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REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY 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 Adverse Opinion is issued when the Auditor-General determines that the financial statements are materially misstated and are not fairly presented in accordance with the applicable financial reporting framework. The Report on the 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

Adverse Opinion

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 24 to 75 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.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following inaccuracies and variances in the financial statements:

1.1. Unreconciled Variances in the Statement of Cashflows

The statement of cash flows reflects cash and cash equivalent balance of Kshs.218,815 for the year under review. The following unsatisfactory issues were noted;

i. The 2023/2024 comparative column in the 2024/2025 financial statements reflects net cashflows used in operating activities of Kshs.45,470,798 while the 2023/2024 audited financial statements reflects a balance of Kshs.52,490,728 resulting to a variance of Kshs.7,019,930.

ii. The 2023/2024 comparative column in the 2024/2025 financial statements reflects net increase/decrease in cash and cash equivalents of Kshs.31,279,641 while the 2023/2024 audited financial statements reflects a balance of 44,472,673 resulting to a variance of Kshs13,193,032.

iii. The statement of cash flows reflects net cash flow from operating activities of Kshs11,152,867 and Kshs.45,470,798 in 2024/2025 and 2023/2024 financial years respectively. However, Note 23 reflects net cash flow from operating activities of Kshs.(2,280,625) and Kshs.40,424,171 resulting to variances of Kshs13,433,492 and Kshs.5,046,627 respectively.

iv. The statement of cash flows reflects cash and cash equivalent balance of Kshs.37,419,243 in the 2023/2024 comparative column. However, the statement of cash flows in the 2023/2024 audited financial statements reflects cash and cash equivalent balance as at 30 June 2024 of Kshs.409,394 resulting to a variance of Kshs.37,009.846.

v. The statement of cash flows reflects cash and cash equivalent of Kshs.37,419,243 as at 30 June, 2024 and cash and cash equivalent balance brought forward 1 July, 2024 in the 2024/2025 financial year column of Kshs.(2,499,441) resulting to a variance of Kshs.39,918,684.

vi. The statement of cashflows reflects cash and cash equivalent brought forward on 1 July, 2024 of Kshs.(2,499,441) in the 2024/2025 financial year column while the 2023/2024 audited financial statements reflects a balance of Kshs.409,394 as at 30 June, 2024 resulting to a variance of Kshs.2,908,835

vii. The statement of cashflows reflects cash generated from operations of Kshs.11,152,867 while Note 23 to the financial statements reflects net cash flows from operating activities of Kshs.(2,280,625) resulting to a variance of Kshs.3,433,492..

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.218,815 could not be confirmed.

1.2. Variance in Revenue from Rendering of Services

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects revenue from rendering of services of Kshs.51,326,020 which includes service fees of Kshs.50,069,021 that differs with the ledger amount of Kshs.48,191,217 resulting to a variance of Kshs.1,877,802. Further, note 7 to the financial statement reflects total revenue from exchange transactions of Kshs.51,326,020 which differs with the recomputed amount of Kshs.50,789,520 resulting to a variance of Kshs.536,499.

In the circumstances, the accuracy and completeness of revenue from rendering of services balance of Kshs.51,326,020 could not be confirmed.

2. Unsupported Donations.

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects revenue from non-Exchange transaction of Kshs.10,199,395. However, the balance was not supported by a ledger/support documents contrary to Section 99(3) of the Public Finance Management (National Government) Regulations 2015 which provides every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of donations of Kshs.10,199,395 could not be confirmed.

3. Employee Cost

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118 which includes salaries and wages of Kshs.23,540,126. The following unsatisfactory issues were noted;

i. Understatement of Employee Costs

Audit verification of the payrolls and ledger provided for audit revealed that statutory deductions of Kshs.204,714 were not included in the ledgers and thus understating the employee costs.

ii. Misclassification of Employee Costs

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118 during the year under review. However, audit verification of the ledger and payment vouchers revealed that Pay As You Earn (PAYE) in respect to board of management allowances of Kshs.301,000 was wrongly classified as employee costs instead of board expenses.

Further, included in the employee cost of Kshs.26,005,118 which includes Kshs140,000 relating to chairman's honoraria which was wrongly classified as employee costs instead of board expenses.

In addition, included in the employee cost of Kshs.26,005,118 is salary advanced to an officer of Kshs.223,600 which should have been recognized under receivables in the statement of financial position.

In the circumstances, the accuracy and completeness of employees cost of Kshs.26,005,118 could not be confirmed.

4. Use of Goods and Services, Board Expenses and Repairs and Maintenance

i. Variance Between Financial Statement and Ledgers

The statement of financial performance and as disclosed in Note 8,10 and 12 to the financial statements reflects use of goods and services, board expenses and repair and maintenance balances of Kshs.28,008,002, Kshs.3,332,823 and Kshs.2,120,458 respectively. However, review of the financial statements and the ledgers revealed a variance of Kshs.2,284,560, Kshs.112,000 and (Kshs.802,000) as shown below;

Expenditure items	Financial statements balance (Kshs)	Ledger balance (Kshs)	Difference (Kshs)
Travel subsistence and other allowances	6,201,625	6,036,053	165,572
Consumables	3,507,539	1,341,601	2,165,938
Trainings	334,002	687,602	(353,600)

Expenditure items	Financial statements balance (Kshs)	Ledger balance (Kshs)	Difference (Kshs)
Chemicals	4,857,461	4,550,811	306,649
Total	**14,900,627**	**12,616,067**	**2,284,560**
Board Expenses	3,332,823	3,220,823	112,000
Repairs and maintenance	2,120,458	2,922,458	(802,000)

In the circumstances, the accuracy and completeness of use of goods and services, board expenses, repair and maintenance balances of Kshs.28,008,002, Kshs.3,332,823 and Kshs.2,120,458 respectively could not be confirmed.

ii. Unsupported Travel, Subsistence and Other Allowances

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002 which includes travel, subsistence and other allowances of Kshs.6,201,625, out of which expenditure of Kshs.3,465,550 was not properly supported due to lack of imprest warrants and evidence of travel contrary to Section 99(3) of the Public Finance Management (National Government) Regulations 2015 which provides every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of travel, subsistence and other Allowances of Kshs.6,201,625 could not be confirmed.

iii. Unsupported Utilities Expenditure

The statement of financial performance and as disclosed in Note 8 to the financial statement reflects the use of goods and services of Kshs.28,008,002 which includes utilities expenses of Kshs1,346,274 which not supported by general ledger/schedules.

Further, audit verification revealed that the Laboratory received its electricity supply from Kenyatta National Hospital (KNH) which uses sub meters to determine the electricity consumed by the Laboratory. However, the sub meter readings to support the electricity charged to the Laboratory by KNH during the year was not provided for audit verification contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations 2015 provides every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of utilities expenditure of Kshs.1,346,274 could not be confirmed.

iv. Unsupported Training Expenditures

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods of Kshs.28,008,002 which includes training expenditure of Kshs.334,002, out of which expenditures of Kshs.353,600 were not supported with payment vouchers contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations 2015 which provides that every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of training expenditure of Kshs.334,002 could not be confirmed.

v. Unsupported Chemical Expenditure

The statement of financial performance and as disclosed in note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002 which includes chemical expenses of Kshs.4,857,461. However, included in the chemical expenditure balance is Kshs.3,440,695 which was not supported by payment vouchers contrary to Section 104(1) of the Public Finance Regulation which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and completeness of chemical expenditure of Kshs.4,857,461 could not be confirmed.

vi. Unsupported Donations

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002 which includes donations of Kshs.8,853,121 which were not supported with ledgers and other support documents contrary to Regulation 104(1) of Public Finance Management (National Government) Regulations 2015 which states that all receipts and payments voucher of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and completeness of donations of Kshs.8,853,121 could not be confirmed.

vii. Under Statement of Board Expenses

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects board expenses of Kshs.3,332,823. Audit verification of the payment vouchers provided for audit revealed that tax deducted from board of management allowances of Kshs.980,000 was not included in the board expenses.

In the circumstances, the accuracy and completeness of board expenses of Kshs3,323,823 could not be confirmed.

viii. Unsupported Repairs and Maintenance Expense

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects repairs and maintenance of Kshs.2,120,458. However, support documents for the pending bills of Kshs.1,463,113 included in the ledger was not provided for audit verification contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of repair and maintenance expenditure of Kshs.2,120,458 could not be confirmed.

5. Non-Disclosure of Depreciation and Amortization Method and Rates Applied in the Financial Statements

The statement of financial performance and as disclosed in Note 19 to the financial statements reflects depreciation and amortization expense of Kshs.14,915,731. However, the Management did not disclose the depreciation and amortization method and rates applied for the year contrary to Paragraph 69 of IPSAS 45 which states that the financial statements shall disclose the depreciation methods and rates used in determination of depreciation and amortization balances. Further, the depreciation charge for the year the computers and other assets and Laboratory equipment of Kshs.1,075,872 and Kshs.13,757,041 is un usually high compared to the asset cost of Kshs.1.152,072 and Kshs.16,150,444 respectively.

Further, depreciation was inconsistently calculated using both straight line and reducing balance methods of depreciation.

In the circumstances, the accuracy and completeness of depreciation and amortization expenses of Kshs.14,915,731 could not be confirmed.

6. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transaction balance of Kshs.34,236,699 during the year under review. However, the following unsatisfactory issues were noted;

i. Variance Between Statement of Financial Position and Notes to the Financial Statement

The statement of financial position reflects receivables from exchange transactions balance of Kshs.34,236,699 and was referenced to Note 15(a) to the financial statements and reflects a balance of Kshs.28,223,579 resulting to a variance of Kshs.6,013,120 during the year under review.

Further, the statement of financial position reflects a nil balance under non-current assets receivables from exchange transactions which differs with Note 15(b) to the financial statements non-current receivables from exchange transactions (Long term) balance of Kshs.34,236,699 resulting to unexplained variance of Kshs.34,236,699.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions of Kshs.34,236,699 could not be confirmed.

ii. Unsupported Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 15b to the financial statements reflects receivables from exchange transaction balance of Kshs.34,236,699 during the year under review. However, the balance was not supported by customer ledgers contrary to Regulation 64(6) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer or receiver of revenue or collector of revenue shall ensure adequate books of accounts are kept relating to revenue collection and management.

In the circumstances, the accuracy, completeness and existence of the receivables from exchange transactions of Kshs.34,236,699 could not be confirmed.

iii. Long Outstanding Receivable from Exchange Transactions

The statement of financial position and as disclosed in Note 15(b) to the financial statements reflects receivables from exchange transaction balance of Kshs.34,236,699 during the year under review. Included in the balance is long outstanding KEMSA debt of Kshs.6,013,120 which has been outstanding for more than eighteen (18) years contrary to regulation 64(2) of Public Finance Management (National Government) Regulation, 2015 which states that an accounting Officer or receiver of revenue who experiences difficulty in collecting revenues due to the national government shall report the circumstances to the Cabinet Secretary without delay. Further, the amount was not supported by a customer Ledger.

In addition, receivables of Kshs.28,709,106 has been outstanding for more than one year with no agreed payment plan contrary to Section 83(2)(g) of the Public Finance Management (National Government) Regulations, 2015 which states that it is the responsibility and duty of the accounting officer to pursue debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the government are collected and banked promptly.

In the circumstances, the accuracy, completeness and existence of the receivables from exchange transactions of Kshs.34,236,699 could not be confirmed.

iv. Unsupported Receivables from Non-Exchange Transactions

The statement of financial position and as reflected in Note 16 to the financial statements reflects receivables from non-exchange transactions of Kshs.444,750 for the year under review. However, the balance was not supported by ledgers contrary to Regulation 64(6) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer or receiver of revenue or collector of revenue shall ensure adequate books of accounts are kept relating to revenue collection and management.

In the circumstances, the accuracy, completeness and existence of the receivables from non-exchange transactions of Kshs.444,750 could not be confirmed.

7. Unsupported Inventory Balance

The statement of financial position and as disclosed in Note 17 to the financial statements reflects inventory balance of Kshs.18,167,904 during the year under review. The following unsatisfactory issues were noted;

i. Unsupported Inventory Balance

Audit verification revealed that the inventory balance was not supported by ledgers, stock sheets bin cards and stock take reports completed during annual stock take contrary to Section 166(4) of the Public Procurement and Disposal Regulation, 2020 which states that for effective, economic, efficient, and transparent use of government inventory, stores and assets at all levels, an accounting officer of a procuring entity shall take full responsibility of the management or control of inventory and assets and shall ensure that preventive measures are put in place to eliminate theft security and safety threats, losses, wastage and misuse, the movement and condition of assets can be tracked, stock levels are at optimum and economical level and systems, processes and procedures both in electronic and manual form are in place.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.18,167,904 could not be confirmed.

ii. Variance in inventories

The statement of financial position and as disclosed in Note 17 to the financial statements reflects inventories balance of Kshs.17,288,679 in the 2023/2024 comparative column while the 2023/2024 audited financial statements reflects inventory balance of Kshs.17,066,399 resulting to a variance of Kshs.222,280.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.17,288,679 could not be confirmed.

8. Trade and Other Payables

The statement of financial position and as reflected in Note 21 to the financial statements reflects trade and other payables balance of Kshs.33,262,767. However, the following unsatisfactory issues were noted;

i. Variance Between the Financial Statement and Schedule Balance

Audit verification revealed trade and other payables balance of Kshs.33,262,767 which differs with the schedule balance of Kshs.8,766,289 resulting to a variance of Kshs.24,496,478.

ii. Unsupported Trade and Other Payables

Audit verification revealed that trade and other payables were not supported with invoices, local purchase order, local service order, inspection and acceptance certificate, tender documents and the management did not provide aging analysis for audit verification.

Further, it was noted that the Management did not prioritize the payment of outstanding trade and other payables carried forward from the previous year.

In addition, payment received in advance of Kshs.25,556,971 was not supported by a schedules/ ledger.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.33,262,767 could not be confirmed.

iii. Unsupported VAT Due

The statement of financial position reflects VAT due of Kshs.10,000,000 which was not referenced to any notes to the financial statements. However, the VAT due balance was not supported by ledgers/schedules contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of VAT due balance of Kshs.10,000,000 could not be confirmed.

9. Unsupported Prior Year Adjustment

The statement of changes in net assets reflects retained earnings of Kshs.36,635,530 during the year under review. However, a prior year adjustment of Kshs.26,581,501 included as a prior year adjustment to 2023/2024 financial year opening balance of Kshs.50,069,021 was not supported by any documentary evidence contrary to Section 99(3) of the Public Finance Management (National Government) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates. Further, the statement of changes in net assets in 2023/2024 audited financial statements was not completed and therefore the accuracy opening balances could confirmed.

In the circumstances, the accuracy and completeness of retained earning balance of Kshs.36,635,530 could not be confirmed.

10. Errors, Omissions and Non-Compliance with Public Sector Accounting Standard Board Template

Review of the financial statements compared to the Public Sector Accounting Standard Board template revealed errors, omissions and non-compliance with approved financial reporting template as detailed below;

i. The Board of Directors information was not included in the financial statements and was also missing in the table of contents.

ii. Statement of performance against the predetermined objectives does not include.

iii. Environmental and sustainability reporting was not included in table of contents buts it was included in page 17 to the financial statements.

iv. Numerical page numbering has been used in Other Information section of the financial statements instead of romans numbering as per the approved financial reporting template.

v. The ICPAK number for Head of Finance was not indicated in statement of financial performance, statement of financial position and statement of cash flows contrary to the requirement of Public Sector Accounting Standard Board template. Further review of Management Team report in the financial statements reveals that the head of accounting does not have Certified Public Accountancy qualifications.

vi. Depreciation rates and methods used in the determination of depreciation amount was not included in the financial statements.

vii. Age analysis for both trade and other receivables and trade and other payables were not included in the notes 16 and 21 to the financial statements.

viii. Profile of cabinet secretary, statement by Cabinet Secretary and Statement by accounting officer were not included in the financial statements.

ix. The statement of cash flows was not included in the table of contents.

x. The statement of changes in net assets did not comply with Public Sector Accounting Standard Board since it starts with the year 2024/ 2025 on top instead of starting with 2022/2023 financial year.

xi. Budget reconciliation was not included in the statement of comparison of budget and actual amounts reconcile surplus for the year with cash and cash equivalent balance.

xii. Failure to include implementation status of auditor General recommendations.

xiii. Appendix on projects implemented was not included in financial statements.

xiv. Failure to include transfers from other Government entities schedule.

xv. Lack of inter entity confirmation letters dully signed by the Head of Accounting Unit.

In the circumstances, the financial state did not comply with the approved financial reporting template.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Quality Control Laboratory 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 adverse opinion.

Emphasis of Matter

Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipt budget and actual on comparable basis of Kshs.201,933,053 and Kshs.61,632,640 respectively resulting to underfunding of Kshs.140,300,413 or 69% of the budget. Similarly, the Laboratory spent Kshs.60,150,400 of the budgeted expenditure of Kshs.201,933,053 resulting to an under expenditure of Kshs.141,782,653 or 70%.

The underfunding and utilization affected planned activities and may have impacted negatively on service delivery to the public.

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 Adverse Opinion, I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Directors are responsible for the Other Information set out on page 2 to 21 which comprise of Key Entity Information and Management, 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 National Quality Control Laboratory 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 and I am required to report that fact. Based on the audit procedures performed, because of the significance of the matters described in my Basis for Adverse Opinion, I confirm that the Other Information is materially inconsistent with the financial statements

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non Deduction and Remittance of Statutory Deductions

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118 which includes salaries and wages expenditure of Kshs.23,540,126. However, audit verification of the payrolls revealed that various statutory deductions were not deducted and remitted to various statutory bodies as detailed below:

1.1 Non Remittance of Statutory Deductions

Examination of payrolls, payment vouchers and bank statements provided for audit verification revealed that various statutory deductions in respect to Social Health Authority and National Social Security Fund of Kshs.37,719 and Kshs.232,802 respectively deducted from staffs were not remitted to the respective statutory bodies' contrary to Section 19(4) of Employment Act, 2007 which states that An employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

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

1.2 Late Remittance of Statutory Deductions

Examination of payrolls and bank statements provided for audit verification revealed that statutory deductions in respect to Social Health Authority, Pay As You Earn, National Social Security Fund and Affordable Housing Levy of Kshs.188,595, Kshs.546,177, Kshs.246,914 and Kshs.82,296 respectively all totaling to Kshs.1,063,982 were remitted after the statutory deadline date contrary to Section 19(4) of Employment Act, 2007 which states that An employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

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

1.3 Unprocedural Payment of Staff Allowances

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118.Audit verification of the payroll records provided for review revealed that the management paid staff allowances of Kshs.1,780,000 to seconded staffs from the Ministry of Health despite the staff having been compensated by the Ministry of Health for the duties carried out at National Quality Control Laboratory contrary to Section 68(1) of the Public Finance Management Act, 2012 which states that an accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful and authorized and effective, efficient, economical and transparent.

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

2. Unprocedural Procurement of Repair and Maintenance

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects repairs and maintenance of Kshs.2,120,458. However, audit verification revealed that procurements of Kshs.838,118 were done without requisitions from the user department and local purchase orders contrary to Section 162(4) of the Public Procurement and Assets Disposal Act,2015 which states the all procured items assigned for use by a public or state officer shall be requisitioned from and issued by the head of the procurement function of a procuring entity and Section 166(1) of the Public Procurement and Disposal Regulations Regulation 2020 which states that an accounting officer of a procuring entity shall only receive works, goods or services pursuant to Section 159 of the Act based on a purchase order, service order or signed contract.

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

3. Procurement of Goods and Services from Non- Prequalified Suppliers.

The statement of financial performance and as disclosed in Note 8 to the financial statement reflects the use of goods and services of Kshs.28,008,002 which includes consumable and telecommunication expenses of Kshs.3,507,539 and Kshs.698,416 respectively. Audit verification revealed that goods and services of Kshs1,206,529 were procured from non-prequalified suppliers contrary to Section 95 (3) of Public Procurement and Asset Disposal Act of 2015 which states that a procuring entity shall invite tenders from only the approved persons who have been pre-qualified.

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

4. Lack of an Approved Budget

The statement of comparison of budget against actual amounts reflects final revenue and expenditure budget of Kshs.201,933,053. However, the budget was not approved by Board of Directors, relevant Ministry and National Treasury contrary to Section 35J(4) of Pharmacy and Poisons Act, 2012 which states that the estimates for the expenditure of the Laboratory shall be submitted through the Minister for approval by the National Treasury.

In the circumstances, the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Uncontrolled Use of Receipts Books

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects revenue from rendering of services of Kshs.51,326,020 during the year under review. Included in the balance is service fees of Kshs.50,069,020, out of which service fees of Kshs.11,069,946 collected from two different clients was receipted using the same receipt number contrary to Section 118 (2) of Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall keep his or her stock of accountable documents whether manual under lock and key, issuing them in accordance with the daily needs of the service, and keeping an accurate up-to-date record of their use by means of continuity control sheets.

In the circumstances, there was a possible loss of revenue arising from uncontrolled use of receipt books.

2. Failure to Update Imprest Register

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002. Included in the balance is Kshs.6,201,625 in respect to travel, subsistence and other allowances. However, audit verification revealed that imprest issued of Kshs.1,431,053 was not recorded in the imprest register contrary to Section 93(4) of Public Finance Management (National Government) Regulations, 2015 which states that before issuing temporary imprests under paragraph (2) the accounting officer shall ensure that the applicant has no outstanding imprests and that the imprest has been recorded in the imprest register including the amount applied for.

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

3. Non-Surrender and Non-Recognition of Temporary Imprest

Verification of the imprest register provided for audit review revealed that an imprest of Kshs.325,200 was issued to a member of staff via imprest number 46 dated 7 February, 2025 but it had not been surrendered as at 26 November, 2025 contrary to Regulation 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station.

Further, the imprest was not recognized in as receivable in the statement of financial position.

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

4. Trade and Other Payables

The statement of financial position and as reflected in Note 21 to the financial statements reflects trade and other payables balance of Kshs.33,262,767. However, audit verification revealed that the management did not prioritize the payment of outstanding trade and other payables carried forward from the previous year of Kshs.21,507,398 contrary to Regulation 42(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which requires debt service payments to form first charge at the beginning of the financial year.

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

5. Lack of Expenditures Approval

The statement of financial performance and as disclosed in Note 8 and 12 to the financial statement reflects repair and maintenance of Kshs.2,120,458 . Included in the repairs and maintenance balance is training expenses of Kshs.334,002.However, audit verifications revealed that payment vouchers lacked critical control measures such as lack of vote book certificate details to certify that the expenditure has been entered in the vote book and that there are adequate funds to facilitate settlement, internal audit remarks, and dates which the accounting officer authorized payment. This contravenes Regulation 52(1b) of the Public Finance Management (National Government) Regulation, 2015 which states that any public officer who holds any post involving, in any degree, the management of public funds, and in particular every officer to whom is delegated the power to expend or receive such funds shall in the Government's interest and in his own interest, be aware of the following essentials of vote control procedures that AIE holders shall be made to understand that the limit to which they may spend is that prescribed by the authority and not their expectations, however justified these may seem.

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

6. Lack of Approved Policy for Doubtful Debts Provisioning

The statement of financial position and as disclosed in Note 15(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.34,236,699 during the year under review. However, there was no policy for doubtful debts provisioning to guide the controls and management of the receivables from exchange transactions contrary to Regulation 64(1) of Public Finance Management (National Government) Regulation, 2015 which states that an accounting Officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for, all national government revenue and other public moneys relating to their Ministries, departments or agencies and adequate measures, including legal action where appropriate, are taken to obtain payment.

In the circumstances, the accuracy and collectability of receivables from exchange transactions balance of Kshs.34,236,699 could not be confirmed.

7. Failure to attain Audit Committee Meeting Thresholds

During the financial year under review, the audit committee held only two meetings contrary to contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the audit committee shall meet at least once every three months.

In the circumstances, audit committee oversight of the laboratory operations may be compromised.

8. Lack of a Procurement Plan

Review of the various procurement documents and correspondences revealed that the Laboratory did not have an approved procurement plan during the year under review contrary to section 44(2)(c) of the Public Procurement and Asset Disposal Act, 2015 which states that in the performance of the responsibility under Subsection (1), an accounting officer shall ensure procurement plans are prepared in conformity with the medium term fiscal framework and fiscal policy objectives and, subject to subsection (3), submit them to the National Treasury.

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

9. Lack of Annual Workplan

During the year under review, Laboratory did not prepare an approved workplan for the year contrary to The National Treasury and Economic Planning Circular Ref: Treasury Circular No.7/2023 of 21 June, 2023 which states that accounting officers are required to prepare annual work plans to guide implementation of the planned activities and realization of desired outcomes and outputs and shall be aligned to approved budget.

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

10. Failure to attain Board Meetings Threshold

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects board expenses of Kshs.3,332,823. Audit verification of the board minutes revealed that three (3) instead of four (4) full board meetings were held during the financial year under review contrary to section 35 (F) of the Pharmacy and Poisons Act, 2012 which requires the board of management to meet at least four times a year. Further the board is yet to develop a board charter to guide in its operations and performance during the year.

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

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 those charged with governance

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 Laboratory 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 Laboratory'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