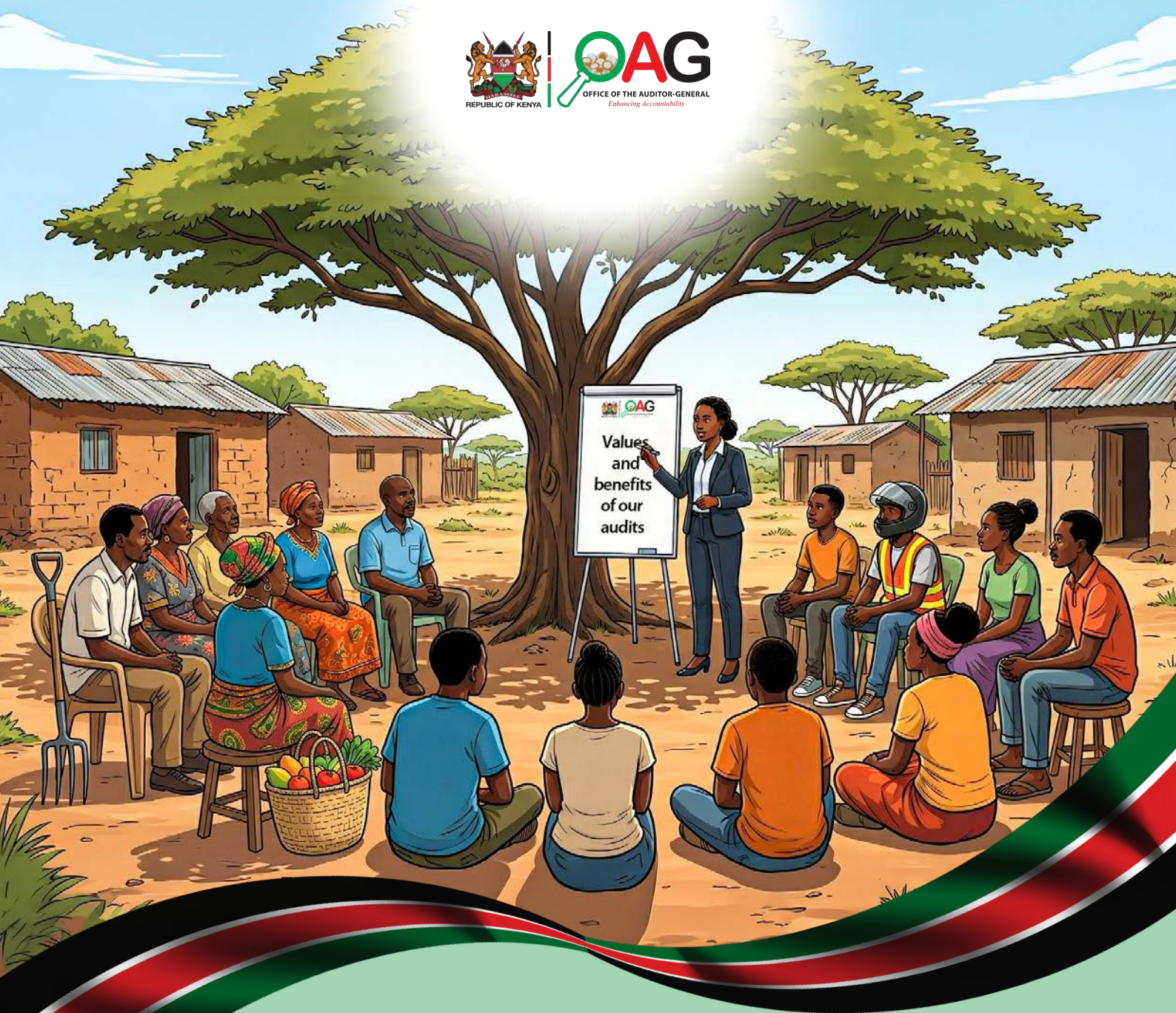
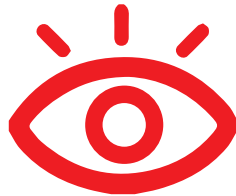




# **AUDITOR-GENERAL'S POPULAR REPORT**

## **ON NATIONAL GOVERNMENT 2024 - 2025**



## **VISION**

Making a difference in the lives and livelihoods of the Kenyan people



## **MISSION**

Audit services that impact on effective and sustainable service delivery



## **OUR CORE VALUES**

Integrity • Credibility • Relevance •  
Accountability • Independence

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# ABBREVIATIONS

|              |                                                       |
|--------------|-------------------------------------------------------|
| <b>AIA</b>   | Appropriation-In-Aid                                  |
| <b>CBC</b>   | Competency Based Curriculum                           |
| <b>GDP</b>   | Gross Domestic Product                                |
| <b>GoK</b>   | The Government of Kenya                               |
| <b>ICU</b>   | Intensive Care Unit                                   |
| <b>IFMIS</b> | Integrated Financial Management Information System    |
| <b>JSS</b>   | Junior Secondary School                               |
| <b>MDAs</b>  | Ministries, Departments and Agencies                  |
| <b>MES</b>   | Managed Equipment Services                            |
| <b>NEMIS</b> | National Education Management and Information Systems |
| <b>NHIF</b>  | National Hospital Insurance Fund                      |
| <b>NSSF</b>  | National Social Security Fund                         |
| <b>OAG</b>   | Office of the Auditor-General                         |
| <b>OMCs</b>  | Oil Marketing Companies                               |
| <b>PAYE</b>  | Pay As You Earn                                       |
| <b>PFM</b>   | Public Finance Management                             |
| <b>SRC</b>   | Salaries and Remuneration Commission                  |
| <b>VAT</b>   | Value Added Tax                                       |

# DEFINITION OF TERMS

## **Bacillus Calmette Garein (BCG)**

It is a vaccine used primarily to prevent tuberculosis and treat early-stage bladder cancer.

## **Budget Credibility**

This refers to the Government ability to meet its commitments in terms of revenue and expenditure and understanding why Governments deviate from these commitments. The credibility of Government budgets is a key driver of effective service delivery and public trust in Government systems. When budgets are not implemented as planned, spending priorities can shift, deficits may exceed projections, and critical services may be compromised.

## **Commitment fees**

This is a charge a bank or a lender imposes on a borrower for holding a line of credit or loan available. It compensates a lender for reserving the funds.

## **Contingent Liabilities**

Refers to a potential financial obligation that may rise depending on the outcome of an uncertain future event such as a pending lawsuit or product warranty claim.

## **Domestic borrowing**

Refers to the funds a Government raises by taking loans or issuing debt securities within its own country using the local currency.

## **Equalisation Fund**

This is a constitutional fund established to provide basic services in marginalised areas such as water, roads, health facilities and electricity to the same level as the rest of the nation.

## **GDP**

The total monetary value of all final goods and services produced within a country's borders during a specific period.

## **Medium Term Debt Strategy (MTDs)**

This is an annual publication that guides public borrowing and public debt management by the government cognizant of public debt sustainability, costs and risks minimization over the medium term. The MTDs inform the desired structure of public debt portfolio reflective of the choice of cost and risk trade offs.

## **On-Lent Loans**

These are funds originally borrowed by the National Government from an external financier and then re-lent to a secondary entity, such as a State-Owned Enterprise (SOE) or a local Government Agency.

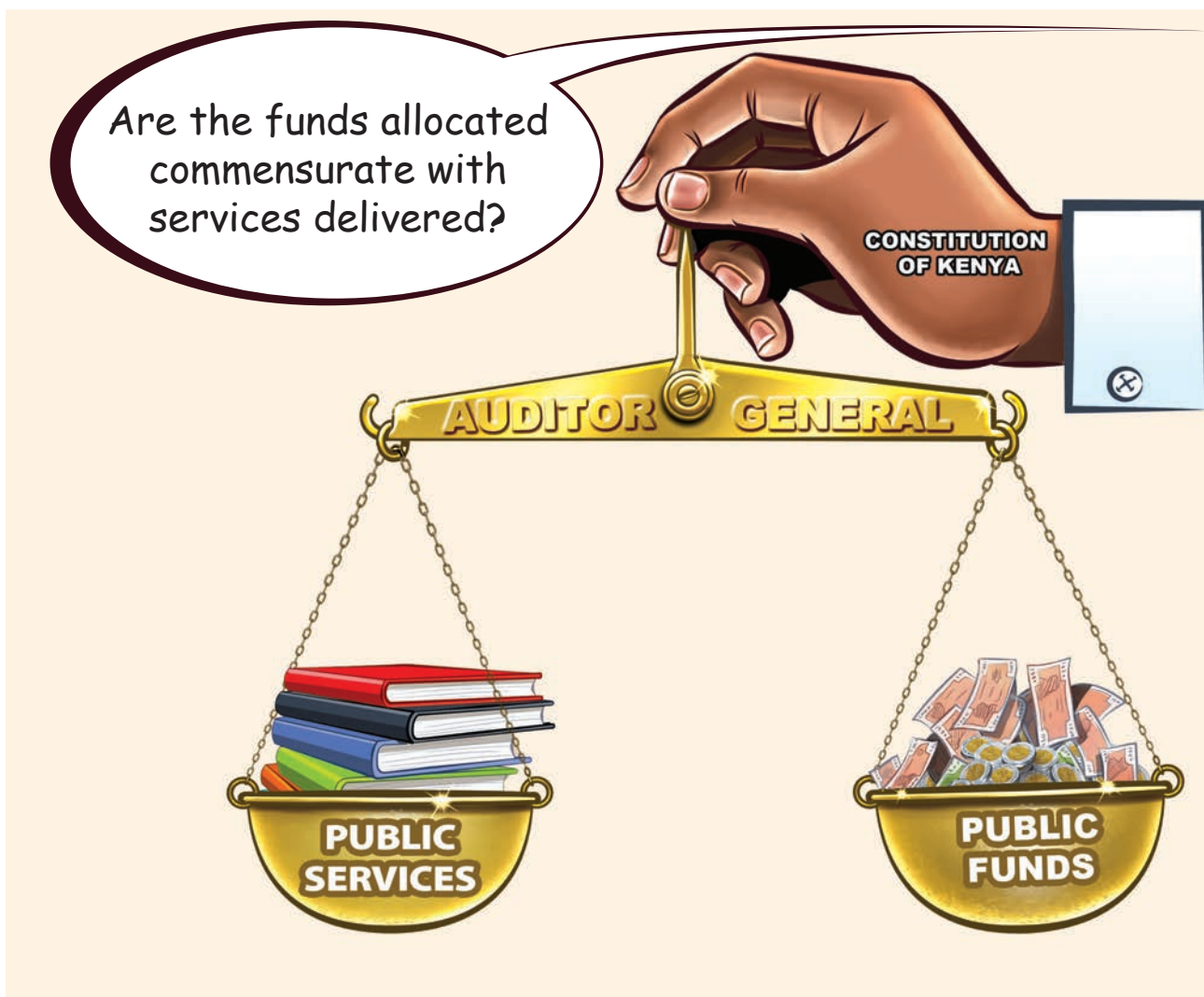
## **Pending Bills**

These are unsettled financial obligations that occur at the end of the Financial Year. This is as a result of failure to pay for goods and services that have been procured and delivered. They also include unpaid obligations such as pensions, other payroll deductions and outstanding verified overpaid tax owed to tax payers.

# MANDATE

The Office of the Auditor-General (OAG) is an independent Office established by the Constitution of Kenya. Article 229 mandates the Auditor-General to audit and report on the use of public resources by all entities funded from public funds. The Office audits the National and County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Constitutional Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other Government agencies and all other entities funded from public funds.

Further, Article 249(1) gives the Office of the Auditor-General power to protect the sovereignty of the people, secure the observance by all State Organs of the democratic values and principles and promote Constitutionalism. The mandate of the Auditor-General is further expounded by the Public Audit Act, Cap. 412B.



# ROLE OF THE AUDITOR-GENERAL

The role of the Auditor-General is to:

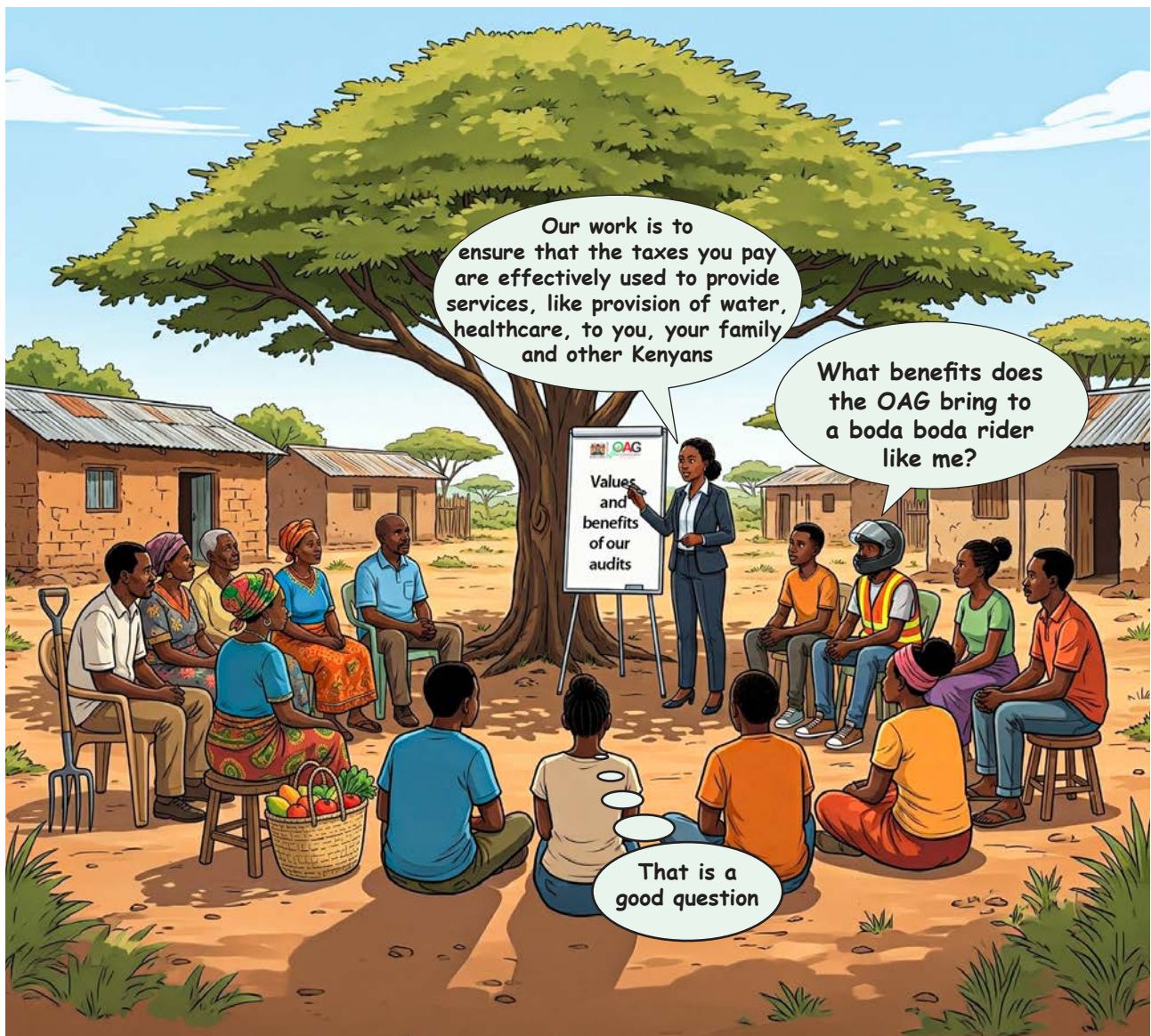
- Determine whether financial statements are in agreement with accounting records.
- Determine whether public resources have been used lawfully and effectively.
- Determine the existence and effectiveness of internal controls, risk management and governance.



# BENEFITS OF OUR AUDITS TO CITIZENS

OAG audit reports play a crucial role in ensuring that public resources are used effectively and efficiently, ultimately benefiting citizens through:

- Enhanced public service delivery
- Promotion of good governance
- Informed decision-making
- Strengthening public trust
- The citizens derive these benefits from effective and timely implementation of audit recommendations by public entities.



# SCOPE

This report covers observations made by the Auditor-General on financial and non-financial transactions by Ministries, Departments and Agencies, and Independent Commissions from 01 July, 2024 to 30 June, 2025.



# 1.0 HIGHLIGHTS OF AUDIT FINDINGS

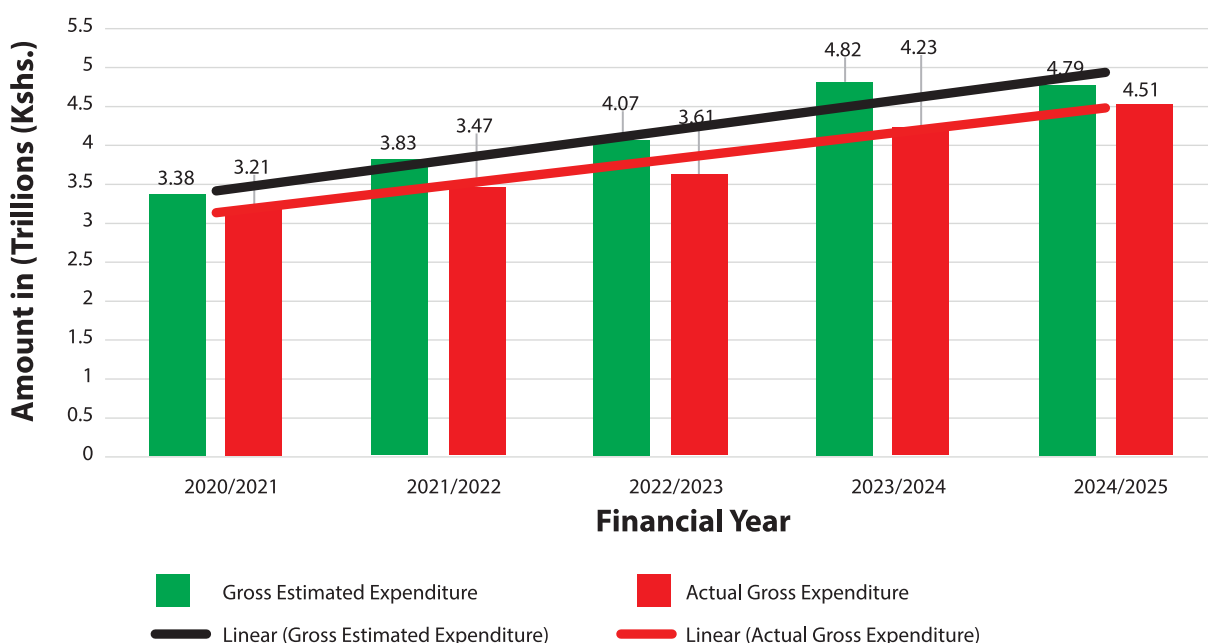
## 1.1 Key Audit Findings

The key audit findings made during the audit of the National Government for the year ended 30 June, 2025 are as highlighted:

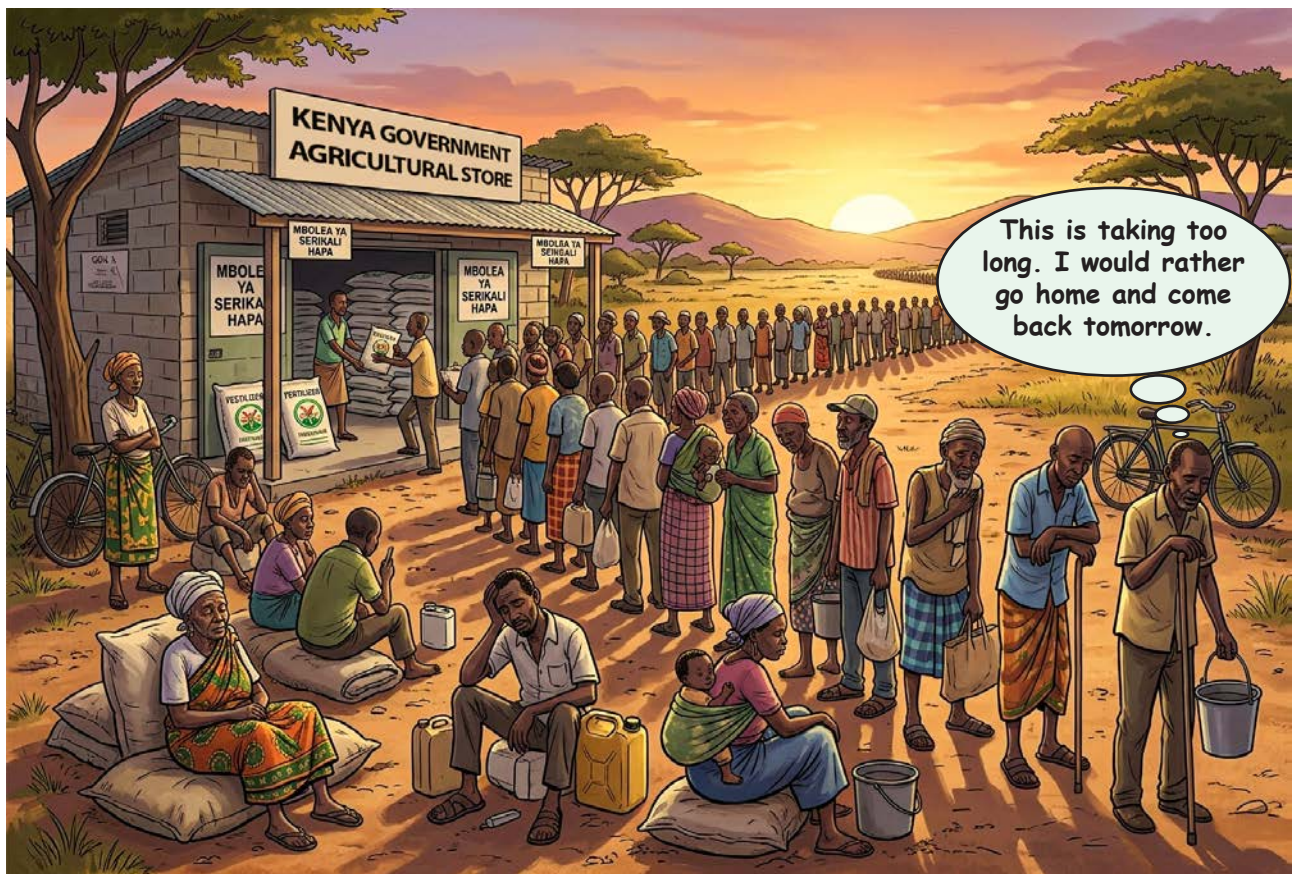
### 1.1 Budget Trend Analysis

The estimated Government spending in the year 2024/2025 was Kshs.4.79Trillion which was an increase of Kshs.1.41Trillion (42%) from Kshs.3.38Trillion in the year 2020/2021.

Similarly, the actual Government spending for the year 2024/2025 was Kshs.4.51Trillion which was an increase of Kshs.1.3Trillion (41%) from Kshs.3.21Trillion in the year 2020/2021.



For the financial year 2024/2025 the under-spending of Kshs.276.18 Billion or 6% was attributed to budget amounts that were not provided to public entities for spending.

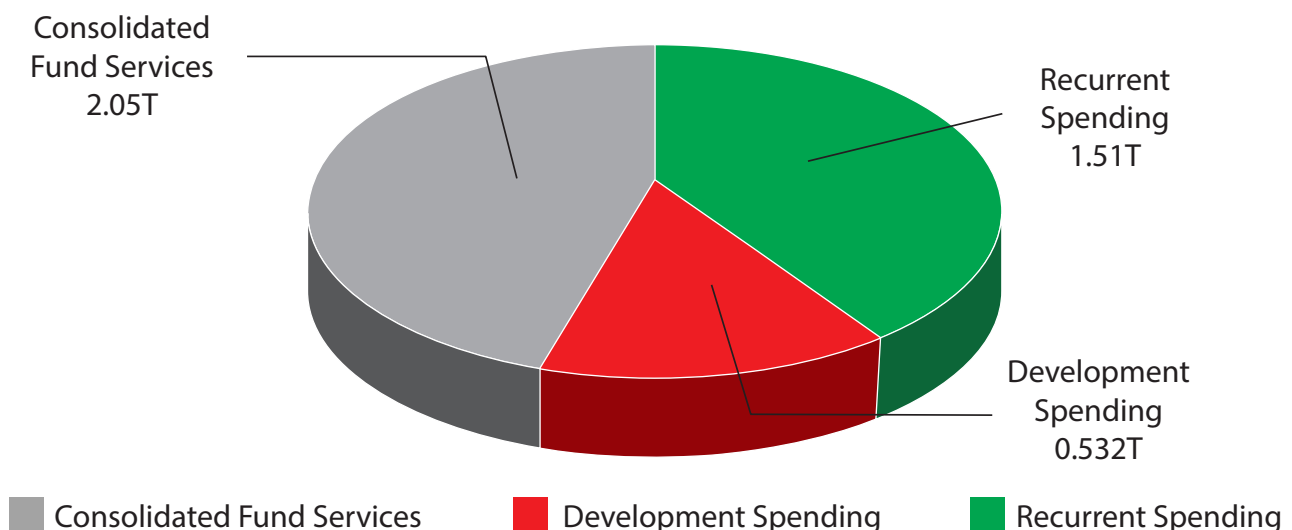


The under-spending by public entities affected the planned activities and impacted negatively on service delivery to the citizens.

## 1.2 Actual Government Spending for 2024/2025

The actual gross Government spending of Kshs.4.79Trillion include transfers to Counties of Kshs.418.26Billion and a balance of Kshs.4.09Trillion for the National Government which comprises Recurrent Kshs.1.51Trillion, Development Kshs.0.532Trillion and Consolidated Fund Kshs.2.05Trillion.

### Gross Government Spending



### 1.3 Additional Funding and Withdrawals Under Article 223 of the Constitution

The MDAs spent an additional Kshs.86.7 Billion and later sought approval by the National Assembly in line with Article 223 (4) of the Constitution. However, as reported in the previous year, an expenditure of Kshs.10.2 Billion incurred in 2022/2023 financial year comprising Kshs.4 Billion on maize flour subsidy programme and Kshs.6.2 Billion on acquisition of Telkom (K) shares were not approved as required by the Constitution.



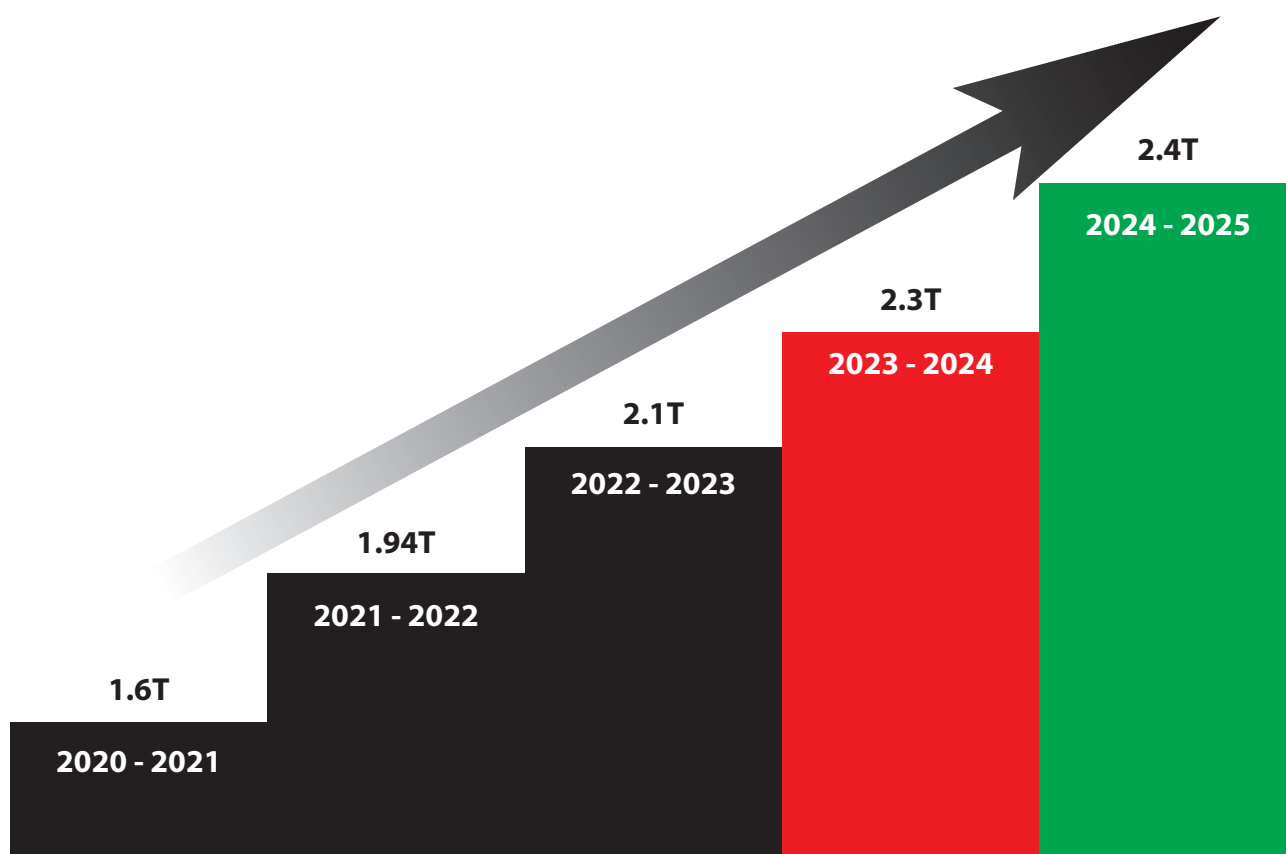
There is no guideline in place on how unapproved withdrawals from the Consolidated Fund under Article 223 should be dealt with. The Public Finance Management Act Chapter 412A of the Laws of Kenya should therefore be amended to provide guidelines on the actions to be taken where expenditure incurred under Article 223 is not approved by the National Assembly.

## 1.4 Revenue Analysis

### 1.4.1 Estimated Receipts Against Actual Receipts of Ordinary Revenue

The estimated Government revenue in the year 2024/2025 was Kshs.2.5Trillion which was an increase of Kshs.0.9Trillion (56%) from Kshs.1.6Trillion in the year 2020/2021. Similarly, the actual Government revenue for the year 2024/2025 was Kshs.2.4Trillion which was an increase of Kshs.0.8Trillion (52%) from Kshs.1.6Trillion in the year 2020/2021 as shown below:

| Year      | Budgeted Ordinary Revenue (Kshs.) | Actual Ordinary Revenue (Kshs.) | Revenue Surplus/ (Shortfall) (Kshs.) | Percentage |
|-----------|-----------------------------------|---------------------------------|--------------------------------------|------------|
| 2020/2021 | 1,601,597,982,154                 | 1,601,016,386,868               | (581,595,286)                        | (0.04%)    |
| 2021/2022 | 1,891,602,330,060                 | 1,940,971,132,408               | 49,368,802,348                       | 2.6%       |
| 2022/2023 | 2,158,627,298,438                 | 2,059,281,671,520               | (99,345,626,918)                     | (4.6%)     |
| 2023/2024 | 2,464,287,804,187                 | 2,293,893,380,062               | (170,394,424,125)                    | (6.9%)     |
| 2024/2025 | 2,496,196,535,371                 | 2,433,391,617,789               | (62,804,917,582)                     | (2.5%)     |



Actual Ordinary Revenue for the last five years

### 1.4.2 Actual Expenditure Against Ordinary Revenue

The proportion of projected ordinary revenue against the estimated gross expenditure fluctuated between 47% and 53% in the period 2020/2021 to 2024/2025. Similarly, the proportion of actual ordinary revenue against the actual gross expenditure fluctuated between 50% and 57% during the same period as tabulated in Table 11 and Table 12 below:

**Table 11: Estimated Revenue Versus Estimated Expenditure.**

| Year      | Estimated Ordinary Revenue (Tax and Non-Tax Receipts) (Kshs. Million) | Estimated Gross Expenditure (Kshs. Million) | Percentage of Estimated Ordinary Revenue to Estimated Gross Expenditure |
|-----------|-----------------------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------|
| 2020/2021 | 1,602                                                                 | 3,380                                       | 47%                                                                     |
| 2021/2022 | 1,892                                                                 | 3,832                                       | 48%                                                                     |
| 2022/2023 | 2,159                                                                 | 4,069                                       | 53%                                                                     |
| 2023/2024 | 2,464                                                                 | 4,817                                       | 51%                                                                     |
| 2024/2025 | 2,496                                                                 | 4,790                                       | 52%                                                                     |

The above table revealed that the Government planned to spend more than it planned to collect implying that the Government planned to borrow to finance the deficit.

**Table 12: Actual Revenue Versus Actual Gross Expenditure**

| Year      | Actual Ordinary Revenue/<br>(Kshs. Billion) | Actual Gross Expenditure<br>(Kshs. Billion) | Percentage |
|-----------|---------------------------------------------|---------------------------------------------|------------|
| 2020/2021 | 1,601                                       | 3,212                                       | 50%        |
| 2021/2022 | 1,941                                       | 3,473                                       | 56%        |
| 2022/2023 | 2,059                                       | 3,614                                       | 57%        |
| 2023/2024 | 2,294                                       | 4,233                                       | 54%        |
| 2024/2025 | 2,433                                       | 4,514                                       | 54%        |

The actual gross spending in 2024/2025 financial year was Kshs.4.5 Trillion against the actual revenue (tax and non-tax receipts) of Kshs.2.4 Trillion, resulting in a deficit of Kshs.1.5 Trillion. This led to borrowing from domestic and foreign markets to fund the deficit.



### 1.4.3 Late Disbursement of Exchequer

In 2024/2025, an amount of Kshs.113.2Billion relating to uncleared Exchequer releases to Ministries, Departments and Agencies, and Consolidated Fund Services was disbursed after the end of the financial year. This was contrary to Regulation 97(4) of the Public Finance Management (National Government) Regulations, 2015, which states

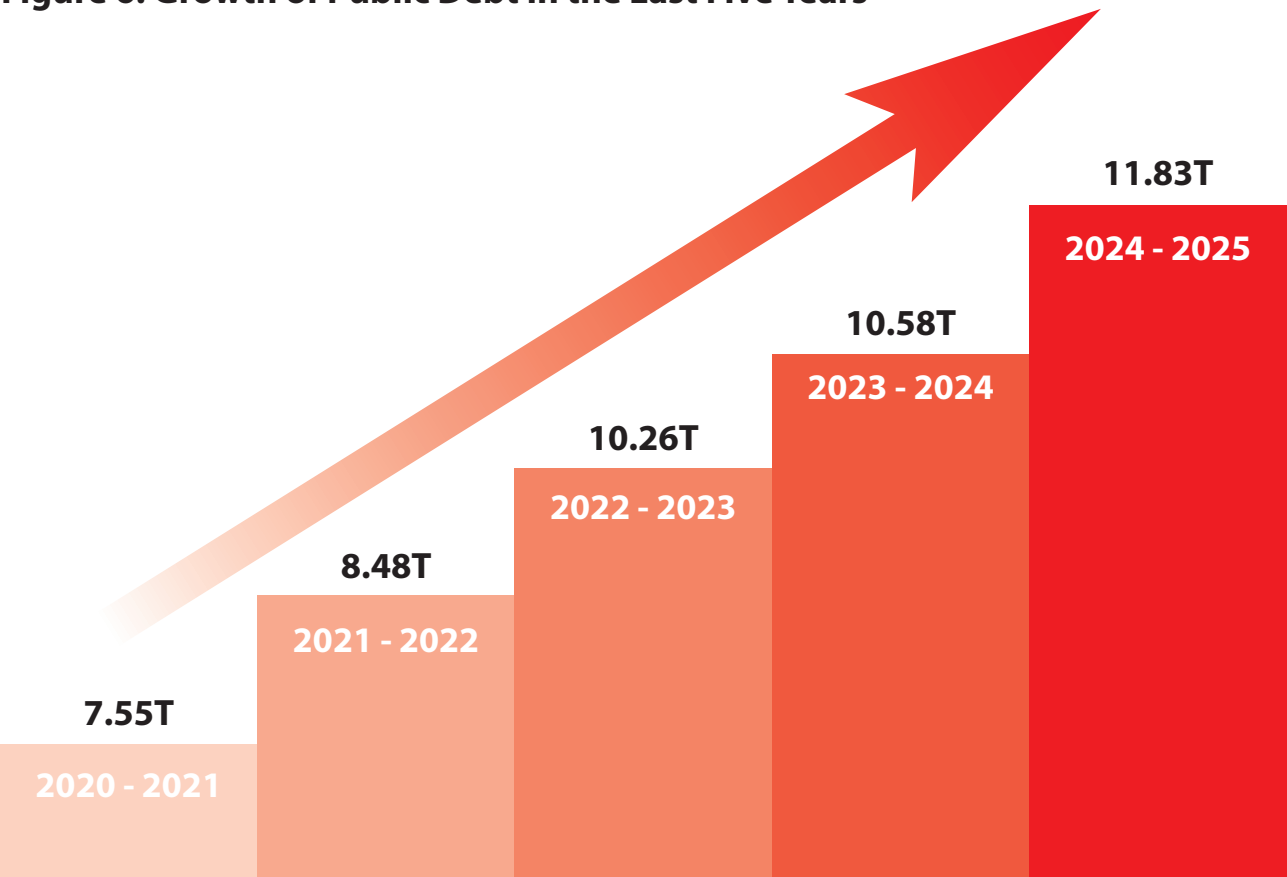
that an actual cash transaction taking place after the 30 June, shall not be treated as pertaining to the previous financial year. In addition, the transactions were recorded as if they related to the year ended 30 June, 2025 contrary to IPSAS accrual accounting. Management explained that the late Exchequer releases were caused by late receipt of revenues.

### 1.5 Management of Public Debt

The public debt as at 30 June, 2025 was Kshs.11.83 Trillion. This represents an increase of Kshs.4.28 Trillion from Kshs.7.55 Trillion or approximately 57% over the five (5) years reported in the year 2020/2021. The outstanding amount of debt of Kshs.11.83 Trillion was equivalent to 67.8% of Gross Domestic Product of Kshs.17.43 Trillion which exceeded the maximum debt ceiling of fifty-five percent (55%) of Gross Domestic Product approved by Parliament through the Public Finance Management (Amendment) Act, 2023. However, Parliament allowed a grace period of five (5) years within which the Cabinet Secretary shall take measures to ensure that borrowings by the National Government comply with the prescribed threshold.

The findings are graphically presented below:

**Figure 6: Growth of Public Debt in the Last Five Years**

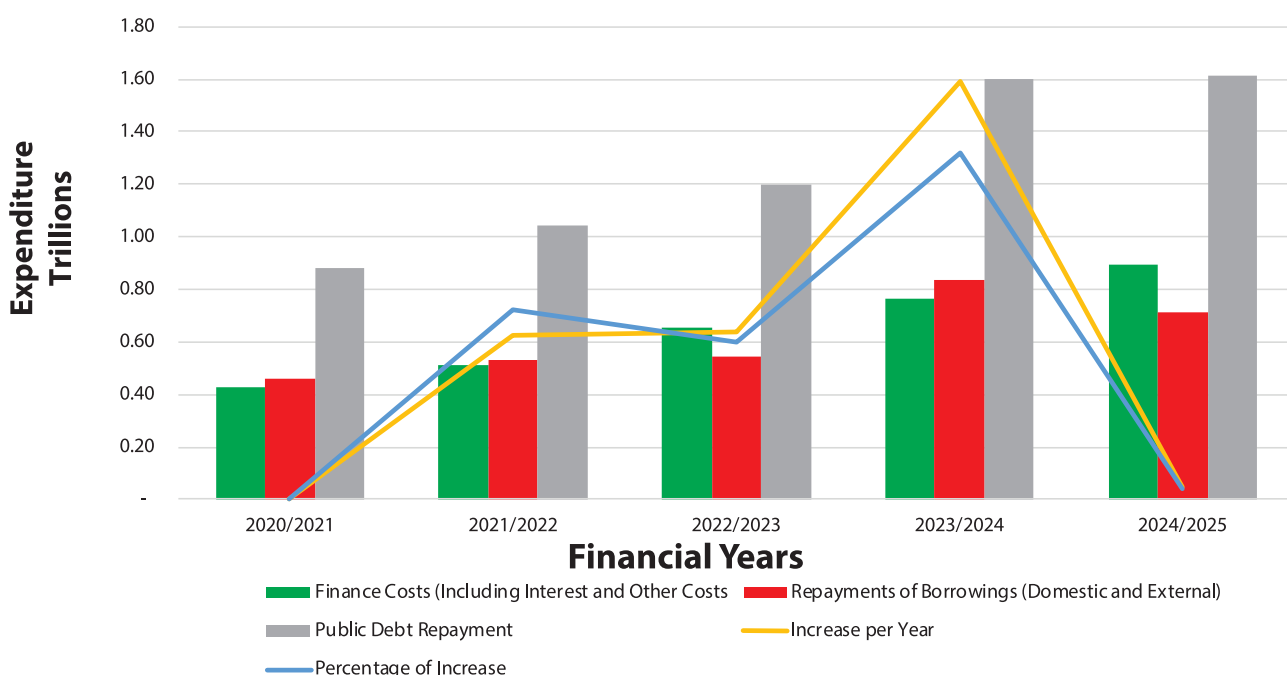


External debt increased from Kshs.5.07 Trillion in 2023/2024 to Kshs.5.45 Trillion in 2024/2025 representing an increase of 7.5%. Similarly, internal debt increased from Kshs.5.41 Trillion in 2023/2024 to Kshs.6.3 Trillion in 2024/2025 representing an increase of 16.5%.

### 1.5.1 Public Debt Repayment

Expenditure on public debt has increased by Kshs.0.7 Trillion (78%) in 2024/2025 of Kshs.1.6 Trillion from Kshs.0.9 Trillion reported in 2020/2021 over the 5 year period as show below:

**Table 19: Public Debt Expenditure**



#### Key issues noted in public debt:

- Expenditure on public debt repayment increased from Kshs.1.599 Trillion in 2023/2024 to Kshs.1.61 Trillion in 2024/2025.
- The Government paid commitment fees totalling Kshs.1.08 Billion on undrawn amounts in respect of loans signed between the Government of Kenya and foreign lenders.
- Interest payments on domestic borrowings amounted to Kshs.861.78 Billion (82%) while interest payments on foreign borrowings amounted to Kshs.183.63 Billion (18%). The cost of domestic borrowings was therefore more than three times the cost of external borrowings even though domestic debt comprised 53.4% of the total debt.
- Total net external financing was Kshs.333.7 Billion while net domestic financing amounted to Kshs.886.7 Billion representing a ratio of 27:73. This was contrary to The Medium - Term Debt Strategy for the fiscal year 2024/2025 which aimed to reduce debt costs and manage risks with a financing mix of 45:55.

- The Government granted approval for a Road Infrastructure Loan Facility of up to Kshs.175 Billion, to be leveraged on Kshs.7 from the Road Maintenance Levy. The funds were to be applied to settle pending bills and other obligations at the State Department for Roads. The sale of the future receivables was recognized as sale of future cash receivables through the Kenya Roads Board. The arrangement ring fenced the future public revenues from the Fund for debt servicing purposes and restricted the Board's discretion over the revenues. However, the securitized financing was not disclosed or approved as public debt and no evidence was provided of Parliamentary approval for the creation of such financial obligations.

### 1.5.2 Outstanding Payments (Pending Bills)

Total outstanding payments by MDAs to contractors and suppliers was Kshs.149.7 Billion which increased by Kshs.19.4 Billion (15%) from Kshs.130.3 Billion in 2023/2024 financial year to Kshs.149.7 Billion in 2024/2025 financial year.

The total Pending Bills of Kshs.149.7 Billion does not include an amount of Kshs.51.9 Billion accumulated entitlement to the Equalisation Fund and Contingent Liabilities totalling Kshs.261.6 Billion.

During the year, 7 MDAs out of 74 had outstanding payments of more than Kshs.10 Billion as indicated below;

| No. | Ministry/Department/Agency                       | Amount            |
|-----|--------------------------------------------------|-------------------|
| 1   | The National Treasury                            | Kshs.20.7Billion  |
| 2   | National Land Commission                         | Kshs.16.3 Billion |
| 3   | The Executive Office of the President            | Kshs.13.7 Billion |
| 4   | CFS-Pensions and Gratuities                      | Kshs.13 Billion   |
| 5   | State Department for Lands and Physical Planning | Kshs.12.6 Billion |
| 6   | Teachers Service Commission                      | Kshs.12.3 Billion |
| 7   | National Police Service                          | Kshs.11 Billion   |

Impact of outstanding payments to contractors are;

- Expensive goods and services supplied
- Closure of business and losses especially small and micro enterprises
- Affected liquidity or money supply in the private sector
- Delayed payment of taxes by suppliers and staff salaries for funds not received
- Continued accumulation of pending payments



### 1.5.3 Outstanding On-Lent Loans

Total outstanding on-lent loans was Kshs.1.05 Trillion which decreased by Kshs.145.95 Billion or 12% of the total outstanding loan balance of Kshs.1.2 Trillion in 2023-2024. However, as reported in the previous year, six (6) institutions with outstanding balances amounting to Kshs.79.22 Billion did not confirm their loan balances as at 30 June, 2025 as indicated:

| No. | Institution                                         | Purpose                                                                                     | Status                                          | Amount             |
|-----|-----------------------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------|--------------------|
| 1   | Athi Water Works Development Agency                 | To support the water and sanitation services in peri-urban areas. (Nairobi Satellite Towns) | Existing                                        | Kshs.61.96 Billion |
| 2   | Kenyatta University                                 | For construction of KUTRRH                                                                  | Existing but loan to be transferred to Hospital | Kshs.10.77 Billion |
| 3   | Mumias Sugar Company Limited                        | Bailout package to finance turnaround strategy                                              | In receivership                                 | Kshs.3.00 Billion  |
| 4   | Malindi Water Sewerage & Sanitation Company Limited | For the Water and Sanitation project in coastal counties                                    | Existing-Owned by County                        | Kshs.1.58 Billion  |

|   |                                 |                                            |                                                      |                  |
|---|---------------------------------|--------------------------------------------|------------------------------------------------------|------------------|
| 5 | Tavevo Water & Sewerage Co. Ltd | Water and Sanitation project               | Existing                                             | Kshs.963 Million |
| 6 | Kenya Meat Commission           | Purchase of Livestock (Drought mitigation) | Institution in existence but requested for write off | Kshs.940 Million |

### 1.5.4 Non-performing Investments

During the year, 5 Institutions with Government investments of 5,727,503 shares valued at Kshs.114.55 Million were non-performing, as indicated:

| No. | Institution                                     | Status                                                                     | Number of Shares | Nominal Value (Kshs.) |
|-----|-------------------------------------------------|----------------------------------------------------------------------------|------------------|-----------------------|
| 1   | Kenya Farmers Association                       | Institution exists though Government not currently listed as a shareholder | 1                | 20                    |
| 2   | National Agricultural Chemical & Fertilizer Ltd | Company struck off the register                                            | 2,084,998        | 41,699,960            |
| 3   | Nyari Estate Limited                            | Not in operation                                                           | 2,500            | 50,000                |
| 4   | Kenya Poultry Limited                           | Dissolved                                                                  | 4                | 20                    |
| 5   | Ken-Ren Chemicals and Fertilizers Limited       | Dissolved                                                                  | 3,640,000        | 72,800,000            |
|     | <b>Total</b>                                    |                                                                            | <b>5,727,503</b> | <b>114,550,000</b>    |

There was no disclosure of measures put in place to ensure that the non-performing investments report their returns.

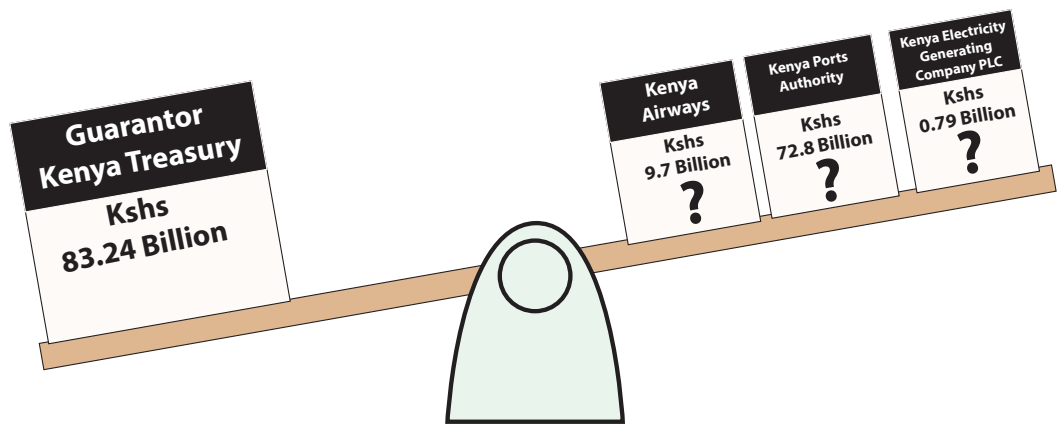
## 1.6 Outstanding obligations guaranteed by the Government of Kenya

The outstanding obligations guaranteed by the Government as at 30 June, 2025 were Nil compared to a balance of Kshs.152.32Million as at 30 June, 2024. The entire balance owed by Cereals and Sugar Finance Company was written-off on authority.

However, and as previously reported, the balance of Kshs.152.32Million was not supported by any verifiable records and documents.

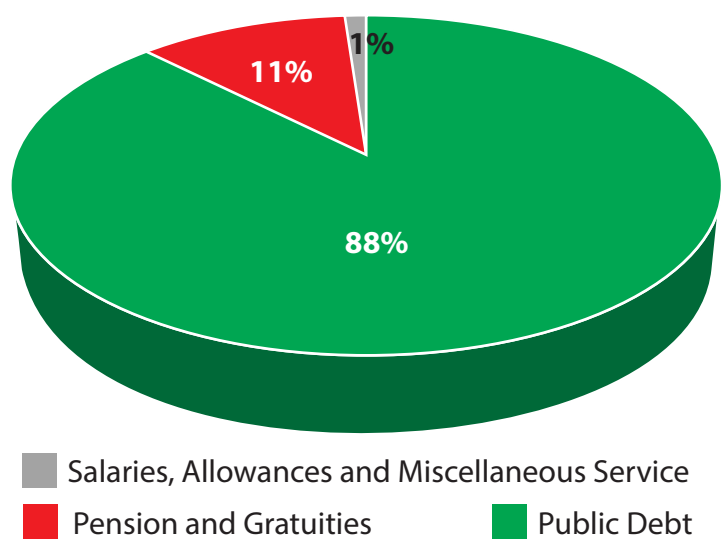
Further, records on Public Debt (Debt Stock) for the year ended 30 June, 2025 indicated guaranteed debt amounted to Kshs.83,241 Million comprised Kshs.9,690 Million for Kenya Airways, Kshs.72,760 Million for Kenya Ports Authority and Kshs.791Million for Kenya Electricity Generating Company PLC.

However, the parent Ministries for the above Agencies did not prepare and submit for audit, their respective statements of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2025. This was contrary to the requirements of Sections 81(1) and 81(2)(c) of the Public Finance Management Act, Cap 412 A.



**1.6.1 Consolidated Fund Services**

The total actual expenditure for the year 2024/2025 of Kshs.1,842 Billion for Consolidated Fund Services comprised Kshs.1,612 Billion or 88% for Public Debt, Kshs.206.53 Billion or 11% for Pension and Gratuities, and Kshs.23.56 Billion or 1% for Salaries, Allowances and Miscellaneous Services as tabulated in the figure below:



## 2.0 SUMMARY OF AUDIT OPINIONS

The Auditor-General expressed different types of opinions for the financial year 2024/2025 as indicated:

| No. | Client Type        | Type of Opinion Issued |           |         |            | Total |
|-----|--------------------|------------------------|-----------|---------|------------|-------|
|     |                    | Unmodified             | Modified  |         |            |       |
|     |                    | Unqualified            | Qualified | Adverse | Disclaimer |       |
| 1   | MDAs               | 66                     | 17        | -       | -          | 83    |
| 2   | Revenue Statements | 10                     | 2         | -       | -          | 12    |
| 3   | Others             | 21                     | 5         | 1       | 1          | 28    |
| 4   | Total              | 97                     | 24        | 1       | 1          | 123   |

### i. Unmodified Opinion

A total of 97 financial statements had Unmodified Opinions.



## ii. Qualified Opinion

There was 24 financial statements that were issued with Qualified Opinions.



## iii. Adverse Opinion

1 financial statement had an Adverse Opinion.



#### iv. Disclaimer of Opinion

1 financial statement had a Disclaimer of Opinion.



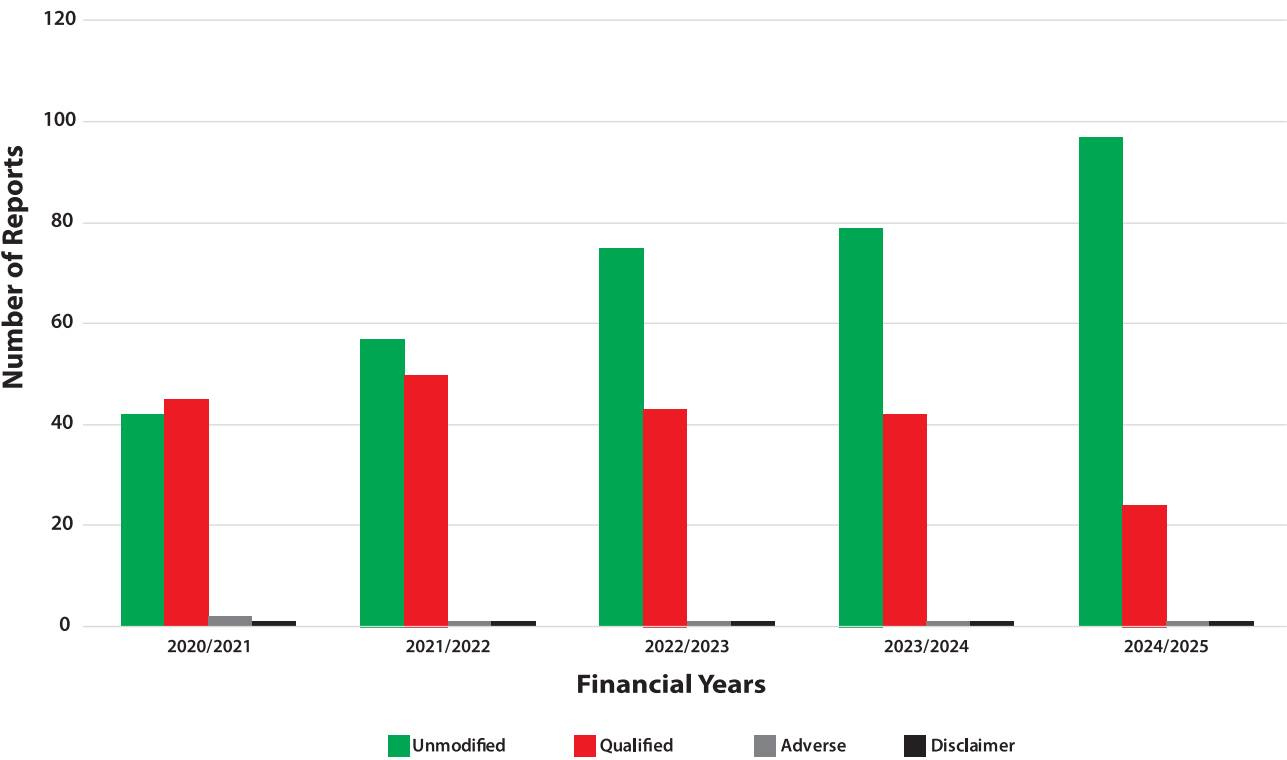
#### Trends in Audit Opinions

Over the 5 years period, the Auditor-General expressed audit opinions as follows:

|               | 2020/2021 |       | 2021/2022 |       | 2022/2023 |       | 2023/2024 |       | 2024/2025 |       |
|---------------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|
| Audit Opinion | No. of FS | %     | No. of FS | %     | No. of FS | %     | No. of FS | %     | No. of FS | %     |
| Unmodified    | 42        | 46.70 | 57        | 52.30 | 75        | 62.50 | 79        | 64.23 | 97        | 78.86 |
| Qualified     | 45        | 50.00 | 50        | 45.90 | 43        | 35.80 | 42        | 34.15 | 24        | 19.51 |
| Adverse       | 2         | 2.20  | 1         | 0.90  | 1         | 0.80  | 1         | 0.81  | 1         | 0.81  |
| Disclaimer    | 1         | 1.10  | 1         | 0.90  | 1         | 0.80  | 1         | 0.81  | 1         | 0.81  |
| Total         | 90        | 100   | 109       | 100   | 120       | 100   | 123       | 100   | 123       | 100   |

The number of financial statements with unmodified opinion increased from 64.23% reported in the previous year to 78.86%. The number of financial statements with qualified opinion decreased from 34.15% to 19.51%. There was no change in the percentages of adverse and disclaimer of opinion compared to the previous year.

**Figure 9 below depicts the analysis of audit opinion**



Overall, there has been an improvement in presentation of the financial statements. This is attributed to use of IFMIS, guidance by The National Treasury through circulars and issuance of reporting templates by the Public Sector Accounting Standards Board (PSASB). Audit reviews leading to revisions and amendments of the financial statements to correct errors during the audit process, also contributed to improvements in disclosure and presentation of the financial statements.

## 3.0 KEY AUDIT OBSERVATIONS REPORTED UNDER MDAS

### 3.1 The National Treasury

#### i. Delayed Settlement of Court Award

The National Treasury paid Kshs.1 Billion as part payment of Kshs.4.1 Billion court award for compensation of idle resources, loss of profits and arbitration costs to a firm for breach of contract of a project to construct a National Disaster Recovery Site. The award was to attract interest at a rate of 12% per annum until settled in full. As at 30 June, 2025, only Kshs.1.88 Billion had been paid and the outstanding balance was Kshs.4.09 Billion inclusive of accrued interest. Management had not provided a roadmap or a proposed plan for the settlement of the award.



#### ii. Irregular Tax Undertakings by The National Treasury

The Government committed to pay taxes on behalf of some taxpayers amounting to Kshs.1.35 Billion. Management explained that the undertakings were issued in response to compelling national interests, humanitarian obligations and strategic development needs. This was contrary to Article 210(1) of the Constitution of Kenya, which states that no

tax or licensing fee may be imposed, waived or varied except as provided by legislation.

### iii. Payment of Guaranteed Loan

The Government paid Kshs.19.69 Billion in respect of a guaranteed Kenya Airways Limited loan with local banks. This amount constituted Kenya Airways Limited defaulted guaranteed debt of Kshs.22.84 Billion. This was contrary to Section 58(2)(b)–(d) of the Public Finance Management Act, 2012.



#### iv. Delay in Implementation of the e-Government Procurement

The Government procured e-Government Procurement (e-GP) System on 25 April, 2022 at a contract price of Kshs.344.79 Million for a duration of three (3) years up to 25 April, 2025. As at 14 October, 2025, Management had paid Kshs.176.16 Million representing 45% of the contract price. However, there were systemic challenges such as; user challenges, many entities onboarding the system, and backlog in supplier registration and longer lead times in resolving identified challenges affecting the system uptake.



## 3.2 National Police Service

### Police Stations Operating Without Motor Vehicles

Physical verification of the National Police Service fleet of motor vehicles in sampled Police Stations revealed that 94 gazetted stations were operating without motor vehicles. This hindered effective and efficient delivery of services to the public.



## 3.3 State Department for Internal Security and National Administration

### Avoidable Expenditure on Court Awards

The Court ordered the Directorate of Criminal Investigations (DCI) to release two illegally impounded motor vehicles and a sugar packing machine on 17 December, 2019. The order was not obeyed and the petitioner sought redress in court resulting in a liability amounting to Kshs.747.4 Million that would have been avoided had the order been complied with in a timely manner.

Further, in the year 2006, 19.6 acres of Kenya Post and Telecommunication Corporation (KPTC) land were irregularly hived off and fenced by the General Service Unit, leading to a civil suit against the Government. A judgement was delivered against the Government and by consent dated 02 April, 2013, the parties mutually agreed on an amount of Kshs.2.4 Billion with an additional Kshs.150 Million payable to facilitate discharge of a charge held by Continental Credit Finance Limited (In Liquidation). As at 30 June, 2025, the State Department had made payments totalling Kshs.1.88 Billion which included advance interest capping charge of Kshs.600 Million, settled on 20 April, 2015 under a consent dated 25 March, 2015, due to delay in court settlement. The property remains encumbered and the Government has not obtained title.

### **3.4 Ministry of Defence**

#### **i. Construction of Talanta Sports City at Jamhuri Sports Ground**

The Ministry entered into a two (2) year contract for the design, building and equipping of Talanta Sports City at a contract sum of Kshs.45.85 Billion. The National Treasury had approved project funding of Kshs.35 billion which was to be drawn from the Sports and Arts Social Development Fund over a six (6) years payment plan resulting to an unsupported price variation of Kshs.10.85 Billion. The project implementation report. As at June, 2025 the project was at 44.54% completion level while cumulative payments to the contractor amounted to Kshs.2 Billion or 4.5%. According to the contract agreement late payments was to attract an interest at 3%.

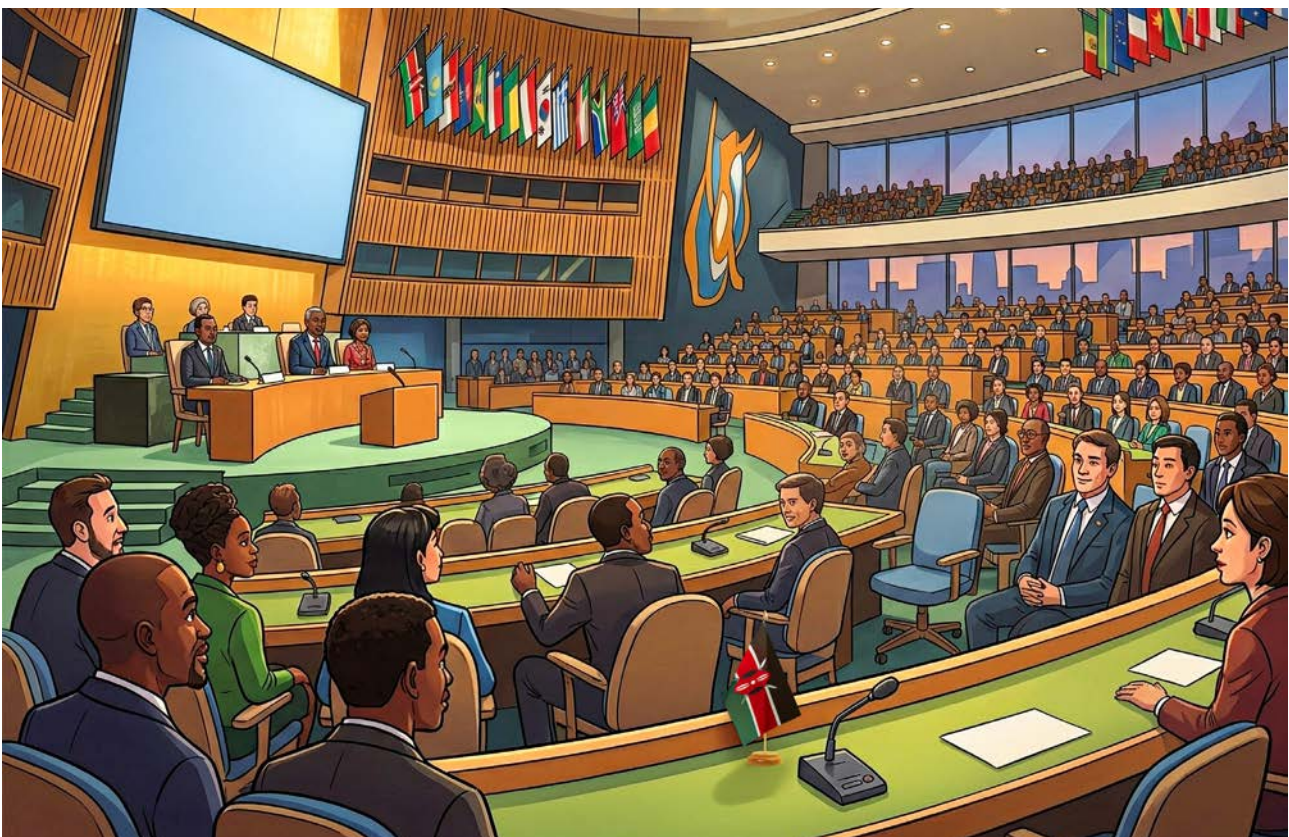


Subsequent information indicated that a Deed of assumption of payment obligations was signed on 22 July, 2025 between the Government of Kenya represented by the Principal Secretary Ministry of Defence, Sports Kenya and a Trustee transferring the duty and obligation of making subsequent payments to the Trustee. Similarly, the contractor signed a consent agreeing to the transfer of duty and obligation of making subsequent payments to the Trustee on behalf of the Ministry of Defence. The changes in funding model were aimed at ensuring that the Project was fully funded to completion. However, full details of the new funding model were not provided hence need for a special audit to determine value for money in achievement of the project.

### **3.5 State Department for Foreign Affairs**

#### **i. Delay in Presentation of Letters of Credentials**

A sample of 26 Kenya Missions abroad undertaken in the month of June and July 2025 revealed that as at the time of audit, the Heads of Mission in Washington, Madrid, Bangkok, Algiers, Accra, Brasilia and Havana had not presented their credentials to the accredited nations.



Delay in presentation of credentials limits the activities of the Head of Mission and diplomatic representation in the countries of accreditation.

## **ii. Weaknesses in Management of Assets**

Physical verifications of Kenya Missions revealed unsatisfactory matters in the management, maintenance, and utilization of buildings and motor vehicles, resulting to deterioration of assets, safety risks, avoidable costs, and reputational damage. Several Missions, including New York, Washington DC, Harare, Brussels, and The Hague, exhibited inadequate maintenance of chancery and residential properties. The public assets are not properly managed thus putting the image of the country at risk.

## **3.6 State Department for Medical Services**

### **i. Avoidable Expenditure on Court Awards**

The State Department entered into contract for the supply of anti-malaria drugs and equipment on 14 July, 1995 for Kshs.1.16 Billion. However, due to breach of contract on timely payment, contractor sued and was awarded an amount of Kshs.1.86 Billion. The amount had escalated to Kshs.15.25 Billion as at 30 June, 2025 due to accrued interest. A payment of Kshs.360 Million was made after the courts determined that Management failed to perform contractual obligation of paying for the delivered supplies.

### **ii. Deficiencies of the Vaccination Programme**

Review of BCG vaccination utilization records revealed that out of the 8,602,303 doses issued to various health facilities, only 2,113,091 doses were administered resulting to 6,489,212 or 75% wasted doses. Further, Measles Rubella and Yellow Fever wastage rates were 57% and 51% respectively. This was more than the maximum 15% rate allowed by the World Health Organization Monitoring Vaccine Wastage at Country Level Guidelines for Programme Managers, 2005.

### **iii. Delay in Upgrading of Maternal and New-born Units**

During the year, a project for upgrading of twenty (20) Maternal and New-born Units to enhance maternal healthcare services at a cost of Kshs.2.66 Billion was scheduled for completion within twenty-four (24) months. However, 14 units were still under construction and an expenditure of Kshs.1.13 Billion incurred for shipment of materials was not supported by financial statements, Bills of Quantities and the value of work done.

#### **iv. High Maternal and Neonatal Mortality Ratios**

Analysis of mortality data revealed 292 health facilities recorded 913 maternal deaths out of 359,207 live births translating to a ratio of 254 per 100,000 live births. Further, 120 health facilities recorded 3,692 neonatal deaths out of 80,120 live births translating into a ratio of 46 per 1,000 live births. These ratios are higher than the Sustainable Development Goals which targets to reduce global maternal mortality ratio by less than 70 per 100,000 live births and reduce death of children under five years to as low as 25 per 1,000 live births.

### **3.7 State Department for Information Communication Technology and Digital Economy**

#### **Inefficiency in Delivery of Internet Services**

Verification of sampled 57 Government Offices revealed that, 40 or 70% reported having no internet connectivity at all, despite being listed under the County Connectivity Project. Further, other 17 or (30%) offices, internet was unreliable even though the National Optic Fiber Backbone Infrastructure (NOFBI) connectivity existed. Most affected were Civil Registration Services, Lands Registries and Police Service Offices, whose internet connectivity was a core enabler for their service delivery. In addition, some areas had totally no connectivity despite full infrastructure installations.

### **3.8 State Department for Sports**

#### **Delay in Hand Over of Wang'uru and Kirigiti Stadiums**

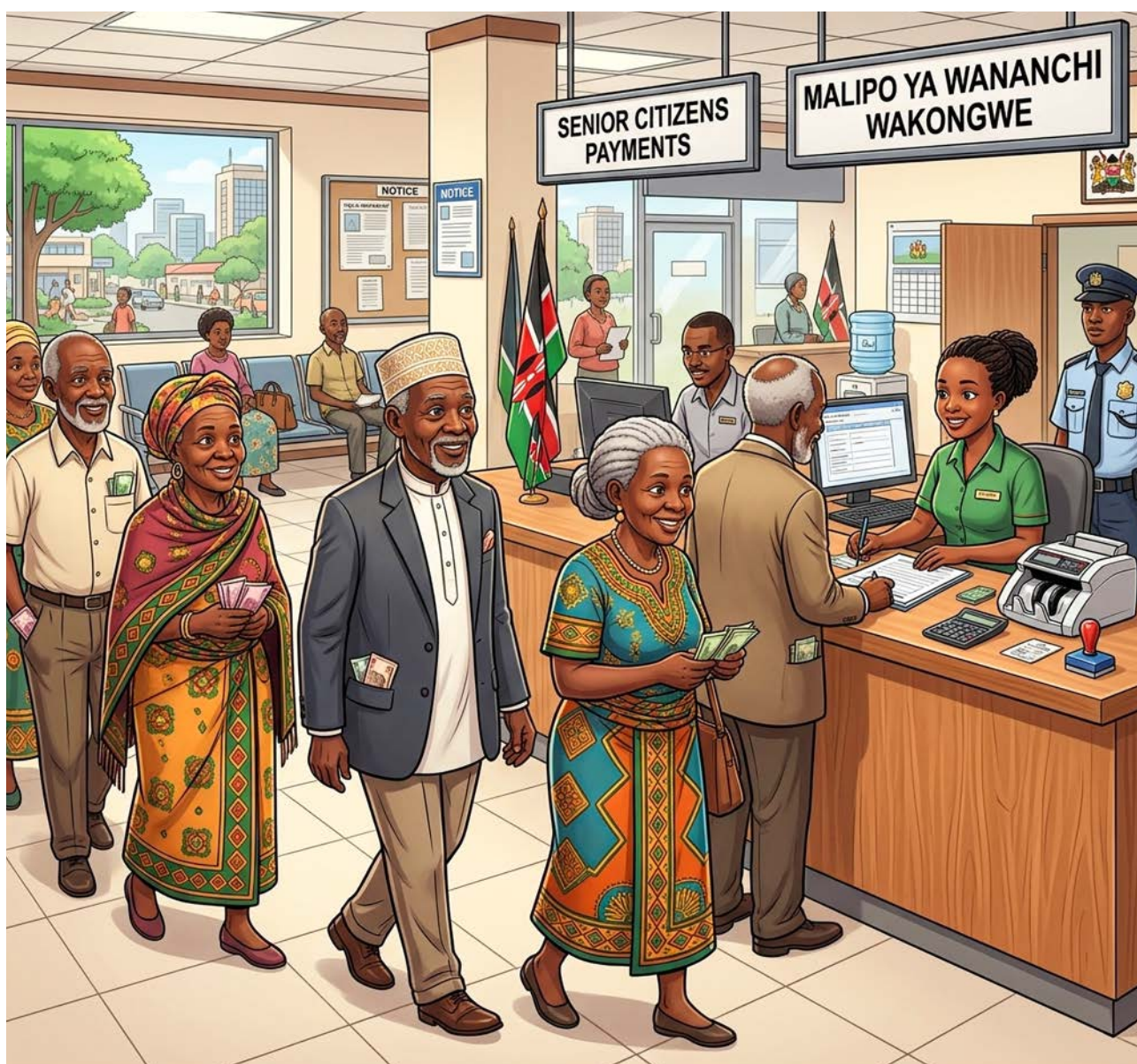
The State Department for Sports, spent Kshs.908.2 Million and Kshs.650.2 Million for the construction of Kirigiti Stadium in Kiambu County and Wang'uru Stadium in Kirinyaga County respectively both amounting to Kshs.1.56 Billion. The construction was completed in March, 2024 and fully paid.

The parcels of land where the stadiums are constructed are owned by the respective County Governments; while the development was carried out by the National Government. However, there was no Memorandum of Understanding outlining the ownership and management of the Stadiums post-completion between the County Governments and the National Government. The handover has not been executed and therefore the value of Kshs.1.6 Billion has not been executed.

### 3.9 State Department for Social Protection and Senior Citizen Affairs

## Payments to Ineligible Beneficiaries under Older Persons Cash Transfers

Review of Older Persons Cash Transfers (OPCT) payroll data revealed that 1,790 beneficiaries are former civil servants who receive monthly Government pension and were paid Kshs.26.9 Million. This was contrary to Clause 1.2.2 of the State Department of Social Protection's Revised Operations Manual for the Consolidated Cash Transfer Programmes which states that the eligibility criteria for enrolment in the Older Persons Cash Transfer (OPCT) Programme require that a beneficiary must: (ii) not be receiving a Government pension. The payment denies the much-needed stipend to the intended beneficiaries.



### 3.10 State Department for Petroleum

#### i. Unaudited Oil Exploration Cost Recovery Statements

During the year under review, the State Department had 4 active oil and gas Production Sharing Contracts (PSC) with an International Oil Company (IOC). The contracts provide that the costs incurred during exploration, field development and production are recoverable from future revenues realised on the sale of oil and gas extracted.

Further, the cost recovery statements for 4 oil and gas exploration blocks operated by the Company (IOC) revealed costs totalling Kshs.304.37 Billion had been incurred on the Blocks as at 30 June, 2025. However, no evidence was provided to indicate that the costs had been subjected to audit as provided for in Clause 30 of the Production Sharing Contracts.

#### ii. Inconsistencies in the Framework for Importation of Petroleum Products

The Government made a policy shift on importation of petroleum products for the local and transit markets from an Open Tender System (OTS) to a Government-to-Government (G-to-G) Framework in March, 2023. However, review of records revealed several inconsistencies which included; unsupported extensions to supply contracts, unprocedural nomination of importers, higher import premiums, unsupported existence and operations of escrow accounts, irregular and unapproved inclusion of legal costs and shortfall financing in petroleum pump prices and unsupported demurrage cost charges to pump prices among others.



### 3.11 State Department for Wildlife

#### Long Outstanding Human-Wildlife Conflict Compensation

Review of State Department records on Human Wildlife Conflict Compensation claims revealed that an amount of Kshs.1.6 Billion had been verified but have remained outstanding for several years without settlement.

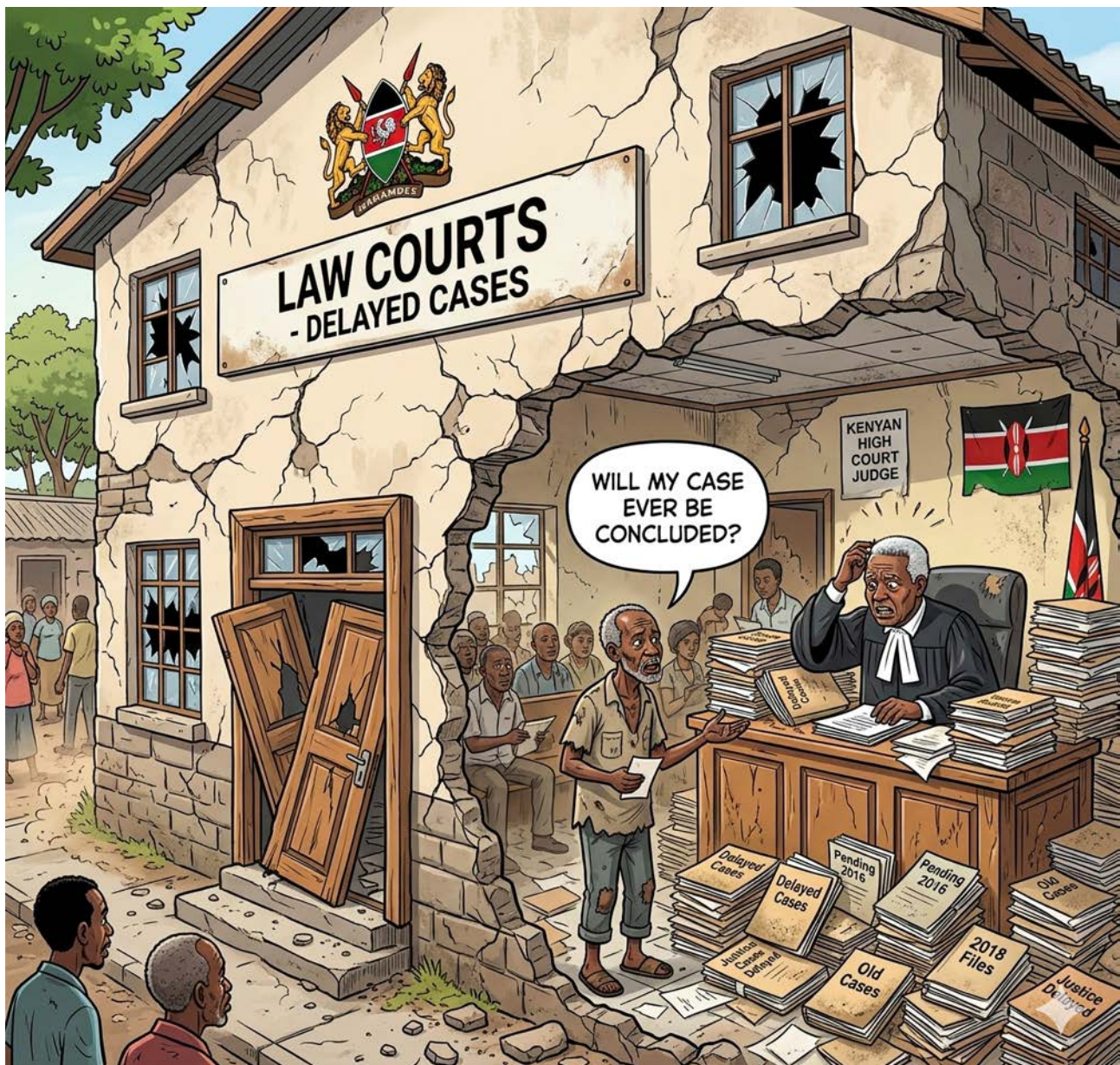


The affected persons continue to suffer from death, injury or loss of property and livelihoods as a result of non-compensation.

### 3.12 The Judiciary

#### i. Long Outstanding Court Cases at Kwale Law Courts

Review of records revealed that 905 case files did not have documented court directives which prevented progression. Further, there were delays in updating, the Court Tracking System (CTS) and there were significant case backlog. The prolonged process of resolving these cases may result in justice being denied for the parties involved and could erode public confidence in the judicial process.



## ii. Unsatisfactory Construction of Building at the Mombasa Law Courts

Physical verification of the newly constructed court building at Mombasa Law Courts revealed visible cracks, raising concerns about its stability and structural integrity of the building. The Judiciary was experiencing space constraints and leased premises at the Kenya School of Government at an annual rent of Kshs.3.92Million from the 2023/2024 financial year.

Further, documentation was not provided to confirm the completion and official handover of the building. In addition, there were no records indicating that liquidated damages for delays or defects were assessed and actions taken to hold the contractor or other responsible parties accountable for unsatisfactory works.

### 3.13 Teachers Service Commission

#### Weaknesses in the Management of Medical Scheme

Review of records on Workers Injury Benefits Act (WIBA) claims revealed approved claims amounting to Kshs.186.4 Million relating to ninety (90) claims lodged for compensation by 31 May, 2025. However, no payment had been made as at the time of audit in June, 2025 with some of the claims dating back to August 2001. The long-outstanding and unpaid WIBA claims may expose the Commission to legal cases and accumulation of interest or penalties.



## 3.14 Other Observations

### 3.14.1 Unsupported Expenditure

The audit revealed unsupported expenditure of Kshs.1,119 Million under four (4) MDAs as indicated:

| No. | Ministry, Department or Agency                                    | Amount                    |
|-----|-------------------------------------------------------------------|---------------------------|
| 1   | State Department for Foreign Affairs                              | Kshs.470 Million          |
| 2   | The Judiciary                                                     | Kshs.423 Million          |
| 3   | State Department for Social Protection and Senior Citizen Affairs | Kshs.222 Million          |
| 4   | State Department for Culture, the Arts and Heritage               | Kshs.4 Million            |
|     | <b>Total</b>                                                      | <b>Kshs.1,119 Million</b> |



The authenticity, internal controls and governance of the above expenditure could not be confirmed which may lead to losses wastage and theft of public resources.

### 3.15 Unresolved Prior Year Audit Issues

In numerous instances, prior year audit issues had not been resolved.

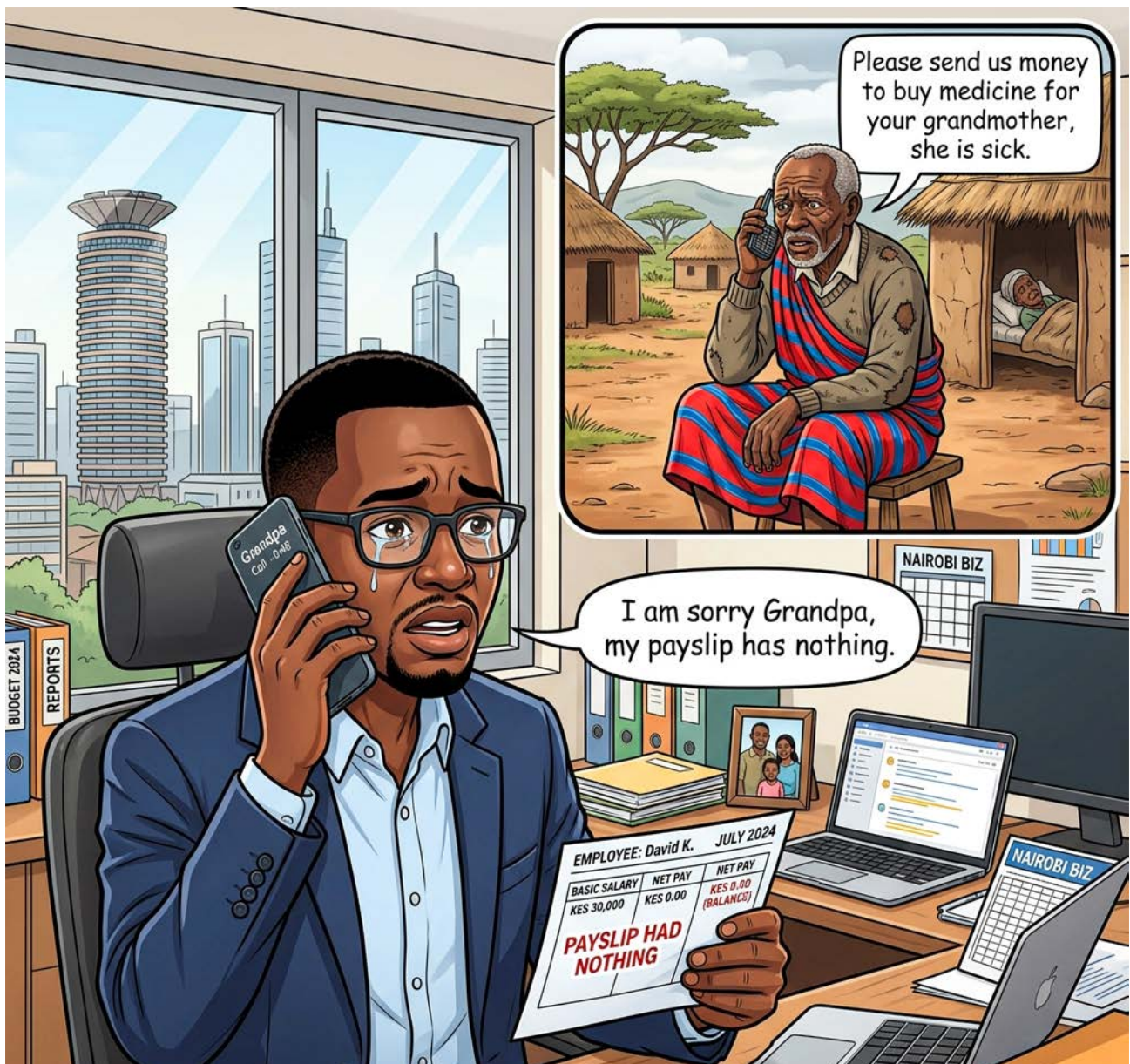


## 4.0 COMPLIANCE ISSUES

### 4.1 Non-Compliance with the One-Third of the Basic Salary Rule

Nineteen thousand three hundred and forty-nine (19,349) Government employees did not comply with the one-third ( $\frac{1}{3}$ ) of basic salary rule as required by Section 19(3) of the Employment Act, 2007. The Section states that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two-thirds ( $\frac{2}{3}$ ).

The non-compliance was attributed to introduction of various statutory deductions such as 1.5% housing levy, 2.75% Social Health Insurance Fund (SHIF) and National Health Insurance Fund (NSSF) deductions.



## 4.1 Stalled/Delayed Projects

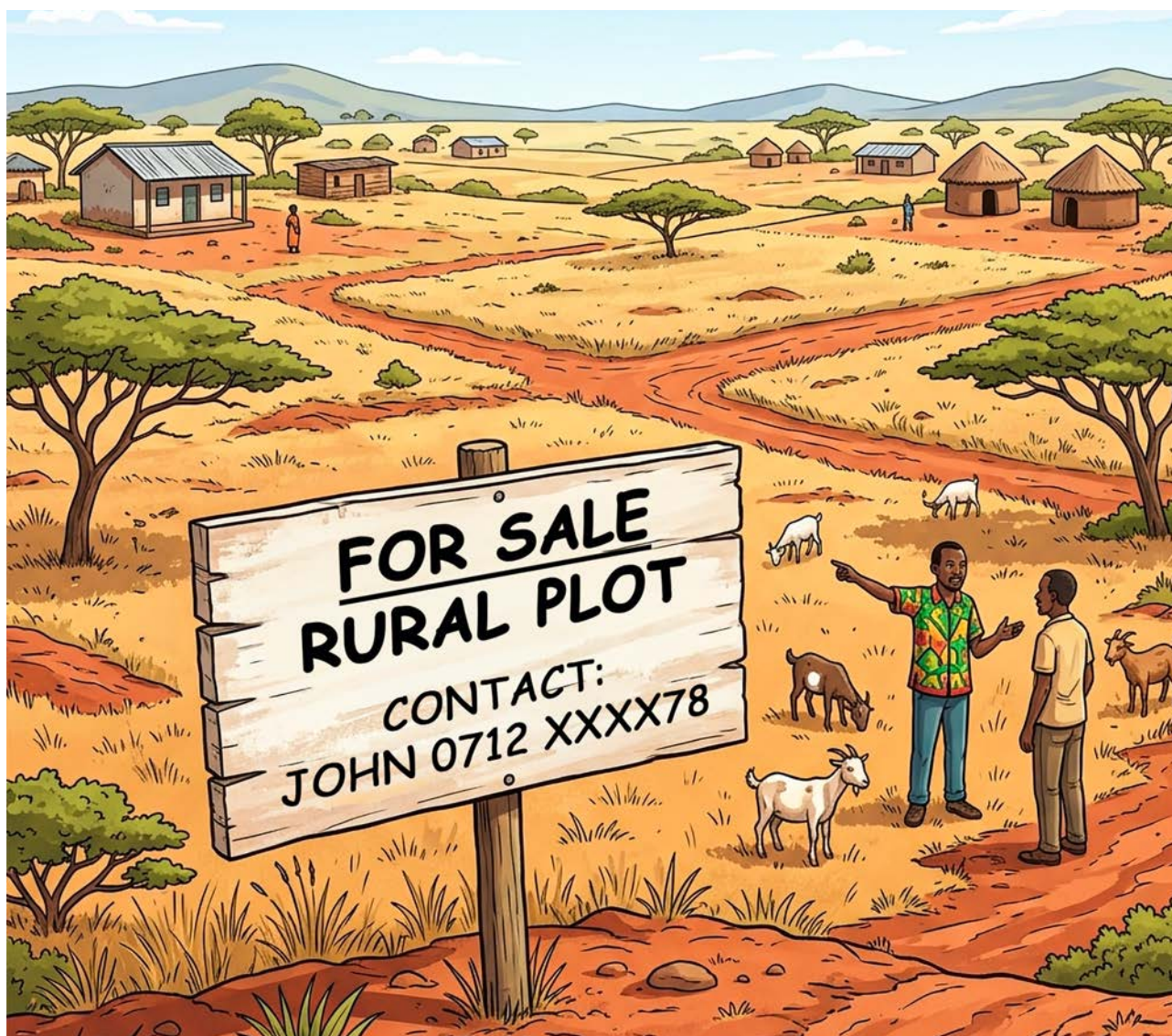
The Government paid Kshs.7.9 Billion out of total contracted sum of Kshs.28.7 Billion for fourteen (14) projects which had either stalled or delayed long after their completion dates had elapsed. Further, nine (9) MDAs with projects of total contract amount of Kshs.2.7 Billion had also stalled or delayed.

There was no value for money on public funds spent on the stalled and delayed projects as no services are being provided by these projects.

## 4.2 Land Without Ownership Documents

Eighteen (18) MDAs lacked ownership documents for parcels of land in their possession.

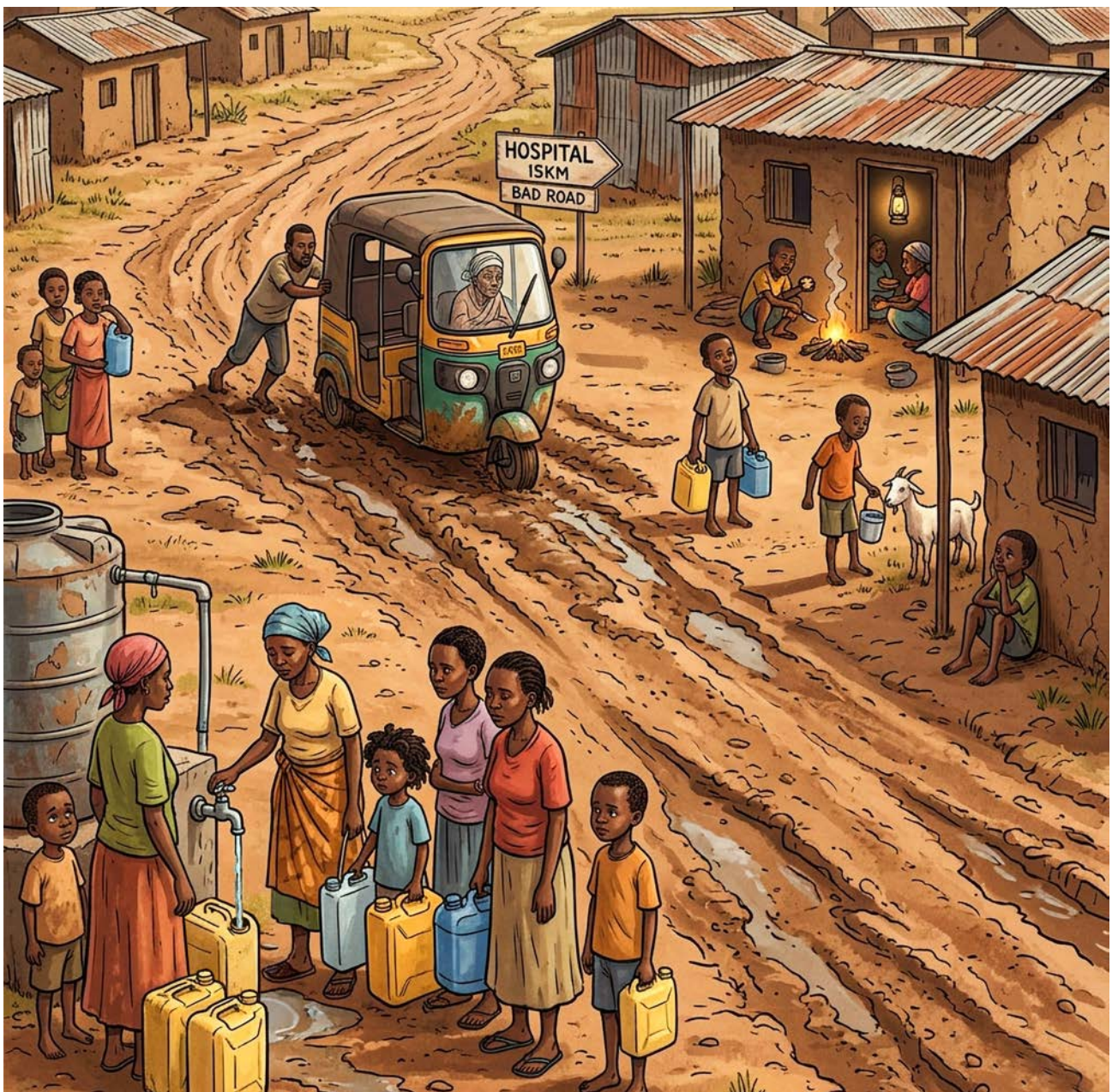
In the absence of title documents, it was not possible to ascertain that all properties and improvements belong to the respective MDAs.



## 5.0 THE EQUALISATION FUND

The National Treasury failed to release Kshs.51.9 Billion to the Equalisation Fund allocated to the 14 marginalized counties. Only Kshs.15.9 Billion out of the expected Kshs.67.8 Billion of the total entitlement had been transferred to the Fund. The Fund was established by the Constitution of Kenya to help marginalized areas get essential services like water, roads, health facilities, and electricity, to bring them up to the same standard as the rest of the country.

These fourteen (14) counties are Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita Taveta, Isiolo, and Lamu.



## 6.0 RECOMMENDATIONS

- The National Treasury should take into consideration all macro-economic assumptions during budget preparation to ensure that accurate budgets are presented to Parliament. Any expenditure that was known at the time the original budget was finalized should not be considered unforeseen.
- Accounting Officers should strive to execute their budgets according to the plan approved by the legislature at aggregate and detailed allocations.
- Accounting Officers should take appropriate measures to resolve issues arising from audits and ensure implementation of the recommendations of Parliament on the report of the Auditor-General.
- Accounting officers should put in place proper mechanisms to enable absorption of the committed funds within the agreed timeframes to promote fiscal discipline in the use of public resources.
- Sanctions should be introduced against Accounting Officers who fail to pay suppliers or contractors within the stipulated timelines. The National Treasury to ensure adequate funding is provided towards implementation of government projects and programmes.
- Sanctions on Accounting Officers who fail to provide documents in accordance with Section 62 (b) and (c) of the Public Audit Act, 2015.
- The National Treasury should update, finalize and approve all Public Debt policies and procedures manuals regularly and ensure efficiency in retrieval of debt management information, by putting in place a robust and secure filing system that provides quick access to debt information. Further, the directorates should have sufficient and adequately trained debt management staff with clearly defined roles and put in place adequate measures and tools to operationalize and monitor the implementation of the debt Medium-Term strategies.
- Amendment of PFM Act, Cap 412 A, to provide guidelines on the actions to be taken where expenditure incurred under Article 223 is not approved by the National Assembly.

## 7.0 HOW CITIZENS CAN USE THE AUDIT REPORT

This report will enhance citizens' capacity in the Citizen Accountability Audit. It will also encourage greater citizen participation in public finance management, including planning and budgeting. It will lead to increased ownership of Social Accountability Audit initiatives.

Further, this report will increase the visibility of the OAG to citizens leading to increased uptake and follow-up on the findings of audit reports. The citizens will have access to a seamless flow of information from OAG thereby contributing to the effectiveness of participatory audits, and the ability of OAG to report on the efficiency and effectiveness of the use of public resources.





