REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL CONSTRUCTION AUTHORITY

FOR YEAR ENDED
30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL CONSTRUCTION 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 aim to address the Auditor-General's statutory roles and responsibilities 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 National Construction Authority set out on pages 1 to 46, 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 National Construction Authority 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 National Construction Authority Act, 2011 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 National Construction 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 to provide a basis for my opinion.

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 audit report, two issues were raised under the Emphasis of Matter and Report on Effectiveness of Internal Controls, Risk Management and Governance. These include long outstanding prepaid levy and long outstanding receivables from non-exchange transactions. Review of the status during audit of the Authority in 2024/2025 revealed that the matters remained unresolved.

Other Information

The Management is responsible for the Other Information set out on page v to xc 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, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and 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 Authority'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. Non-Adherence to Board of Directors Statutory Guidelines

1.1 Over-Expenditure on Board Expenses

The statement of financial performance reflects Board expenses balance of Kshs.48,093,474 and as disclosed in Note 17 to the financial statements. The amounts exceeded the maximum allowable threshold of Kshs.30 million, contrary to Circular No. OP/CAB.9/1A dated 11 March, 2020 issued by the Office of the President which states that Board expenses budget should be capped at 30 million or 5% of the operation and maintenance budget of the state corporation, whichever is less.

1.2 Lack of Competence Needs Assessment on Board Training

Further, included in the balance is Board training expenditure amounting to Kshs.7,831,273 which was incurred without a Competence Needs Assessment and an Annual Development Plan contrary to Section 15 of Mwongozo on Board Induction and Continuous Skill Development, which states that State Corporation Boards should undertake a Competence Needs Assessment and prepare an Annual Development Plan to address identified skills gaps.

1.3 Unwarranted Constitution of Adhoc Committees

In addition, review of records revealed that the Board constituted three (3) Ad Hoc Committees namely: two (2) Ad Hoc Committee to look into the summary dismissal of two members of staff and an Ad Hoc Committee on the implementation of the Building Code. However, the functions of the Ad Hoc Committees fall squarely within the mandate of existing regular committees including staff disciplinary matters which are ordinarily handled by the Human Resource Committee, while implementation of the Building Code falls within the mandate of the Technical Committee. Management did not provide the terms of reference for the two (2) Human Resource Ad Hoc Committees. This was contrary to Circular No. OP/CAB.9/1A dated 11 March, 2020 which states that the Board may constitute Ad Hoc Committees only to deal with emerging issues that require focused attention and which do not fall within the regular domain of existing Board Committees and that such Ad Hoc Committees must have clear terms of reference and a limited life span.

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

2. Status of Implementation of Contracts Under the Building Code 2024 Stakeholders Technical Training and Sensitization by Consultants

Review of records revealed that the Authority launched the training and sensitization program for building Code 2024 on 14 January, 2024. However, there were no Projects Status Reports indicating date, number of participants sensitized per County per lot or group, consultant, unit rate per person and total due to consultant(s) as at 30 June, 2025 contrary to Regulation 138(7) of the Public Procurement and Asset Disposal Regulations, 2020 which states that, after every review meeting, a status report shall be prepared to be shared by the parties and shall include report on performance of activities and the budget.

Further, no risk register was maintained by the Committee on the risks identified and their likely impact on the implementation of the sensitization programme.

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

3. Non-Compliance with Persons with Disability Act, 2003

Review of records revealed that the Authority had a workforce of five hundred and three (503) employees. However, it was noted that only eleven (11) or 2% of the employees were persons with disability. This was contrary to Section 13 of the Persons with Disabilities Act, 2003 which states that employers are required to reserve at least 5% of all jobs in both the public and private sectors for persons with disabilities.

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

4. Payment of Special Duty Allowance for Beyond Stipulated Six Months

Review of the payroll trends revealed that one member of staff continued to receive special duty allowance beyond the stipulated six months contrary to Section C 15(4) of the Public Service Commission Human Resources Policies and Procedures Manual which states that special duty allowance will not be payable to an Officer for more than six (6) months.

In the circumstances, Management was in breach of the Human Resource Policies and Procedures Manual.

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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the 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 Achieve Performance Targets

During the year under review, the Authority did not achieve target performance namely; establishment of the Centre for Construction Industry Development at Konza City, procurement of a Transaction Advisor and development of a structured Public Private Partnership.

Further, review of records at regional offices revealed that there was underperformance in key operational areas namely; project registration, quality assurance (site visits), accreditation of site supervisors, stakeholder training and outreach and enforcement of quality assurance orders.

In the circumstances, the Authority's effectiveness and efficiency in service delivery to the public could not be confirmed.

2. Inadequate Staffing

Review of the Human Resource records revealed that the Authority had five hundred and three (503) employees in post against an approved staff establishment of seven hundred and seventy-two (772) employees resulting to understaffing of two hundred and sixty-nine (269) employees. The understaffing may significantly impact the Authority's ability to fulfill its mandate effectively and efficiently.

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 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

18 December, 2025