REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA PETROLEUM REFINERIES LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED 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 Petroleum Refineries Limited set out on pages 1 to 65, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit/loss and other comprehensive income,

statement of changes in equity, 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 effects of the matter 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 Petroleum Refineries Limited at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unsupported Ownership of Motor Vehicles

The statement of financial position reflects property, plant and equipment balance of Kshs.6,845,118,000 as disclosed in Note 15 to the financial statement. Included in the value are motor vehicles and tractors with a net book value of Kshs.25,280,000. However, ownership documents for ten (10) motor vehicles were not provided for review.

In the absence of ownership documents, it was not possible to confirm whether the Company holds or controls the rights to assets, and whether there are any liabilities or obligations to the Company attached to these motor vehicles.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Petroleum Refineries Limited 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 profit or loss and other comprehensive income reflects a loss of Kshs.987,246,346 (2024: loss of Kshs.91,123,903), raising the Company's accumulated losses to Kshs.1,461,795,787 as at 30 June, 2025. Similarly, the Company's current liabilities balance of Kshs.7,528,920,982 exceeded the current assets balance of Kshs.6,226,799,368 by Kshs.1,302,121,614. Further, the report of the Chief Executive Officer on Page xviii discloses that the Refinery operations stopped on 4 September, 2013 and the Company's operations and financial obligations are funded by Kenya Pipeline Company.

In addition, the Chairman's Statement indicates that The National Treasury and the Ministry of Energy and Petroleum have approved commencement of dissolution of the Company by Kenya Pipeline Company Limited. A Cabinet memorandum communicated

by Cabinet Secretary for Energy and Petroleum on 3 November, 2025 revealed the intention to dissolve the Company.

These events and conditions indicate material uncertainty regarding the Company's ability to continue as a going concern.

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

Prior year matters

Unresolved Prior Year Matters

In the prior years' audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on the Effectiveness Internal Controls, Risk Management and Governance. Review of the status during audit of the Project in 2024/2025 revealed that the following matters remained unresolved;

No.	Audit Issue
1	Undisclosed Material Uncertainty Relating to Going Concern
2	Fully depreciated assets in use
3	Unreconciled related entities balances
4	Long Outstanding trade receivables
5	Inaccuracies in Captive Power Plant Loan Balance
6	Crude and finished products stocks
7	Employees Acting for more than six months
8	Unprocedural secondment of an employee
9	Unutilized residential buildings
10	Non-Implementation of E-Procurement Requirements
11	Non – Compliance with Mwongozo Code of Governance
12	Lack of strategic plan
13	Lack of a functional Internal Audit Department

Other Information

The Directors are responsible for the Other Information set out on page v to l which comprise of Key Entity Information and Management, The Board of Directors, 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 Company'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. Irregular Secondment of an Employee

As reported in the previous years, the Company's Chief Operating Officer was seconded to the State Department of Petroleum in April, 2023 for an additional period of 2 years ending 31 March, 2025. This was despite the officer having exhausted the maximum allowable secondment period of 6 years. Further, review of the personnel records revealed that the employee had not resumed her duties, and continued to draw salaries at the Company, despite the lapse of the secondment extension period in March, 2025 and a Board resolution requiring the employee resumes duties at the Company.

In the circumstances, Management was in breach of the law and the continued payment of salaries and allowances to the seconded employee amounted an irregular charge on public funds.

2. Employees Acting for More than Six Months

Review of human resource records revealed that five (5) employees were appointed in acting capacity for a period of more than 6 months with some of the appointees had been serving in acting capacity roles for periods exceeding thirty (30) months. This was contrary to the Head of Public Service Circular dated 11 March, 2020, which provides that acting positions should be for a maximum period of 6 months.

In the circumstances, Management was in breach of public service policies and guidelines.

3. Expenditure on Unexecuted Wayleave Clearance

The statement of profit or loss and other comprehensive income reflects administration costs amounting to Kshs.2,405,018,988 which includes legal fees of Kshs.19,673,073 as disclosed in Note 9 to the financial statements. Review of legal expenses revealed a payment of Kshs.12,003,000 made to a law firm on behalf of Auctioneers appointed by the Hight Court to undertake lawful eviction and clearance of illegal structures on the pipeline wayleave and buffer zone. However, the auctioneers did not undertake the evictions or clear the illegal structures.

In the circumstances, value for money for the expenditure incurred on legal fees amounting to Kshs.12,003,000 could not be confirmed.

4. Unutilized Residential Buildings

The Board approved commercialization of six (6) out of seven (7) leasehold properties owned by the Company in 2016. However, as at the time of the audit, the properties had not been commercialized. Management did not provide explanation as to why the properties had not been commercialized. Further, the Company continued to incur recurrent utility costs relating to the facility like water, electricity, maintenance of the property, security charges further increasing the losses.

In the circumstances, the effectiveness in use of the assets and value for money incurred in maintaining the assets could not be confirmed.

5. Long Outstanding Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.341,396,904 as disclosed in Note 36 to the financial statements. Review of an ageing analysis provided in support of the amount revealed a balance of Kshs.67,894,692 which had been outstanding for more than 3 years. The outstanding amounts ought to have formed first charge in the subsequent year. This was contrary to Regulation 150 (1) of Public Procurement and Asset Disposal Regulation, 2020 which provides that subject to the availability of funds and after proper certification of the goods, services or works have been done, a procuring entity shall make prompt payments for all performed contracts including enterprises owned by youth, women or persons with disabilities and shall make payment within sixty days from the date of receipt of the invoice.

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

6. Lack of a Company Secretary

The statement of profit and loss and other comprehensive income reflects administration costs amount of Kshs.2,405,018,988 as disclosed in Note 9 to the financial statement. Included in the amount is Board expenses totalling Kshs.17,828,334 out of which, Kshs.1,920,000 was paid to a contracted Company Secretary. The contract which had set out the scope of services to include provision of company secretarial services, convene Board and shareholders meetings, attend Board meetings and take minutes, to

witness appending of the Company seal amongst other services. The contract expired on 31 December, 2024 resulting in the Company and its Board of Directors operating without a Company Secretary from January, 2025 to June, 2025.

In the circumstances, it was not possible to confirm how Board activities including convening of meetings, maintaining minutes of meetings and providing legal advisories were conducted in the absence of the Company Secretary were carried out and the legality of the activities.

7. Non-Compliance with State Entities Motor Vehicle Registration Requirements

Physical verification carried out in the month of July, 2025 at the Company revealed that sixteen (16) motor vehicles owned by the Company bore registration plates which were embossed and printed in black on white aluminium reflective sheet. This was contrary to the Traffic Act (Registration Plates) Rules (Legal Notice 62 of 2016) which requires State Corporation to have their plates embossed and printed in white on blue aluminum reflective sheet.

In the circumstances, Management was in breach of law.

8. Lack of Climate Change and Financing Reports

The Company did not have a Strategic Plan and was therefore not able to integrate its own climate change action plan. Management did not provide audit evidence that the Company filed a report on emissions to the National Inventory. Further, despite the Company having an established Health, Safety and Environment Department, the Department lacked sufficient capacity to effectively carry operations in respect of climate reporting. This was contrary to Section 15 (5) of the Climate Change Act, 2016.

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. Encroachment of Land

Physical verification of Company's land and buildings in October, 2025 revealed that part of land situated between the junction of Magongo and Refinery Road in Changamwe, Mombasa where the Company's refinery plant, tank farms, industrial and administrative buildings were located had been encroached and temporary structures erected by encroachers. The situation was aggravated by lack of a fence on the affected part to demarcate that portion of the land.

In the circumstances, effectiveness of security of the land could not be confirmed.

2. Inadequacies in Board of Directors Composition

Review of Board composition during the year revealed several anomalies as indicated below;

i. The Board was not fully constituted as it had only five (5) Directors instead of a minimum of seven (7) provided for in Paragraph 1.1 of Mwongozo Code of Governance for State Corporations. Consequently, the Board could not achieve the required quorum for full Board meetings, which limited its ability to discharge of its mandate and roles;

ii. Review of bio data of Directors provided for audit revealed that the Board of Kenya Petroleum Refineries Limited did not have a Director with financial expertise as required and Mwongozo Code of Governance for State Corporations;

iii. Two Board members were first appointed on 21 February, 2017 and were reappointed on 4 August, 2023 following expiry of their terms. This means that the two Board Members have been serving for more than eight (8) years contrary to the law; and

iv. The Board did not have a Chairperson appointed by the President as required by Section 6 (1) (a) of the State Corporations Act.

In the circumstances, the composition of the Board of Directors was not in line with the Mwongozo guidelines.

3. Long Outstanding Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.389,831,141 as disclosed in Note 23 to the financial statements. The balance is comprised of gross trade and other receivables less provision of bad and doubtful debt of Kshs.480,996,083 and Kshs.91,164,942 respectively. Review of an ageing analysis provided in support of the receivables revealed an amount of Kshs.83,382,614 which had been outstanding for over 120 days. Included in the amount is Kshs.83,141,715 in respect of inactive Oil Marketing Companies (OMCs) whose recoverability was doubtful. During the year under review, the Company received Kshs.3,515,911,654 from the State Department for Petroleum to settle yield shift claims by OMCs. A total of Kshs.25,451,371 was recovered from OMCs who had outstanding receivables leaving a balance of Kshs.57,692,327 outstanding.

In the circumstances, existence of effective mechanisms and strategies for debt recovery could not be confirmed.

4. Lack of Strategic Plan

Review of records the Corporation revealed that the Corporation lacked an approved Strategic Plan. The most recent Strategic Plan was in the year 2013 and Management was yet to develop another Strategic Plan to cover the current period contrary to Section 68(2) of Public Finance Management Act, 2012. As a result, achievement of the Corporation's strategic goals may not be communicated for implementation by Management and employees.

In the circumstances, the Corporations' strategic direction 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by the Companies Act, 2015, I report, based on my audit, that:

i. 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;

ii. The information given in the Directors' report on pages xlvii to l is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on page 23 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Company'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 Company'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

16 December, 2025