Republic of Kenya

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

GOVERNMENT OF KENYA

DRAFT PUBLIC-PRIVATE PARTNERSHIPS AUDIT PROGRAMS FOR NATIONAL GOVERNMENT ENTITIES

SEPTEMBER 2026

Public Private Partnership Audit

Audit Program No.:	**Period Under Review:**	**Department:**
Prepared By:		
Reviewed By:		

(To be customised for each Program) Audit Objectives: PPP projects are **economically justified, transparently procured, properly structured, and effectively managed** throughout their lifecycle. PPPs are governed by the **Public Private Partnerships Act 2021** and supervised by the PPP Directorate under the National Treasury.

<u>Sub Section: PPP Identification and Approval</u>

Audit Objectives: To assess whether the PPP project identified through the National Priorities, and entities strategic planning process	
Risks: Non-compliancewith the legal and regulatory requirements on projects alignment with the mandate, performance contract and strategic plan of the entity	
Controls	**Test**
Project Justification & Selection	**TEST OF DESIGN** • To establish whether the project under PPP is within the mandate of the entity, captured in the strategic plan, the PC and any other policy directive on project • If the control is not documented, enquire from process owner how it ismeant to be executed. **TEST OF IMPLEMENTATION** • PPP Act, 2021, Sec 26 & 30: Projects must be identified, prioritized, and included in the national project lists

	• **PFM Reform Strategy:** Alignment with national priorities . • Refer the entity mandate, obtain **, entity strategic plan, performance contract (PC)**, and any other authority. • Confirm that the design documented under TEST OF DESIGN is implemented as documented and approved. • Walkthrough and document the process flow map. Note any gaps in implementation **TEST OF OPERATING EFFECTIVENESS** • Verify the project is on the approved "National List" or "Priority List" . • Assess if the project selection followed a transparent prioritization process • Verify whether the strategic plan contains all known PPP projects, plans, budgetary allocation programs that contains key performance indicators for the PPP project to be implemented by the entity. • Establish that, sufficient resources were allocated for the projects • Carry out other tests of operating effectiveness aligned to specific entity policies, procedures, service delivery standards, minutes of meetings and strategic plans. **Sources of Criteria** • *PPP Act 2021, Public Procurement and Asset Disposal Act, and related regulations.* • *National Treasury Circulars e.g: Public Investment Management (PIM) Guidelines (Ref: NT/PIM/05/1, 24 Jan 2020)* • *PFM (Public Investment Management) Regulations, 2022,* • *Public investment management framework 2020* • *PFMA 2012* • *PFMR 2015*
Audit Objective :To establish that public participation was undertaken during project design and implementation	
Risks: inadequate public participation in-project design and implementation that may lead to litigations and resistance of the project	

Controls	Test
Oversight arrangements on public participation Public Participation Act 2025	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on public participation in project during project design and implementation • Verify that public participation was undertaken during project design and implementation • If the control is not documented, enquire from process owner how it ismeant to be executed. **TEST OF IMPLEMENTATION** **Obtain reports on public participation (Photos, recordings, feedback, modes of advertisement)** • Establish that the project identification is in line with the regulatoryrequirements identified in TEST OF DESIGN. Note any gaps in implementation • Document the findings on public participation in project design and implementation. • **TEST OF OPERATING EFFECTIVENESS** Verify that public participation was undertaken in line with the constitution of Kenya Article 1 (2) 10 (2) 118 and 196, policy directives on public participation and entity policies on public participation • Verify validity of the public participation report • Carry out other tests of operating effectiveness aligned to specific entity,policies, procedures, service delivery standards, minutes of meetings.
Audit Objective: To understand the PPP project structure, stakeholders, and risks.	
Risk	**Non-compliance with PPP law, procurement law, or environmental regulations, Poor feasibility analysis**
Controls	**Test**
PPP Structure and Stakeholders sufficiency	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation

	•Verify that a feasibility study report was done in justification of the project using PPP approach •If the control is not documented, enquire from process owner how it is meant to be executed. **TEST OF IMPLEMENTATION** • **Obtain and review:** PPP project concept note, Feasibility study, Value-for-money analysis, PPP approval documentation, PPP contract agreements **TEST OF OPERATING EFFECTIVENESS** • Confirm that the PPP project was approved by the relevant PPP oversight bodies. • Verify alignment with national development priorities. • **Identify project stakeholders:** Contracting authority, Private partner, Lenders, Regulators • **Understand the PPP model used**: BOT (Build–Operate–Transfer), BOOT (Build–Own–Operate–Transfer), DBFO (Design–Build–Finance–Operate)
Audit Objective: To confirm that the PPP project was properly justified.	
Risk	**Overestimation of project demand and/or Poor feasibility analysis leading to unviable projects.**
Controls	**Test**
Feasibility Studies reliability	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation **TEST OF IMPLEMENTATION**

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PPP Act, 2021, Sec 32-33: Mandatory feasibility studies (technical, financial, legal, social, environmental) and approval by the PPP Committee
Review feasibility studies including Technical feasibility, Economic viability, Financial viability, Environmental and social impact

TEST OF OPERATING EFFECTIVENESS

Verify that feasibility studies were conducted by qualified experts.
Confirm approval by the PPP Committee.
Evaluate assumptions used in demand forecasts and cost estimates.

Evidence Basis
Feasibility Study Report, PPP Committee Minutes, Value for Money Analysis.
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<tr><td colspan="2">Audit Objective: To determine whether the PPP model provides better value than traditional public procurement.</td></tr>
<tr><td>Risks:</td><td>Poor VfM analysis resulting in costly PPP arrangements.</td></tr>
<tr><td>Controls</td><td>Test</td></tr>
<tr><td>Performance and Value for Money (VfM) Assessment</td><td>
TEST OF DESIGN

Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation
Verify that a feasibility study report was done in justification of the project using PPP approach
If the control is not documented, enquire from process owner how it is meant to be executed.

TEST OF IMPLEMENTATION
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	Establish whether Performance Metrics and Value for Money Conditions have been established. **TEST OF OPERATING EFFECTIVENESS** i. Review the Value for Money analysis. ii. Examine Public Sector Comparator (PSC) calculations. iii. Verify assumptions used in cost comparisons. iv. Assess risk allocation between public and private partners v. Confirm that project milestones, outputs, and KPIs match contract specifications. vi. Inspect construction or service delivery progress reports and physical verification. vii. Review independent technical or third-party inspections. viii. Evaluate whether PPP structure maximizes value for money compared to alternative procurement.
Audit Objective: To ensure transparency and competitiveness in selecting the private partner.	
Risks:	• **Single sourcing without justification** • **Conflict of interest among evaluation committee members.**
Controls	**Tests**
Procurement and Award Process	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • If the control is not documented, enquire from process owner how it is meant to be executed. **TEST OF IMPLEMENTATION** **1.Procurement Method PPP Act, 2021, Part V (Sec 37-45):** Compliance with allowed methods: • Competitive Bidding,

	• Restricted Bidding, • Direct Procurement, or • Privately Initiated Proposals (PIPs) **2. Bid Process Integrity PPP Act, 2021, Sec 46-56:** Fairness in Requests for Qualification (RFQ), Invitation to Bid, bid submission, and evaluation. **TEST OF OPERATING EFFECTIVENESS** • Confirm compliance with procurement laws and PPP regulations. • Verify fairness and transparency in bid evaluation. • Confirm that evaluation criteria were applied consistently • Confirm the chosen method was legally justified and approved. (For PIPs, verify due diligence was conducted per **Sec 41)** • Review evaluation reports for compliance with pre-disclosed criteria. • Check for conflicts of interest among the evaluation team (Sec 54) • **Review** Procurement files, Approval records, PPP Committee minutes • Verify Parliamentary ratification for national projects
Audit Objectives: To determine whether the PPP contract adequately protects public interests.	
Risk	**Unfavorable contract terms for the government.**
Controls	**Test**

Reliable Contract Structuring and Negotiation	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed. **TEST OF IMPLEMENTATION** • **Negotiations and Award PPP Act, 2021, Sec 57:** Conduct of negotiations • **PPP Act, 2021, Sec 60**: Approval of the project by the PPP Committee. **TEST OF OPERATING EFFECTIVENESS** Review the PPP agreement and key clauses including: • Scope of work • Payment mechanisms • Risk allocation • Termination clauses • Dispute resolution mechanisms • Verify that contract negotiations followed approved procedures. • Assess whether risks are appropriately allocated. • Confirm final approval by the PPP Committee. • Verify Parliamentary ratification for national projects. • Verify that negotiations did not materially alter the bid's core terms.
Audit Objectives: To verify that project financing is properly structured.	

Risk	**Excessive government financial exposure.**
Controls	**Tests**
Appropriate Financial Arrangements and Funding	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed. **TEST OF IMPLEMENTATION** • **Financial Management & Reporting PPP Act, 2021, Sec 82:** Financial reporting and audit • Evaluate substantiveness of PPP contracts and agreements and Financing agreements • PFM Act, 2012: Requirements for accounting officers . • IPSAS: Compliance with accounting standards **TEST OF OPERATING EFFECTIVENESS** Evaluate funding sources such as: • Equity investments • Debt financing • Government guarantees Review financing agreements. • Confirm approval of government guarantees. • Verify financial close documentation.

A. PPP Project Implementation Sub-Section

Audit Objectives: To ensure the project is implemented according to agreed timelines and specifications.	
Risk	**Project delays and Poor construction quality.**
Controls	**Tests**
Construction and Implementation Phase	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed. **TEST OF IMPLEMENTATION** Evaluate whether there exists appropriate construction monitoring mechanisms and feedback loops. • Construction progress reports • Environmental reports • Project implementation reports. • Construction progress against milestones. **Performance Monitoring PPP Act, 2021, Sec 73:** Project management and oversight by the Contracting Authority **PPP Act, 2021, Sec 82:** Submission of project performance reports .

<table>
<tr><td></td><td>TEST OF OPERATING EFFECTIVENESS

• Review project implementation reports.
• Review the Contracting Authority's project management records.
• Compare actual performance (e.g., availability, service quality) against the KPIs in the project agreement.
• Compare planned vs actual progress.
• Verify independent engineer reports.
• Conduct site inspections where applicable
• Review whether audit recommendations and risk mitigation measures are implemented.

Evidence Records: Project Agreement (Schedules on KPIs), Performance reports, Contracting Authority's monitoring logs.</td></tr>
<tr><td colspan="2">Audit Objectives: To assess effectiveness of ongoing contract oversight.</td></tr>
<tr><td>Risk</td><td>Weak monitoring of private partners</td></tr>
<tr><td>Controls</td><td>Tests</td></tr>
<tr><td>Contract Management and Monitoring</td><td>TEST OF DESIGN
• Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation
• Verify that the contracts were negotiated and structured to fulfil the project deliverables
• If the control is not documented, enquire from process owner how it is meant to be executed

TEST OF IMPLEMENTATION
• Evaluate whether there exists appropriate construction monitoring mechanisms and feedback loops
• Adherence to Project Agreement PPP Act, 2021, Third Schedule: Minimum contractual</td></tr>
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	obligations **TEST OF OPERATING EFFECTIVENESS** • Review monitoring reports prepared by the contracting authority. • Assess compliance with performance indicators. • Verify performance monitoring systems. • Confirm enforcement of contract penalties for non-performance.
Audit Objectives: To ensure accurate revenue sharing and payment management	
Risk	**Revenue leakages and Overpayments to private partner**
Controls	**Tests**
Revenue Collection and Payment Mechanisms	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed **TEST OF IMPLEMENTATION** Ensure whether payment mechanisms and/or revenue sharing models are in place and functional **TEST OF OPERATING EFFECTIVENESS** Review payment mechanisms including: • Availability payments of appropriate fees • Revenue sharing arrangements • Verify accuracy of revenue reporting. • Confirm payments made to private partners comply with contractual terms.

	• Perform **vouching**: payments → invoices → contract → delivery reports. • Analytical review: compare planned vs. actual costs, flag significant variances. Test for **double payments, unauthorized advances, or payments without evidence**
Audit Objectives: To establish effective contract management and legal compliance	
Risk	**Ineffective contract management and possibility of litigation**
Controls	**Tests**
Contract & Legal Compliance	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed **TEST OF IMPLEMENTATION** • Obtain all PPP contracts and amendments. • Verify that contracts are **signed by authorized officials** and in compliance with PPP laws. • Check that **approval processes** (e.g., PPP committee, Cabinet Secretary) were followed. • Review correspondence and approvals for **environmental and sectoral compliance**. • Confirm existence and adequacy of **performance guarantees, bonds, or insurance**. **TEST OF OPERATING EFFECTIVENESS** • Trace contract terms to payment schedules and deliverables. • Test for contract deviations and unauthorized amendments. • Review dispute resolution clauses and any active legal claims. • Correspondence related to major amendments or variations (PPP Act Sec 72)
Audit Objectives: Evaluate the Accuracy and effectiveness of Financial Reporting	
Risk	**Ineffective financial reports**

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Controls	Tests
Project Financial Management Reports	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation • Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed **TEST OF IMPLEMENTATION** • Verify **project budget approvals** against PPP submissions and government authorization. • Check all **payments made to private partners**: supporting invoices, progress reports, and approvals. • Examine **cost estimates vs. actual expenditures**. • Review **claims, variations, or change orders** for justification and approvals. • Ensure **VAT, withholding taxes, and other statutory deductions** are made correctly. **TEST OF OPERATING EFFECTIVENESS** • Perform **vouching**: payments → invoices → contract → delivery reports. • Analytical review: compare planned vs. actual costs, flag significant variances. • Test for **double payments, unauthorized advances, or payments without evidence**

B. Project Closure and Hand over

Audit Objectives: To verify that project handover procedures comply with the contract.	
Risk	**Poor handover/ take over procedures**
Controls	**Tests**
Completion and Handover of the asset	**TEST OF DESIGN** • Establish the key requirements of laws, regulations, policies and procedures on feasibility studies in project during project design and implementation

	• Verify that the contracts were negotiated and structured to fulfil the project deliverables • If the control is not documented, enquire from process owner how it is meant to be executed **TEST OF IMPLEMENTATION** • Establish that handover procedures have been developed and implemented. • **Asset Transfer PPP Act, 2021, Sec 2 (Definition):** The arrangement generally includes the transfer of the facility back to the Contracting Authority • **Final Account and Lessons Learned Public Audit Act, 2015, Sec 36:** Performance audits to determine value for money. **TEST OF OPERATING EFFECTIVENESS** • Confirm that handover documentation is complete • Confirm compliance with handover requirements. • Assess asset condition at transfer and undertake asset condition assessments. • Review the final accounts and implementation of closure procedures • Verify that the transfer was conducted as per the agreement's terms. • Conduct a post-completion review to assess if the project achieved its original objectives and delivered long-term VfM.. **Evidence Reviewed:** Project Agreement (Hand-back clauses), Asset inspection report, Transfer certificate, Final project report, Ex-post evaluation studies.

Common red flags in PPP infrastructure projects.

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1. Single Sourcing Without Justification

- Awarding PPP contracts without competitive bidding.

- Use of emergency procurement where no emergency exists.

Risk: Favoritism or corruption.

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2. Manipulation of Feasibility Studies

- Feasibility reports showing overly optimistic projections.
- Demand forecasts exaggerated to justify project approval.

Risk: Projects approved despite being economically unviable.

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3. Conflict of Interest in Bid Evaluation

- Evaluation committee members having personal relationships with bidders.
- Undisclosed financial interests in bidding companies.

Risk: Biased selection of private partners.

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4. Unusual Changes in Tender Requirements

- Tender specifications changed shortly before submission deadlines.
- Requirements tailored to suit a particular bidder.

Risk: Bid rigging.

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5. Limited Number of Bidders

- Only one or two bidders participating in large PPP tenders.
- Frequent withdrawal of competing bidders.

Risk: Collusion among bidders.

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6. Unjustified Contract Amendments

- Major contract changes shortly after signing.
- Alteration of scope without proper approvals.

Risk: Post-award manipulation to benefit the contractor.

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7. Significant Cost Escalations

- Project costs increasing significantly without clear justification.
- Frequent requests for additional funding.

Risk: Overpricing or kickback arrangements.

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8. Weak Value-for-Money Analysis

- Inadequate or poorly documented Value-for-Money (VfM) assessments.
- Lack of Public Sector Comparator (PSC).

Risk: PPP structure used to conceal inflated costs.

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9. Overly Generous Government Guarantees

- Government assuming excessive financial risks.
- Guarantees issued without proper approvals.

Risk: Hidden financial liabilities for government.

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10. Delayed Financial Close

- Private partner struggling to secure financing.
- Repeated extensions granted without justification.

Risk: Unqualified investors winning PPP bids.

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11. Payments Made Before Work Completion

- Payments made without independent verification of project progress.
- Advance payments exceeding contract provisions.

Risk: Fraudulent payments or contractor favoritism.

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12. Poor Contractor Performance Monitoring

- Absence of performance monitoring systems.
- Lack of enforcement of contractual penalties.

Risk: Contractors failing to meet obligations without consequences.

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13. Frequent Contract Variations

- Numerous change orders during construction.
- Scope changes increasing project costs.

Risk: Artificially low bids followed by inflated variations.

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14. Non-Transparent Revenue Reporting

- Private partner reporting revenues without independent verification.
- Inadequate monitoring of user fee collections.

Risk: Revenue underreporting and government revenue loss.

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15. Weak Documentation

- Missing procurement documents.
- Incomplete contract records.

Risk: Concealment of irregular transactions.

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16. Political Interference

- Political pressure to award PPP contracts to specific investors.
- Fast-tracking projects without proper review.

Risk: Corruption and poor project outcomes.

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17. Use of Shell Companies

- Private partners linked to newly formed companies with no track record.
- Companies with unclear ownership structures.

Risk: Concealing beneficial ownership or corruption.

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18. Lack of Independent Technical Reviews

- Engineering designs not reviewed by independent experts.
- Poor quality assurance processes.

Risk: Sub-standard construction.

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19. Weak Risk Allocation

- Major risks shifted to government despite PPP structure.
- Contract terms heavily favoring private partner.

Risk: Government absorbing project losses.

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20. Unusual Relationships Between Officials and Contractors

- Frequent informal meetings outside official channels.
- Gifts or benefits provided to public officials.

Risk: Bribery and kickback