3.3 Lack of Plan on Implementation of Internal Audit Recommendations

Review of internal audit documents and discussions with the internal audit function staff revealed that Management provides responses to audit reports during audit committee meetings. However, the internal audit did not have a formal action plan to implement the recommendations contained in those reports.

4. Lack of a Disaster Recovery Plan

The Resource Centre did not have Disaster Recovery and Business Continuity Plans required for identifying, preventing and mitigating against disasters and ensuring that its operations are not interrupted. Further, Management did not perform formal risk assessments.

In the circumstances, Management's preparedness towards responding to risks could not be confirmed.

5. Irregular Constituted Genetics Advisory Committee

The statement of financial performance reflects administration expenses of Kshs.170,078,943 which, as disclosed in Note 9 to the financial statements include bull recruitment and maintenance expenditure amounting to Kshs.12,884,543. Included in the amount is Kshs.100,250 paid as allowances to the Genetics Advisory Committee. However, the fifteen (15) member Committee established to oversee the identification, recruitment and evaluation of breeding animals for bovine and caprine category was not anchored on any enabling Act or legal framework.

In the circumstances, the regularity of the Genetics Advisory Committee 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.

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

Responsibilities of the 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 Centre'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 Centre'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

19 December, 2025