REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT 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 Industrial Research and Development Institute set out on page 1 to 26, 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.

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 Industrial Research and Development 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 Kenya Industrial Research and Development Institute Act, 2022 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Deferred Income

The statement of financial position reflects deferred income balance of Kshs.18,382,247 as disclosed in Note 23 to the financial statements relating to unused project funds. However, the Project cash book (NIIC Account) reflects a balance of Kshs.39,838 resulting in an unexplained variance of Kshs.18,342,409.

In the circumstances, the accuracy and completeness of the deferred income balance of Kshs.18,382,247 could not be confirmed.

2. Lack of Revaluation on Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.6,237,354,082 as disclosed in Note 20 to the financial statements. The balance includes land net book value balance of Kshs.23,794,712. However, as previously reported the land asset was last valued forty-four (44) years ago in 1980. This was contrary to Paragraph 30 of the International Public Sector Accounting Standards 45 on property, plant and equipment which provides that it may be necessary to revalue the items only every three or five years.

In the circumstances, the accuracy and fair value of the property, plant and equipment balance of Kshs.6,237,354,082 could not be confirmed.

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

Material Uncertainty Related to Going Concern

The statement of financial performance reflects deficit for the year of Kshs.130,973,283 (2024: Kshs.144,870,856). Further, the statement of financial position shows that Institute's current liabilities balance of Kshs.841,920,407 exceeded the current assets balance of Kshs.14,415,786 resulting to a negative working capital of Kshs.827,504,621. However, even if the financial statements have been prepared on a going concern assumption, the Institute is technically insolvent and its ability to continue as a going concern is dependent upon support from the National Government and its creditors. In addition, the Management and Board of Directors did not disclose in the financial statements material uncertainty related to going concern.

In the circumstances, if strategies are not put in place to reverse the trend the Institute may face financial challenges in the future casting significant doubts on its ability to continue as a going concern.

My opinion is not modified in respect of this matter.

Emphasis of the Matter

Long-outstanding Accounts Payables

The statement of financial position reflects accounts payable of Kshs.803,730,160 as disclosed in Note 22 to the financial statements. Included in the balance are payables of Kshs.668,681,520 which have remained outstanding for a period of more than one year. Further, note 25 to the financial statements reflects current provisions (audit fees) balance of Kshs.4,058,000 which includes an amount of Kshs.3,358,000 which has been outstanding for a period of more than one year. Management explained that the accounts payable were not settled during the year they occurred due to persistent budget shortfalls.

The Institute may incur significant interest and penalties with the continued delay in settlement of the payables.

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/Material Uncertainty Related to Going Concern section, I have determined that there are no other key audit matters to communicate in my report.

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, Emphasis of Matter and Report on Lawfulness and Effectiveness in the Use of Public Resources. The issues as detailed in **Appendix I** remain unresolved as Parliament has not deliberated on the same.

Other Information

The Management is responsible for the Other Information set out on page iv to xxxiv which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Director General, 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 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 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

Delay in Project Completion - Proposed Techno Centre

As previously reported, the Institute contracted a local construction company for implementation of the proposed Techno Centre (Research, Technology and Innovation

Laboratories and related infrastructure) in South B, that commenced on 25 February,2013 at an estimated contract sum of Kshs.3,933,008,763 and was to take one hundred and fifty-six (156) weeks, with an initial completion date of 3 March, 2016. The project period was however extended by eighty-two (82) weeks for the fourth time bringing the total cumulative project period to five hundred and seven (507) weeks with a new completion date of 25 November, 2022 at a revised contract sum of Kshs.5,455,099,842. However, review of the project records at the time of audit in November, 2025 established that the contract was terminated on 15 September, 2022 with the project completion rate estimated at 80% and works amounting to Kshs.4,121,243,494 having been cumulatively certified through certificate No.55 of 7 December, 2022. In addition, an arbitration had been undertaken which was concluded with a certified settlement dated 1 November, 2022 of Kshs.487,700,497. The entire cumulative amount incurred on the project is Kshs.5,172,927,999 as at 30 June, 2025. However, the project has not been completed and put to intended use twelve (12) years from the commencement date of 25 February, 2013 and in the circumstances, the value for money on this project has not been realized.

In the circumstances, the value for money on this project has not been realized.

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, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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 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 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 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

08 December, 2025

Appendix I

Unresolved Prior Year Matters

No	Observation
	Report on the Financial Statements
1	Unsupported Deferred Income
2	Lack of Revaluation on Property, Plant and Equipment
3	Unconfirmed Retentions
4	Material Uncertainty Related to Going Concern
	Emphasis of Matter
5	Long Outstanding Payables
	Report on Lawfulness and Effectiveness in the Use of Public Resources
6	Delay in Project Completion – Proposed Techno Centre