REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA MEDICAL RESEARCH INSTITUTE

FOR THE YEAR ENDED
30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website:www.oagkenya.go.ke

REPUBLIC OF KENYA
OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL 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 Medical Research Institute set out on pages 1 to 62, 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, 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 Medical 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. Land Without Ownership Documents

The statement of financial position and as disclosed in Note 24 to the financial statements reflects property, plant and equipment balance of Kshs.19,408,264,493. Included in the balance is a parcel of land in Nairobi with staff housing project valued at Kshs.4,143,768,160 sitting on 2.4282 hectares, against which a developer used the title documents as collateral for a loan from a local bank. However, despite the debt being fully settled, the title deed had not been discharged to the Institute as at 30 June, 2025. Further, there was no evidence of authorization for the developer to use the Institute's title deed as collateral to secure the loan.

In the circumstances, the accuracy and rightful ownership of the Institute to the land valued at Kshs.4,143,768,160 as at 30 June, 2025 could not be confirmed.

2. Unsupported and Improper Categorization of Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 20 to the financial statements reflects receivables from exchange transactions balance of Kshs.728,858,565. However, the ageing analysis to the balance was not provided for audit review. Further, the balance includes miscellaneous receivables balance of Kshs.30,690,222 which were not categorized under the respective revenue streams and their income-generating units. In addition, the balance includes an amount of Kshs.112,687,464 in respect to graduate school - outstanding fees which has been outstanding for over three (3) years and there was no debtors' management policy or evidence of recovery measures, follow-up actions, or correspondence with the debtors to collect the overdue fees.

In the circumstances, the accuracy, classification and the fair statement of receivables from exchange transactions balance of Kshs.728,858,565 could not be confirmed.

3. Doubtful Receivables from Non-Exchange Transactions

The statement of financial position and as disclosed in Note 21 to the financial statements reflects receivables from non-exchange transactions balance of

Kshs.378,034,355 which represents exchequer releases that not disbursed during the financial year 2017/2018. Further, there is no evidence to indicate that the receivables will be realizable seven (7) years later.

In the circumstances, the accuracy and fair statement of the receivables from non-exchange transactions balance of Kshs.378,034,355 could not be confirmed.

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

Material Uncertainty Related to Going Concern

The statement of financial performance reflects a deficit of Kshs.240,767,726 representing an increase by Kshs.55,880,306 from the previous year's deficit of Kshs.184,887,420. As a result, the accumulated reserves declined from a balance of Kshs.295,267,801 reported in the prior year to Kshs.54,500,074. Further, the statement of financial position reflects current liabilities balance of Kshs.3,486,377,851 which exceeded the current assets balance of Kshs.3,235,757,358 resulting in a negative working capital of Kshs.250,620,493. This raises concerns about its ability to sustain operations and meet financial obligations as they fall due.

In the circumstances, the Institute is technically insolvent and not able to meet its obligations as and when they fall due.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, 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 and 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

1. 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, respectively. Review of the status during audit of the Institute in 2024/2025 revealed matters detailed in **Appendix 1** which remained unresolved as at 30 June, 2025.

2. Pension Scheme Asset Recovery

Review of records of the Institute indicated that in the year 2008, the Pension Fund lost Kshs.597,000,000 in the hands of the then trustees. The matter was investigated by the Ethics and Anti-Corruption Commission (EACC) and asset recovery proceedings are ongoing. To date, the EACC has recovered and remitted Kshs.70,677,700 to the Scheme as part of the ongoing recovery process.

As at the time of concluding this audit, the recovery of the outstanding pension balance of Kshs.526,322,300 could not be confirmed.

Other Information

The Management is responsible for the Other Information set out on page iv to xliii 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 for the 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 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 and I am required to report that fact. Based on the audit procedures performed and the matters described in my Basis for Qualified Opinion, I confirm that Other Information is not materially inconsistent with the financial statements.

Under Achieved Performance Targets

A review of the strategic objectives indicated the following unachieved targets:

Strategic Objectives	Activities	Target	Achieved	Under achieved
To strengthen Clinical, biomedical, public health and Health Systems research for human health	Translate research findings into policies and practice guidelines	10	6	4
To strengthen Clinical, biomedical, public health and Health Systems research for human health	Publish research findings	535	431	104

Strategic Objectives	Activities	Target	Achieved	Under achieved
To strengthen Clinical, biomedical, public health and Health Systems research for human health	Present research findings in scientific forums	280	249	31
To Undertake Scientific and Technological innovation	provide specialized diagnostic services	1,100,000	647,883	452,117
To Undertake Scientific and Technological innovation	production of diagnostic kits and other products	220,460	111,890	108,570

Failure to achieve key performance targets may affect the Institute's ability to achieve its mandate and limit its contribution to national health research priorities and service delivery to the public.

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. Illegal Operation of a Pharmacy

During the year under review, it was noted that the Centre for Infectious and Parasitic Diseases Control Research (CIPDCR) Pharmacy in Busia serves the public but lacked registration and licensing from the Pharmacy and Poisons Board. This was contrary to Section 23(1) of the Pharmacy and Poisons Act Cap 244 Revised Edition 2023, which states that it shall not be lawful for any person to carry on the business of a pharmacist except in premises registered under the Act.

In the circumstances, Management was in breach of the law

2. Failure to Declare Conflict of Interest

The statement of financial performance and Note 12 to the financial statements reflects employee costs of Kshs.2,927,329,170 which includes staff insurance cost of Kshs.69,750,746. However, the evaluating committee members did not sign the conflict-of-interest declaration form, confidentiality declaration form and code of ethics. This was contrary to section 67(2) of the Public Procurement and Asset Disposal Act, 2015, which states that for the purposes of subsection (1) an employee or agent or member of a board, commission or committee of the procuring entity shall sign a confidentiality declaration form as prescribed.

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

3. Officers in Acting Capacity Beyond the Stipulated Period

Analysis of the payroll data revealed that four (4) officers had been working in an acting capacity for more than six (6) months, drawing acting allowances amounting to Kshs.1,159,327. This was contrary to Section 34 (3) of the Public Service Commission Act 2017, which states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months.

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

4. Failure to Establish Mortgage Fund, Prepare and Submit Financial Statements

The statement of financial position and as disclosed in Note 18 to the financial statements reflects cash and cash equivalents balance of Kshs.1,466,193,506. Included is Kshs.60,519,233 in respect to a mortgage account held in a local bank. The Institute entered into an agreement with the bank on 2 March, 2012 to provide employees with a special housing scheme. However, there was no approval from the Cabinet Secretary in respect to the management of this fund. This was contrary to Regulation 207 (1)(g) of the Public Finance Management (National Government) Regulations, 2015 which requires the Cabinet Secretary to grant approval in writing before establishment of a Fund.

Further, the Institute has not come up with regulations of the fund, appointed a fund administrator and the financial statements were not prepared and submitted for audit. This was contrary to Section 81(1) & (4) of the Public Finance Management Act, 2012 which requires an accounting officer for a national government entity to prepare financial statements and submit the same to the Auditor-General.

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. Failure to Appoint Substantive Office Holders

Review of records revealed that the Institute has operated since 4 March, 2023 without a substantive appointment of the Director General. Further, key management personnel such as the Director Research and Development, Director Research Capacity Building, Director Scientific Programmes and Partnerships, Director Strategy and Compliance, Deputy Director Grants Management and Deputy Director Finance and Accounts were all serving in an acting capacity.

In the circumstances, the effectiveness of governance and decision making in absence of substantive office holders over the could not be confirmed.

2. Dormant Bank Accounts

During the year under review, the Institute had two (2) bank accounts that have remained dormant for the last three (3) years. Management has not taken action to close them. Dormant accounts are susceptible to use for irregular transactions.

In the circumstances, the controls over management of dormant bank accounts could not be confirmed.

3. Long Outstanding Staff Debtors

The statement of financial position and as disclosed in Note 20 to the financial statements reflects receivables from exchange transactions balance of Kshs.728,858,565. Included is Kshs.115,838,619 in respect of staff advances which were yet to be surrendered as at the time of the audit in December, 2025.

In the circumstances, the effectiveness of internal controls over the management of staff advances could not be confirmed.

4. Failure to Perform Governance Audit

During the year under review, there was no evidence to confirm whether governance audit was conducted. This was contrary to Part 1.13 of Mwongozo the Code of Governance for State Corporation 2015 which states that the Board, in consultations with the Oversight Office, should ensure that it subjects the organization to an annual

governance audit by a member regulated by the Institute of Certified Secretaries of Kenya (ICS) and accredited for that purpose.

In the circumstances, the effectiveness of overall governance could not be confirmed.

5. Failure to Perform Data Protection Impact Assessment

The Institute handles biological specimens as well as clinical trials encompassing children and vulnerable groups, which fall under high-risk processing operations. However, there was no evidence to confirm that the Data Protection Impact Assessments (DPIAs) were conducted. Further, measures to address the risks and the safeguards to ensure the protection of personal data, taking into account the rights and legitimate interests of data subjects and other persons concerned had not been established.

In the circumstances, the effectiveness of internal controls on data protection could not be confirmed.

6. Failure to Enact Institutional Policies

During the audit it was noted that the Records Management Policy remained in draft form since 2022. The Institute is currently guided by Registry Management Procedures which are limited in scope and lacks a formal framework to ensure consistent creation, classification, storage, retrieval, and disposal of records. Further, the Institute lacks a Data Management and Technology Transfer Policy, which is crucial for managing the process of bringing research inventions and innovations from the laboratory to the public domain.

In addition, the Institute lacks centralized stable and accessible research data hosting and repository facilities to avoid storing the research data using physical storage devices such as external hard drives.

In the circumstances, the effectiveness of internal controls on records management and data management could not be confirmed.

7. Failure to Undertake Valuation of Property, Plant and Equipment

The statement of financial position and as disclosed in Note 24 to the financial statements reflects property, plant and equipment balance of Kshs.19,408,264,493. However, review of the assets' register revealed one hundred and thirty-four (134) motor vehicles and thirty-four (34) motorcycles with an initial purchase cost of Kshs.374,309,342 but were fully depreciated. However, the assets have not been revalued to determine incorporate the future economic benefits that continue to accrue with their use.

In the circumstances, the benefit that accrue from continued use of the fully depreciated assets has not been incorporated into the Institute's books.

8. Weaknesses in the Management of Property, Plant and Equipment

Review of records and physical verification of property, plant and equipment revealed the following unsatisfactory matters;

i. Thirty-two (32) Institute vehicles had exceeded the capped mileage of 300,000 kilometers with the highest having clocked 684,808 kilometers. Further, thirty (30) motor vehicles were using private number plates instead of those for State Corporations.

ii. The Institute had unserviceable computer equipment, plant and machinery, motorcycles and motor vehicles which had been listed for disposal but the process was still pending as at 30 June, 2025.

iii. The Institute had one hundred and fifty-seven (157) motorcycles that had old registration numbering system plates contrary to the Traffic Act (Registration Plates) Rules No. 62 of 2016.

iv. Physical verification of Alupe staff houses revealed that two (2) of the houses remained uninhabitable, with visible structural defects, leaking roofs, broken doors and windows, a leaking sewer system, and broken ceilings.

In the circumstances, the effectiveness of internal controls on management of property, plant and equipment control could not be confirmed.

9. Weaknesses in Management of Motor Vehicle Insurance

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects use of goods and services amount of Kshs.527,645,616 out of which Kshs.12,833,333 relates to insurance – motor vehicles. However, review of insurance records revealed that the valuation of one hundred and thirty-nine (139) private vehicles, seventy-four (74) motorcycles, and twenty-one (21) commercial vehicles was not conducted. Further, sixteen (16) out of twenty-one (21) insured commercial vehicles lacked details of seating capacity, resulting in four (4) policies being canceled and reissued after errors in seating capacity were discovered. In addition, the insurance schedule for eighty-three (83) motor vehicles did not specify the make and body type, making it unclear how the sums assured were determined.

In the circumstances, the effectiveness of internal controls on asset management and control 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 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 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

27 November,2025

APPENDICES

Appendix 1- Unsolved Prior Year Matters

Financial Year	Audit Issue
2023/2024	1. Decrease in Rental Income and Failure to Provide Rental Agreements
	2. Inconsistencies in Policies on Recognition of Project Research Assets
	3. Land Without Ownership Documents
	4. Long Outstanding Receivables
	5. Material Uncertainty to Going Concern
	6. Long Outstanding Trade and Other Payables
	7. Unapproved Over Expenditure
	8. Grants not Paid into the Consolidated Fund
	9. Failure to Establish Mortgage Fund and Preparation of Financial Statements
	10. Lack of Data Management Policies
	11. Inactive Bank Accounts and Non-Disclosure of Conversion Rates
	12. Failure to Perform a Governance Audit
	13. Long Outstanding Staff Advances
2022-2023	1. KEMRI Staff Retirement Benefit Scheme Liability
	2. Unconfirmed Trade and Other Payables
	3. Unsupported Accounts Receivables
	4. Material Uncertainty to Going Concern
	5. Unbudgeted Expenditure
	6. Preparations of Grants Financial Statements
	7. Unapproved Mortgage Fund
	8. Irregular Foreign Currency Accounts held at Commercial Banks
2021-2022	1. KEMRI Staff Retirement Benefit Scheme Liability
	2. Unconfirmed Consumption of Fuel
	3. Material Uncertainty to Going Concern
	4. Unapproved Mortgage Fund
	5. Irregular Direct Procurement
	6. Irregular Foreign Currency Accounts held at Commercial Banks
	7. Officers in Acting Positions Beyond Six-Month Period