REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: 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 RAILWAYS CORPORATION 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 Railways Corporation set out on pages 1 to 42, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit or 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 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 Railways Corporation as 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 Kenya Railways Corporation Act (Cap. 397) and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Property, Plant and Equipment

The statement of financial position and as disclosed in Note 23 to the financial statements reflects a balance of Kshs.521,597,656,513 in respect of property, plant and equipment. The balance includes an amount of Kshs.18,747,551,801 in respect of land. However, verification of the assets register revealed that the Corporation has one hundred and nineteen (119) parcels of land in various parts of the Country which have no ownership documents. Although the said parcels of land are under use by the Corporation, Management did not demonstrate efforts to get the title deeds for the parcel of land.

Further, review of land records revealed that the Corporation's land had not been valued for a long time. This was contrary to Paragraph 49 of the International Accounting Standard (IAS) No.16 on property, plant and equipment and also the Corporation's finance manual which required assets to be valued once every five (5) years.

In the circumstances, the accuracy, completeness and ownership of land balance of Kshs.18,747,551,801 could not be confirmed.

2. Misclassification of Completed Projects as Capital Work-In-Progress

The statement of financial position and as disclosed in Note 25 to the financial statements reflects a balance of Kshs.152,276,607,512 in respect Capital Work-In-Progress out of which an amount of Kshs.16,911,420,550 relates to completed projects. This has overstated Capital Work-In-Progress balance and understated value to the respective classes of accounts.

In the circumstances, the accuracy and completeness of Capital Work-In-Progress balance of Kshs.152,276,607,512 could not be confirmed.

3. Inaccuracies in Main Income - Rental Income

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.23,227,483,052 in respect of main income and as disclosed in Note 6 to the financial statements. The balance includes an amount of Kshs.1,421,061,850 relating to investment properties. The Corporation owns houses, land, and other properties that are rented and leased to customers across the country. However, the ERP system for billing showed total invoices of rental income of Kshs.1,941,044,264 against amount of Kshs.1,421,061,850in the financial statements resulting to an unreconciled amount of Kshs.519,982,414 and the property register was not provided.

Further, rental income is invoiced through the ERP system that does not maintain a detailed property register, and invoices raised in the system lacked key information such as plot numbers, house details, and property size.

In the circumstances, the accuracy and valuation of rental income could not be confirmed.

4. Unsupported Long Outstanding Receivables

The statement of financial position and as disclosed in Note 27 to the financial statements reflects a balance of Kshs.89,810,705,901 in respect of trade and other receivables. Included in receivables balance is trade receivables balance of Kshs.11,382,367,215 out of which an amount of Kshs.776,040,068 relating to petty cash/imprest and amount of Kshs.371,471,470 relating to recoupment accounts respectively. However, the petty cash imprest and recoupment accounts have been outstanding for long some dating back to 2011. Management did not explain why long outstanding imprest and petty cash had not been recovered through the payroll.

Further, supporting documents such as warrants, surrender forms, approvals, or evidence of follow-up with the responsible officers were not provided.

In addition, as previously reported, the receivables balance includes an amount of Kshs.131,819,072 from a Development Partner which has been outstanding for a long period which arose during the pre-concession period. Management did not demonstrate efforts to recover this debt. However, records such as grant agreements, disbursement schedules, or confirmations from the Development Partner were not provided.

In the circumstances, the accuracy and existence of the receivable balance of Kshs.1,279,330,610 could not be confirmed.

5. Inaccuracy of Student Debtors Account

Review of System Application and Products (SAP) processing controls for the Rift Valley Training Institute revealed weaknesses in system configuration, where postings unrelated to student debtors were recorded under student debtor accounts. The misclassification was attributed to wrong configuration settings within the SAP. As a result, the integrity of student debtor balances of Kshs.314,938,236 was compromised, and the account balances did not provide a true reflection of receivables attributable to students. The anomaly was attributed to weaknesses in the internal controls in SAP configuration and inadequate monitoring.

Further, review of December, 2024 graduation records revealed that 128 students graduated despite having outstanding fee balances amounting to Kshs.791,453. This was contrary to the Institute's fees policy requiring full settlement of fees on admission.

In the circumstances, the accuracy and valuation of debtor balances could not be confirmed.

6. Inaccuracies in Revenue Collected

Analysis of invoices generated from the Translogic system and SAP revealed that one thousand nine hundred and eighty-one (1,981) cases where Translogic invoices had no corresponding entries in SAP. The value of the un-invoiced transactions in SAP amounted to Kshs.81,668,472. In addition, there were five thousand and ninety-five (5,095) cases where the amounts in Translogic invoices exceeded those recorded in SAP. A sample analysis showed Translogic invoices totalling Kshs.304,175,298 against SAP invoices amount of Kshs.207,050,389, resulting in an unreconciled variance of Kshs.97,124,909.

Further, review of the Corporation billing system revealed that the Kenya Ports Authority (KPA) and Kenya Railways Corporation had not implemented an integrated system. As a result, KRC prepares manual bills based on the "cargo on offer" file, which is an Excel document from KPA listing containers ready for transport. Reliance on manual billing increases the risk of errors, omissions, and delays in billing, which may lead to inaccuracies in revenue.

In the circumstances, the accuracy and completeness of revenue collected could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Railways Corporation Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue budget and actual on comparable basis of Kshs.29,501,599,660 and Kshs.30,840,149,233 respectively, resulting in over-funding of Kshs.1,338,549,573 or 4% of the budget. However, the Corporation spent an amount of Kshs.23,552,809,842 against actual receipts of Kshs.30,840,149,233 resulting in an under-utilization of Kshs.7,287339391 or 23 % of the total receipts.

The under-utilization affected the planned activities of the Corporation and may have impacted negatively on service delivery to the public.

2. Contingent Liabilities

I draw your attention to Note 37 to the financial statements which discloses a contingent liabilities balance of Kshs.28,145,099,199. As reported in previous year, the balance comprises of law suits against the Corporation that are yet to be determined with an estimated cost of Kshs.27,978,266,389 and guarantees given on behalf of the Corporation amounting to Kshs.166,832,810. The Corporation is at risk of operations interruption should the contingent liabilities crystalize.

3. Long Outstanding Land Compensation Balance

The statement of financial position and as disclosed in Note 38 to the financial statements reflects a balance of Kshs.48,203,885,327 in respect of payables and accrued charges. Included in the balance is an amount of Kshs.8,307,857,507 in respect of land compensation. The balance has been outstanding for long with no movement during the year under review. Management did not provide satisfactory explanations why the balance has remained outstanding for a long. Failure to settle pending bills when due, may attract penalties and interest resulting to loss of public funds.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matters described in the Basis for Qualified Opinion section, there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under 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 as shown below:

No.	Financial Year	Audit Issue
1	2023/2024	Unsupported Property, Plant and Equipment
2	2023/2024	Inaccuracies in Capital Works-in-Progress
3	2023/2024	Long Outstanding Debtors on World Bank Receivables, Unsupported General Advances, Imprests Debtors dating back to 2011; and Unsupported Inter-Company Debtors
4	2023/2024	Trade and Other Payables on Outstanding Prepayments, Outstanding Land Compensation Balance, Outstanding Customer Deposits; and Default Penalty Payable
5	2023/2024	Unsupported Revenue-Nakuru Parking Revenue
6	2023/2024	Illegal Allocation of Land Asset
7	2023/2024	Non-Settlement of the Exim Bank Loan (On Lent)
8	2023/2024	Weakness in Revenue Collection-Meter Gauge Railway (MGR) Revenue

Review of the status during the audit of the Corporation in 2024/2025 revealed that the eight (8) issues remained unresolved.

Other Information

The Management is responsible for the Other Information set out on page iii to liii which comprise of Key Corporation Information, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Managing Director, Statement of Performance Against Predetermined Objective, 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 Corporation'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. Avoidable Expenditure on Penalties on a Loan

The statement of financial position and as disclosed in Note 38 to the financial statements reflects a balance of Kshs.48,203,885,327 in respect of payables and accrued charges. The balance includes an amount of Kshs.6,896,114,825 in respect of outstanding penalties that arose from non-settlement of maturing loan obligations to an International Bank loan when due. The penalties expose the Corporation to avoidable expenditure that could otherwise been avoided had the loan been settled when due.

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

2. Delayed Projects Implementation

The statement of financial position and as disclosed in Note 25 to the financial statements reflects a balance of Kshs.152,276,607,512 in respect of Capital Works-in-Progress

(CWIP). Review of records revealed that the Corporation initiated fourteen (14) projects during the year under review at an approved budget of Kshs.13,757,439,712. However, none of the projects had been completed and highest was at 44% level of completion. The projects had spent an amount of Kshs.3,391,107,122 or 24% of the budget. Delayed projects implementation denied services to the public that could have accrued from timely completed projects.

In the circumstances, the value for money of the expenditure on delayed Projects could not be confirmed.

3. Non-Compliance with the Law on Employment of Persons with Disability

Review of the Human Resource records for the year under review revealed that out of a total of three thousand three hundred and fifty-four (3,354) employees on payroll, only fifteen (15) employees or 0.4%, were persons with disabilities. This was contrary to the requirements of Section 21(2)(a) of the Persons with Disabilities Act, 2025, which states that employers with twenty or more employees shall ensure that at least 5 percent of their workforce consists of persons with disabilities.

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

4. Illegal Allocation of Land Asset

As report in the previous year, land records revealed that five hundred and twenty-nine (529) parcels of land have been illegally allocated across the Country. Although Management has put in place various measures to recover the irregularly allocated land, many pieces of land belonging to the Corporation are yet to be recovered as highlighted below:

4.1. Land in Mombasa County

Various parcels of land were allocated to private persons without the consent of the Corporation by either the Commissioner of Lands or the defunct Local Authorities. For instance, parcels of land adjacent to Mombasa Railway Station were irregularly allocated to private persons who have since made developments on the land. However, Management has sought Ethics and Anti-Corruption Commission (EACC) intervention to repossess the parcels of land and this process was ongoing as at 30 June, 2025.

4.2. Land in Limuru and Kikuyu in Kiambu County

Various parcels of land in Limuru were allocated to third parties without the consent of the Corporation by either the Commissioner of Lands or the defunct Local Authorities. For instance, land within Limuru Railway Station constituting and a piece of land within Kikuyu Railway Station were allocated to private persons. However, Management has sought the intervention of Courts and other various Government agencies such as the Ethics and Anti-Corruption Commission, Ministry of Lands and Physical Planning, National Land Commission and the Director of Survey to assist in the recovery of the irregularly allocated parcels of land.

4.3. Encroachment of Land in Ziwani in Nakuru County

In Nakuru, a parcel of land in Ziwani estate belonging to the Corporation has been taken by the County Government of Nakuru and currently used as a Bus Park. The land had been allocated to private individuals by the County Government of Nakuru on a long-term lease of twenty-five (25) years and an amount of Kshs.37,500,000 had been paid as premium and an annual rent of Kshs.13,300,002.

4.4. Residential Buildings in Kisumu County

Two hundred and forty-seven (247) residential units in Kisumu have been illegally occupied by organizations with no lease agreements and therefore not paying rent. The units have rent potential amounting to Kshs.27,435,600 annually.

In the circumstances, the existence of effective asset management mechanisms to safeguard public properties could not be confirmed.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Weaknesses in the Management of Assets

As reported in the previous year, the Corporation did not maintain an updated assets register. The assets register provided did not reflect serial numbers of assets, location of the assets, and land reference numbers. Further, descriptions of Land Category, L.R/certificate numbers and land ownership status (Freehold/leasehold) were also not shown.

Further, review of the Corporation fleet of motor vehicles and records of equipment revealed that the Corporation has a total of one hundred and ninety-two (192) motor vehicles, out of which thirty-two (32) were grounded while two (2) vehicles were unserviceable. However, Management did not provide records showing the dates when the assets were grounded and no annual disposal plan was prepared and implemented in the year under review. This was contrary to Regulation 176(1) of the Public Procurement and Asset Disposal Regulations, 2020 which requires an Accounting Officer of a procuring entity to ensure that an annual assets disposal plan is prepared for items declared as unserviceable, surplus, or obsolete, obsolescence stores, asset or equipment.

In addition, inspection of Corporation assets revealed that most of the assets owned by the Corporation had not been tagged for ease of tracing and identification. This was contrary to Section 4.11.2 of the Operations and Maintenance Policy on asset and liability management in the public sector which states that the Accounting Officer shall develop and implement an asset identification/ tagging system, in accordance with guidance provided by The National Treasury.

In the circumstances, existence of effective mechanisms in the management of the assets could not be confirmed.

2. Weakness in Information Communication Technology Controls

Review if the Information Communication Technology (ICT) records and physical inspection of the Corporation server room revealed the following challenges:

i) Closed Circuit Television (CCTV) cameras were not installed, the heat and smoke detection system was last tested on 18 January, 2019, cables were poorly arranged, fire-hazardous materials such as paper files and cardboard boxes were stored within the server room, dust accumulation was observed on equipment surfaces and evidence of water leakages was noted.

ii) Review of the backups that are maintained for critical systems, including ERP applications in use, email, shared folders, and train operation systems revealed that the applications had not been subjected to testing or restoration. As a result, there is no assurance that the data stored on these backups can be successfully recovered when required.

    Further, backup tapes were unlabeled and were being stored within the primary Headquarters site, contrary to recommendations of Kenya Railways ICT Department on disaster recovery plan that requires them stored at an offsite location.

iii) The Corporation operated twenty-seven (27) systems, out of which only five (5) systems were being backed up on a daily basis. The remaining twenty-two (22) systems were not backed up.

iv) Further, there was no evidence that testing and validation of Business Continuity Plan (BCP) or Disaster Recovery (DR) procedures had been performed on the five (5) systems being backed up. In addition, it was noted that the Operations Control Centre (OCC) systems were legacy systems running on unsupported operating systems (2012 and below). As a result, these systems could not be mirrored or adequately backed up, thereby increasing their vulnerability in the event of system failure.

In the circumstances, existence of an effective ICT control environment at the Corporation could not be confirmed.

3.Over-Reliance on System Vendor

Review of the ticketing system, revealed that a ticketing vendor had direct access to the production live database instead of operating through a test environment. It was noted that the Corporation staff could not generate source data for sales independently and had to rely on the vendor for support, an indication that, knowledge transfer from the vendor to internal staff had not been undertaken.

Further, review of records for Railway Training Institute (RTI) revealed that Management remains dependent on the vendor for day-to-day running of the system post-implementation. The vendor continues to access the system accounts and makes changes or adjustments at the request of Institute staff.

In the circumstances, existence of effective handover/takeover mechanisms of the systems could not be confirmed.

4. Non-Functional Ticket Reading Devices at Access Points

Review of records revealed that the glass reader units installed at the entry and exit turnstiles were faulty and frequently failed to read passenger tickets. Although the flap gates were to open freely when a valid ticket was scanned against the reader, it was noted that there was no consistency and the gates did not open as required. As a result, passengers experienced delays and disruptions in ticket validation, and staff were often required manual intervene. This compromised the efficiency of the automated system and created weaknesses in the ticketing and revenue assurance process.

In the circumstances, existence of effective entry and exit control protocols 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 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 Corporation'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 Corporation'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

22 December, 2025