REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA FORESTRY RESEARCH INSTITUTE

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA FORESTRY RESEARCH INSTITUTE 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 Forestry Research Institute set out on pages 1 to 54, which comprise of the statement of financial position as at 30 June, 2025, and the statement 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Forestry Research Institute 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 Science, Technology and Innovation Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Non – Disclosure of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.6,048,775,929 as detailed in Note 8 to the financial statements. However, the amount excludes values of properties on various parcels of land measuring 2,847 hectares across the Country. These include parcels of land owned by Kenya Forest Service, Maseno University, Ministry of Agriculture, County Governments of Kitui, Lamu, and Migori, and Karura Forest where the Institute has a wood chemist facility. Further, the amount excludes the value of the Institute's Headquarter which is built on land registered under the Ministry of Environment and Natural Resources. In addition, title deeds for twenty-one (21) parcels of land possessed by the Institute were not provided for audit.

Further, physical inspection conducted in November, 2025 at Gede, Taita, Kibwezi, Londiani, Kitui and Maseno regional offices revealed that the assets which included chairs, desks, tables, cupboard, and ladders had not been tagged or coded yet delivery and inspection was done in May, 2025 and June, 2025.This was contrary to Section 72. (1) of the Public Finance Management Act, 2012 which states that An Accounting Officer of a National government entity shall be responsible for the management of the entity's assets and liabilities and manage those assets in a way which ensures that a national government entity achieves value for money in acquiring, using and disposing of those assets.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.6,048,775,929 could not be confirmed.

2. Long Outstanding Receivables

2.1 Receivables from Exchange Transaction

The statement of financial position reflects receivables from exchange transaction balance of Kshs.5,068,879 as disclosed in Note 17(a) to the financial statements out of which receivables amounting to Kshs.1,675,610 have been outstanding for over two (2) years, The debt remained unpaid due to lack of frequent follow- up and hence their recovery is doubtful and no provision had been made in the financial statements. Further, the debts had not been referred to a debt collector as per the credit policy.

In the circumstances, accuracy, completeness and recoverability of the receivables amount of Kshs.1,675,610 could not be confirmed.

2.2 Receivables from Non-Exchange Transaction

The statement of financial position reflects receivables from non-exchange transaction balance of Kshs.2,311,907 as disclosed in Note 17(b) to the financial statements. The amount includes outstanding imprest, salary advance and salary in advance of Kshs.126,150, Kshs.35,816 and Kshs.42,500 which had been outstanding for more than one (1) year. Management has not explained why the outstanding imprest, salary advance and salary in advance have not been recovered from the payroll.

In the circumstances, the accuracy, completeness and recoverability of the imprest, salary advance and salary in advance all totalling Kshs.204,466 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Forestry Research Institute 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis amounts of Kshs.2,322,020,878 and Kshs.2,064,660,982 respectively resulting in an under-funding of Kshs.257,359,896 or 11% of the budget. Similarly, the Institute spent Kshs.2,166,167,216 against actual receipts of Kshs.2,064,660,982 resulting in an over-absorption of Kshs.101,506,234.

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.

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 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 Institute in 2024/2025 revealed that the following matters remained unresolved.

	Financial Year	Audit Issue
1	2023/2024	Excluded Property, Plant and Equipment
2	2023/2024	Long Outstanding Receivables
3	2023/2024	Long Outstanding Un-Surrendered Imprest
4	2023/2024	Unsupported Board Expenses
5	2023/2024	Budgetary Control and Performance
6	2023/2024	Failure to Meet Set Performance Targets
7	2023/2024	Unremitted and Accrued VAT
8	2023/2024	Understaffing at the Institute
9	2023/2024	Acting in Exceedingly Higher Position
10	2023/2024	Stagnation of Staff in Same Job Group for Long
	2023/2024	Staff Acting for Over Six (6) Months
11	2023/2024	Lack of Phased Transition in Appointment of Board Members
12	2023/2024	Lack of Appointment Letters of Independent Board Members

Other Information

Management is responsible for the Other Information set out on page iv to lxi which comprise of 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 my audit report thereon.

In connection with my audit on the Institute'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. Excessive Wage Bill

The statement of financial performance reflects employee costs amount of Kshs.1,275,173,724 which is approximately 69% of the total revenue amount of Kshs.1,860,991,519 thereby exceeding the 35% threshold. This was contrary to Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015, which stipulates that an entity's wage bill shall not exceed thirty-five percent (35%) of its total revenue.

In the circumstances Management was in breach of the law.

2. Non – Compliance with One Third of Basic Salary Rule

Analysis of the payroll revealed that in the months from July, 2024 to April, 2025, there were cases of over committed salaries with some taking home as low as 1% of their basic pay. This was contrary to Section C.1 (3) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016 states 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 Management was in breach of the law.

3. Staff Serving in an Acting Capacity for more than Six (6) Months

Analysis of the staff payroll revealed that three (3) employees had been serving in acting positions above their substantive grades for periods exceeding six (6) months without the positions being substantively filled. This was contrary to Public Service Commission Human Resource Policies and Procedures Manual (2016) Section C.14(1) - When an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary. Acting allowance will not be payable to an officer for more than six (6) months.

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

4. Payment of Special Duty Allowance for More than Six (6) Months

Analysis of the payroll revealed that four (4) employees were paid special duty allowance amounting to Kshs.792,785 for a period exceeding six (6) months, contrary to the provisions of Section C.15(4) Public Service Commission Human Resource Policies and Procedures Manual which states that special duty allowance will not be payable to an Officer for not more than six (6) months.

In the circumstances Management was in breach of the law.

5. Presentation Anomalies in the Financial Statements

Review of the financial statements revealed the following anomalies: -

i. The statement of financial performance reflects provision for doubtful debts as Note 4 (a) instead of Note 4(b). The statement further reflects expenses in brackets contrary to the requirements the Public Sector Accounting Standards Board financial reporting template.

ii. Heading on Pages 30,34,35, 36,38, 39 and 49 bear the title 'Notes to the financial statements for the period ended 30 June, 2025 instead of for the year ended 30 June, 2025.

iii. The face of the financial statements reflects "For the financial year ended 30 June, 2025 instead of "For the year ended 30 June, 2025"

In the circumstances, the financial statements have not been presented in compliance with the Public Sector Accounting Standards Board financial reporting template and IPSAS 1 – Presentation of Financial Statements.

6. Non-Compliance with the Public Procurement Capacity Building Levy Order

Management did not provide evidence to confirm that the Institute complied with paragraph 3(1) of the Public Procurement Capacity Building Levy, Order 2023 which provides that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. This is in addition to adherence to the Public Procurement Regulatory Authority (PPRA) circular No. 01/2024 dated 30 August, 2024 which requires procurement entities to remit the levy to the Authority through the e-Citizen payment platform by the 20th day of the subsequent month and also file monthly returns.

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 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. Understaffing at the Institute

The approved staff establishment submitted for audit reflects that the Institute has a total staff establishment of one thousand three hundred and seventy (1,370). However, an analysis of staff in post revealed that the Institute was operating with only eight hundred and sixty-five (865) staff which is equivalent to 63% of the total approved staff establishment and that five hundred and four (504) posts representing 37% of the total approved staff establishment were vacant. Of concern are technical staff which are assistant principal research scientist and research scientist with fifty-eight (58) staff in post against one hundred and twenty-two (122) approved, and eight (8) in post against eighty-five (85) approved, respectively, resulting in variances of fifty (50) and thirty-seven (37) respectively The Institute is therefore not operating at its optimal staffing level. This scenario may lead to poor service delivery and may hinder the Institute from achieving its objectives of conducting and disseminating research findings and development in forestry and allied resources.

In the circumstances, effective attainment of the Institute objectives and service delivery to the public could not be confirmed.

2. Lack of Appointment Letters of Independent Board Members

Review of board documents, governance and administrative records for the year under review, revealed that some Board Members of the Institute did not have formal appointment letters or instruments of appointment issued by the relevant appointing authority. As a result, the legitimacy of their participation in board deliberations and entitlement to allowances could not be independently verified. This was contrary to the requirements of the governing legislation and the Mwongozo Code of Governance for State Corporations, 2015 which requires that each Board Member must have a valid instrument of appointment or appointment letter issued by the designated appointing authority.

In the circumstances, regularity and legitimacy of the affected board members could not be confirmed.

3. Irregular Convening of Board Meetings Without Approval

Note 12 to the financial statements reflects board of management expenses amount of Kshs.15,735,035. Review of board notices, attendance registers, and minutes revealed that the full Board held twelve (12) meetings during the year. However, approval from the Cabinet Secretary was obtained for only one (1) special meeting held to facilitate the recruitment of the Chief Executive Officer (C.E.O). Further, these meetings had not been included in the annual workplan for the Board for the year under review.

In the circumstances, proper corporate governance and legality of unapproved meetings by the board 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 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 Institute's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Institute or to cease its 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 Institute'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

17 December, 2025