REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL MINING CORPORATION

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

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OAG
OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON NATIONAL MINING 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 National Mining Corporation set out on pages 1 to 37, which comprise 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 National Mining Corporation as at 30 June, 2024 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Undisclosed Special Duty Allowance Payables

The statement of profit or loss and other comprehensive income reflects administration costs of Kshs.155,820,509. As disclosed in Note 8 to the financial statements. The amount included expenditure of Kshs.31,754,012 incurred on staff costs. Review of documents provided in support revealed that the Board of Directors approved payment of special duty allowances at a rate 15% of basic salaries to employees performing duties of higher positions for a period of 6 months from September, 2024 to March, 2025.

The allowances were subsequently approved by the Salaries and Remuneration Commission in a letter to Management dated 26 February, 2025. However, allowances amounting to Kshs.3,806,047 payable to nine (9) employees who had been seconded to the Corporation from the State Department for Mining were neither paid nor disclosed in the financial statements.

In the circumstances, the accuracy and completeness of staff costs and accounts payable could not be confirmed.

2. Inaccuracies in the Property, Plant and Equipment Balance

The statement of financial position reflects property plant and equipment valued at Kshs.125,319,866. As disclosed in Note 9 to the financial statements, the assets comprised of motor vehicles, computers and related equipment, civil works and work in progress. Review of documents supporting the assets revealed several inconsistencies as detailed below;

i. Several assets comprising of furniture, computers and office equipment owned by the Corporation were not tagged. In addition, those tagged had paper stickers tagging which was not permanent in nature.

ii. Several furniture acquired in prior years remained unutilized which raised doubts on value for money spend on their acquisition. Additionally, rented office space on third floor was unoccupied indicating that the space may have not been required.

iii. The assets distribution register indicated that eight (8) computers which had been issued to former Board members and Acting Chief Executive Officer (CEO) were listed as part of the Corporation's assets. However, the computers were not returned and were no longer under the Corporation control.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs,125,319,866 could not be confirmed.

3. Unsupported outstanding Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.11,722,984 as disclosed in Note 10 to the financial statements. However, the balance was not supported by a debtors' schedule and an aging analysis. Management indicated that the amount was incurred by the Corporation on behalf of the State Department for Mining to settle expenses incurred at Fluorspar Day and Boarding Primary School on 31 March, 2018.

Additionally, documents supporting the receivable including request by the State Department for Mining to the Corporation to pay the amount on their behalf, minutes of Board approving the request and evidence of transfer of funds to the school were not provided for audit.

Further, the State Department of Mining did not recognize the pending amount in prior years and in current year's financial statements as payable raising doubt to the authenticity of the receivable. A letter from the Ag Managing Director to the Principal Secretary State Department for Mining sent on 19 December, 2023 requesting the department to reimburse Kshs.11,722,784 which has been outstanding for more than 6 years remain futile.

In the circumstances, the existence, accuracy and completeness of trade and other receivables balance of Kshs.11,722,984 could not be confirmed.

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

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 matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report

Other Matter

Unresolved Prior Year Matters

In the prior year's 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 Corporation in 2024/2025 revealed that the following matters remained unresolved.'

No.	Financial Year	Audit Issue
1	2023/2024	Unsupported Trade and Other Payables
2	2023/2024	Overpayment of Rent a
3	2023/2024	Unsupported Procurement of Office Space
4	2023/2024	Irregular Hire of Helicopter
5	2023/2024	Lack of Risk Management and IT Policies
6	2023/2024	Weaknesses in Cash Management
7	2023/2024	Inadequate Staffing at the Corporation
8	2023/2024	Lack of Substantive Chief Executive Officer

Other Information

Management is responsible for the Other Information set out on page iv to xxxix which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, 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 National Mining Corporation 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. Unjustified Procurement of Consultancy Services

During the year under review, Management engaged a local firm for provision of consultancy services for trading of minerals at the Voi Gemstone Center at a cost of Kshs.2,000,000. The purpose of the consultancy was to transform the Center into a better trading asset. However, the Center was still under the control of the State Department of Mining and had not been handed to the Corporation. This meant that Management engaged a service for a facility which was not under the control of the Corporation.

In the circumstance Management may not have achieved value for money in the procurement of the consultancy services.

2. Irregular Procurement of Legal Services

The statement of profit or loss and other comprehensive income reflects expenditure of Kshs.155,820,509 in respect of administration cost. As disclosed in Note 8 to the financial statements, the expenditure includes Kshs.10,555,600 incurred on legal costs. Review of documents provided in support of legal costs revealed payments totaling Kshs.6,000,000 paid to four (4) law firms for provision of legal services. However, the firms were engaged without a following a competitive process. Although the firms were in the list of prequalified suppliers, no quotations were sought from at least five (5) firms before appointment to provide the services as required in Regulation 128 (4) of the Public Procurement and Assets Disposal Regulations, 2020. In addition, the firms were engaged without formal contracts.

In the circumstance Management may not have achieved value for money in the procurement of the legal services.

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.

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

Weaknesses in Imprest Management

During the year under review, imprests totaling to Kshs.7,805,624 issued for local travel and subsistence were paid to the acting CEO on behalf of travelling employees, contrary Regulations 91(3) of the Public Finance Management (National Government) Regulations, 2015. The issuance of imprests to one employee on behalf of others facilitated issuance of imprest to employees with outstanding ones which was contrary to holding other more than one imprest at a time contrary to the Regulations.

In addition, the surrender of imprest was done collectively which impaired individual accountability of funds advanced and made it difficult to ascertain whether employees issued with the imprests undertook the assignments for which the funds were earmarked for.

In the circumstances, existence of sufficient controls for management of imprests 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 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 are 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

18 December, 2025