REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA REVENUE AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

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 REVENUE AUTHORITY 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.

An Unmodified Opinion is issued when the Auditor-General concludes that, 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

Opinion

I have audited the accompanying financial statements of Kenya Revenue Authority set out on pages 1 to 54, 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, the financial statements present fairly, in all material respects, the financial position of Kenya Revenue Authority 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 Revenue Authority Act Cap.469 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Revenue Authority 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 information to provide a basis for my opinion.

Emphasis of Matter

1. Unresolved Disputes on Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.29,480,435,000 as disclosed in Note 16 to the financial statements. Note 16(ii) indicates that the Authority has four (4) properties which were under dispute with other Government Agencies. The disputes have been referred to The National Treasury Department of National Assets and Liabilities Management (NALM) resolution. However, at the time of audit the disputes had not been resolved.

2. Working Capital Management

The statement of financial position reflects total current assets of Kshs.4,608,035,000 and total current liabilities of Kshs.11,081,363,000 resulting in a negative working capital of Kshs.6,473,328,000. This is an indication that the Authority is in net liability position and may not be able to settle liabilities when they fall due, raising concerns about liquidity, financial sustainability and service delivery.

3. Long Outstanding Trade Payables

The statement of financial position reflects payables balance of Kshs.9,010,668,000 as disclosed in Note 20 to the financial statements. The balance includes trade creditors and accounts payables of Kshs.4,479,872,000 which further includes a balance of Kshs.571,786,300 owed to Administration Police for guarding the Authority premises and continue to accrue since July, 2016. In a tripartite meeting between National Police Service, The National Treasury and the Authority held on 15 April, 2025, The National Treasury directed Management to settle the outstanding and current bills by seeking additional funding. However, Management had not obtained the additional funds as at 30 June, 2025.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the prior year's audit report, six (6) issues were raised under the Report on Financial Statements, five (5) issues under Report on Lawfulness and Effectiveness in Use of Public Resources, and one (1) issue under Report on Effectiveness of Internal Controls, Risk Management and Governance as analyzed in **Appendix I.** The issues remained unresolved as they are yet to be discussed by the Parliamentary Oversight Committee.

Other Information

The Directors are responsible for the Other Information set out on page ii to lii which comprise of Key Information and Management, Board of Directors, Management Team, Chairman's Statement, Commissioner General's Statement, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors' Responsibilities and 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 Authority, 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. Loss of Excise Stamps

The statement of financial position reflects trade creditors and payables balance of Kshs.9,010,668,000 as disclosed in Note 20 to the financial statements. The balance includes excise stamps liability of Kshs.4,168,241,000. Review of stock take report for the excise stamps as at 30 June, 2025 revealed a cumulative loss of excise stamps totalling 23,724,042 at Kenya Revenue Authority Vault – Times Tower as detailed below:-

Loss of Excise Stamps				
Period Lost	**No. of Stamps (Units)**	**Stamp Code**	**Stamp Description**	**Potential Revenue Loss (Kshs)**
Prior Years	9,686,358	Not Known	Not Known	Not determined
June, 2025	400,000	Not Known	Tobacco	Not determined
October, 2024	97,640	2011011	Alcohol Spirits	11,512,244
October ,2024	24,000	2011013	Alcohol Wine	8,989,740
October, 2024	6,044	2011014	Alcohol Wine	2,247,435
October, 2024	210,000	2011021	Soft Drinks	1,702,960
October, 2024	13,300,000	2011022	Water	95,826,500
Totals	**23,724,042**		-	**120,278,879**

Although the 9,686,358 stamps were recorded as lost in 2023/2024, the loss was not reported to any Investigating Agency. Further, no status report on the Internal investigation was availed and there was no evidence of investigation being undertaken. The 400,000 tobacco stamps indicated as lost in June, 2025 were purportedly lost in the previous years but reported in June, 2025. The basis of alleging that they were lost in the previous years was not supported as the stocktake reconciliations are undertaken monthly and reported to management. This shortfall had never been reported in any reconciliation in the alleged prior years. There is no evidence that the loss was being investigated.

In addition, the total of 13,637,684 stamps lost in October, 2024 have not been reported to any Investigating Agency. Internal investigation reports indicated that the losses occurred between 2022 and 2024, a fact which was not supported as they had not been reported. The losses had however not been detected through the monthly stock reconciliations in those years.

There is clear indication of weak controls around the receipt and issue of excise stamps thereby occasioning revenue loss.

In the circumstances, value for money on the cost of the stamps and subsequent revenue lost could not be confirmed.

2. Idle Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.29,480,435,000 as disclosed in Note 16 to the financial statements. The balance includes motor vehicles with a net book value of Kshs.846,229,000 which further includes fifty-two (52) motorcycles valued at Kshs.6,701,416. Records indicate that the motor cycles were acquired to facilitate enforcement officers in the management of border security in various custom stations. Verification exercise carried out in the month of June, 2025 revealed that the motor cycles were lying idle at various locations exposing them to deterioration and risk of loss. Although Management indicated that it had undertaken appropriate measures to operationalize the motor cycles by training officers and ensuring the motor cycles are in serviceable working condition, the motor cycles remained unutilized for an undefined duration since acquisition up to June, 2025.

In the circumstances, value for money on motorcycles valued at Kshs.6,701,416 could not be confirmed.

3. Payment of Transport Allowance to Employees on Suspension and Interdiction.

Review of the Authority's payroll revealed that twenty-one (21) employees were paid transport allowances totalling Kshs.2,163,000 while on suspension. This contravenes the Public Service Commission Act, 2017, which restricts benefits during disciplinary action to half basic salary, full house allowance, and medical allowance/insurance, as applicable. Although Management indicated that the payments were made in compliance with Section 62(2) of the Anti-Corruption and Economic Crimes Act, evidence to indicate that the employees were formally charged and that if charged the cases remained un determined for over 24 months to warrant the payment of allowances was not provided for audit.

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 effects of the matter 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

Lack of System Upgrade and Renewal of Software Licenses

Review of ICT records revealed that the Authority's contract for software licenses and partner support lapsed in July, 2024. However, the renewal of the contract was not actualized due to insufficient budgetary provisions. At the time of the audit the contract had not been renewed. Management indicated that as a result of non-renewal of the contract, three other licenses linked to the software expired in November, 2024. The expiry of the licenses increases risk of security vulnerability and extended downtime to the Authority's virtualized IT infrastructure as a result of lack of updates and technical support.

In the circumstances, the effectiveness of the Authority's IT systems, controls and risk management could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and 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 Authority'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 Authority'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

19 December, 2025

Appendix I: Unresolved Prior Year Matters

S/No	Audit Issue
1.	Inaccuracies in the Financial Statements
2.	Unsupported Administrative Expenses
3.	Inaccuracies in Receivables balance
4.	Property, Plant and Equipment balance
5.	Intangible Assets Balance
6.	Excise Stamp Liability
7.	Non-Compliance with the Authority's Guidelines on Internship
8.	Non-Compliance with the Transfer Policy Guidelines
9.	Secondment of Staff to The National Treasury
10.	Failure to prepare Financial Statements for Car Loan and Mortgage Scheme
11.	Delinking Kenya School of Revenue Administration from Agency Operations
12.	Weakness in Internal Control over Management of the Authority's Information System