REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

PHARMACY AND POISONS BOARD

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON PHARMACY AND POISONS BOARD 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 Pharmacy and Poisons Board set out on pages 1 to 45, which comprise of the statement of financial position and 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Pharmacy and Poisons Board 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) the Pharmacy and Poisons Act, Cap 244 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Inaccuracies in Personnel Emoluments

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects personnel emoluments amount of Kshs.163,279,780 while the supporting schedules reflects Kshs.125,348,498 resulting to unexplained variance of Kshs.37,931,282. Further, review of bank statements and cashbooks revealed gratuity payments of Kshs.7,687,104 that were not paid through the payroll, the respective payment vouchers were not provided for audit and the expenditure was not disclosed in the financial statements.

In the circumstances, the accuracy and completeness of personnel emoluments amount of Kshs.163,279,780 could not be confirmed.

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

Emphasis of Matter

1. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 19 to the financial statements reflects trade and other payables balance of Ksh.5,535,650. The balance includes Kshs.4,375,650 which has been outstanding for more than three (3) years. This was contrary to section 53 (8) of the Public Procurement and Disposal Act, 2015 which requires an accounting officer not to commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract (s) are reflected in approved budget estimates and are available.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

2. Long Outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 17 to the financial statements reflects trade and other receivables balance of Kshs.67,722,487. However, an amount of Kshs.35,222,333 has remained outstanding for more than three (3) years and there was no evidence that Management had instituted recovery measures.

In the circumstances, the recoverability and the effectiveness of internal controls on recovering long outstanding receivables could not be confirmed.

My opinion is not modified in respect of these matters

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matter 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 years' audit reports, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit of board in 2024/2025 revealed that several matters remained unresolved as detailed in **Appendix 1**.

Other Information

The Management is responsible for the Other Information set out on pages iii to xxiii which comprise of Key Entity Information and Management, The Board of Directors, Management Team, Chairman's statements, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting 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 Board'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. Except for the effect of unachieved performance targets, I have nothing else to report in this regard.

Unachieved Performance Targets

Review of the Board's eight (8) key results areas included in the workplan revealed the following unachieved targets:

Programmes	Planned Targets	Achieved Targets	Unachieved Targets
Regulation of Pharmaceutical Premises & Professionals	100%	85%	15%
Post-Market Surveillance (PMS)	1,200 samples	750 samples	450 samples
Pharmacovigilance	20% increase	12% increase	8% increase
Foreign GMP Inspections	25	10	15%
Environmental Health & Waste Disposal	10	5	5%
Capacity Building & Training	200 officers	10 officers	190 Officers
Digital Transformation	90%	65%	25%
Stakeholder Engagement & Collaboration	12	7	5%

Failure to achieve key performance targets may result to the Board not achieving its mandate.

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. Unbalanced Budget

The statement of comparison of budget and actual amounts reflects total revenue budget and total expenditure budget on a comparable basis of Kshs.2,059,000,000 and Kshs.1,651,800,000 respetcively resulting to an unbalanced budget of Kshs.407,200,000. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that the budget should be balanced.

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

2. Staff Earning Less Than One Third of Basic Salary

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects personnel emoluments of Kshs.163,279,780. The amount includes basic pay of Kshs.2,828,177 paid to ten (10) employees who earned less than one third of their basic salary. This was contrary to Section19(3) of Employment Act 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

3. Non-Compliance with the Climate Regulations

The National Climate Change Action Plan (NCCAP)III 2023-2024 and the Climate Change Act, 2016 on delivery action plan required that the national public entities to work through their climate change units to integrate NCCAP 2023–2027 into strategies and implementation plans, and to report to the Council on an annual basis on performance and implementation. However, there was no evidence to indicate that Management reports annually to the Council on the status and progress of performance and implementation on climate change.

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

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

Basis for Conclusion

1. Non-Compliance with Internal Audit Recommendations

During the year under review, there was no evidence to confirm that the accounting officer developed a response and action plan on audit committee recommendations and submitted them to the chairperson of the audit committee within fourteen days. This was contrary to section 172(1&2) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer of the concerned entity shall be responsible for the implementation of the recommendations made in the audit reports and shall develop response and action plan which he or she shall submit to the Chairperson of the audit committee within fourteen days.

In the circumstances, the effectiveness of internal controls on implementation of internal audit recommendations could not be confirmed.

2. Understaffing

During the year under audit, the Board had an approved staff establishment of three hundred and fifty-two (352). However, only one hundred and eighty-eight (188) were in post resulting to an understaffing of one hundred and sixty-four (164) positions.

In the circumstances, the effectiveness of the Board with the existing staff deficits could not be confirmed.

3. Failure to Conduct Board Evaluation, Review and Governance Audit

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects board expenses amount of Kshs.16,169,689. However, there was no evidence of conducting Board evaluation and review by an independent oversight body or carrying out the mandatory governance audit on the Board's performance and practices.

In the circumstances, this may weaken governance practices and effective oversight, which could negatively impact the strategic direction and performance of the Board.

4. Failure to Appoint Substantive Chief Executive Officer

Review of available information indicated that the current Chief Executive Officer was serving in an acting capacity. However, there was no evidence to confirm that the appointment in an acting capacity was made by the Board in consultation with the Cabinet Secretary of the Ministry of Health. This was contrary to Paragraph 1.18 of the Code of Governance for State Corporations (Mwongozo), which states that there shall be a Chief Executive Officer of the Board who shall be appointed by the Board on such terms and conditions of service as the Minister may approve.

In the circumstances, having the Chief Executive Officer in an acting capacity weakens governance, accountability, and operational efficiency and may lead to leadership instability.

5. Failure to Maintain a Fuel Register

Note 13 to the financial statements reflects motor vehicle expenses of Kshs.31,256,102 out of which Kshs.18,301,706 was incurred on purchase of fuel. However, Management did not maintain a fuel register to control the issuance of fuel.

In the circumstances, the effectiveness of internal controls on fuel management could not be confirmed.

6. Weak Information Technology (IT) Control Environment

An analysis of the documents provided for audit and through examination of the Information Technology (IT) systems and structures, it was noted that there was no approved IT Strategic committee, risk management policy and a recovery plan. Further, it was noted that there were no formal and documented emergency procedures and IT continuity plans and Management has not implemented ICT asset management policies.

In the circumstances, the effectiveness of internal controls on the management of ICT equipment could not be confirmed.

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

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International 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 Board'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 Board'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

24 November, 2025