REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

CONSOLIDATED KENYA PIPELINE COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that 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 CONSOLIDATED FINANCIAL STATEMENTS

Opinion

I have audited the accompanying Consolidated financial statements of Kenya Pipeline Company Limited (the Company) and its subsidiary set out on pages 91 to 185, which comprise of the consolidated and Company statements of financial position as at

30 June, 2025, and the consolidated and Company statements of profit or loss and other comprehensive income, consolidated and Company statements of changes in equity, consolidated and Company statements 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, the Consolidated and Company financial statements present fairly, in all material respects, the financial position of Kenya Pipeline Company and its subsidiary as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Pipeline Company Limited 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 opinion.

Emphasis of Matter

1. Land Registration Status

The Company's statement of financial position reflects property, plant and equipment balance of Kshs.84,588,805,696, which as disclosed in Note 17 to the financial statements includes freehold land balance of Kshs.2,367,000,100 while Note 18 reflects a balance of Kshs.16,341,174,064 relating to leasehold land resulting to a land balance of Kshs.18,708,174,164. The balances were based on a revaluation undertaken by a professional valuer engaged by Management during the year under review.

Further, review of the Revaluation Report revealed several parcels of land located in Nakuru, Machakos, Taita/Taveta, Makueni, Mombasa and Uasin Gishu Counties which had allotment letters and transfer documents from original owners. According to Management, the Company had possession rights including allotment letters and sale agreements with original owners. However, processing of titles had delayed due to several reasons which included; encumbrances of titles by third parties, ongoing subdivision processes, court restrictions, and boundary disputes among others which had not been concluded by the time of the audit.

In addition, review of the fixed asset register and ownership documents for land revealed thirty-three (33) parcels located in Kajiado County which were acquired on 15 August, 2001 at a cost of Kshs.291,673,100. The parcels were subsequently impaired due to nullification of titles by the High Court. The nullification is likely to lead to loss of public funds expended in the acquisition.

2. Contingent Liability on Oil Spillage Claim

Note 45 to the financial statements discloses contingent liabilities balance of Kshs.6,355,046,344, comprising of pending lawsuits and guarantees balance of Kshs.6,237,325,492 and letters of credit balance of Kshs.117,720,852. Review of pending legal cases revealed an award of an amount of Kshs.3,018,831,676 against the Company in favour of residents of a Village who had filed a suit in the High Court seeking compensation for violation of rights occasioned by an oil spill on 12 May, 2015. Although Management had undertaken an insurance against accidental loss or damage to the material property, occurring through the fault or negligence of the insured, the insurer failed to settle the court award

Management has since filed a notice of appeal appealed against the award, which had not been concluded as at the time of concluding the audit.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the prior years' audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on the Effectiveness Internal Controls, Risk Management and Governance. Review of the status during audit of the Company in 2024/2025 revealed that the following matters remained unresolved:

No.	Audit Issue
1	Penalties and interests on unsettled contractor claims
2	Long outstanding receivables
3	Inadequacies in regulations governing staff car loans scheme
4	Weaknesses in Information Technology Input Controls

Other Information

Management is responsible for the Other Information set out on page 6 to 89 which comprise of Corporate Information, Board of Directors, The Executive Management Team, Chairman's Statement, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Integrated Risk Management Report and the Report of the Directors. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company'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 and I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Delay in Project Implementation

The statement of financial position reflects property, plant and equipment balance of Kshs.84,588,805,696. Included in the balance are works in progress amounting to Kshs.2,188,285,156. A ledger provided in support of the amount revealed that five (5) projects with a value of Kshs.710,967,097 had no activity during the year, indicating that they had stalled. Some having been dormant for more than six (6) years.

Further, review of a project status report and the contracts revealed that eight (8) projects with a total cost of Kshs.605,495,685 had exceeded their implementation periods. Five (5) projects were granted extensions of time lasting between six (6) and thirteen (13) months, with one project receiving six extensions. In addition, justifications for the extensions of time were not provided for review.

In the circumstances, existence of effective mechanisms for monitoring of work in progress could not be confirmed.

2. Privatization of the Kenya Pipeline Company

As disclosed in Note 50 to the financial statements, the Company is undergoing a process of privatization guided by the Privatization Act, 2023. However, several documents supporting the process were not provided for audit review as detailed below:

i. A Privatisation Programme formulated by the Cabinet Secretary to The National Treasury and approved by the Cabinet as required under Section 19 of the Privatisation Act, 2023;

ii. Evidence of consultation between the Kenya Pipeline Company and affected persons, including experts in the area, organisations in that area and members of public as required in Section 20 of the Privatisation Act, 2023;

iii. Evidence of how the Privatization Commission will address unregulated monopoly in petroleum pipeline operations as provided for in Section 41 of the Act;

iv. Evidence of valuation of the business and assets by the Privatization Commission and procurement process of the approved valuer as per Section 33 of the Privatisation Act, 2023;

v. Evidence of how the assets under disputes, encumbrances, court restrictions and potential losses will be treated or disclosed.

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

Conclusion

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

Basis for Conclusion

Long Outstanding Receivables

The statement of financial position and as disclosed in Note 26 to the financial statements reflects trade and other receivables balance of Kshs.7,421,057,427. The balance comprises of gross trade and other receivables less provision for bad and doubtful debt of Kshs.15,105,565,608 and Kshs.2,223,339,281 respectively. Review of an ageing analysis provided in support of the trade and other receivables revealed that an amount of Kshs.2,487,725,202 which had been outstanding for more than 180 days.

Further, the balance includes staff loans and advances amounting to Kshs.1,641,675,001. However, review of a list of the staff loan balances revealed that three (3) former employees of the Company had defaulted on payment of car and mortgage loans, and were in arrears amounting to Kshs.5,308,450. No evidence was provided to indicate that the Management had secured the loans with a charge or joint ownership of the properties acquired with the loans, which increased the risk of default.

In the circumstances, existence of effective mechanisms and strategies for debt recovery 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by the Companies Act, 2015, I report, based on my audit, that:

i. 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;

ii. The information given in the Directors' report on page 88 is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on page 121 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's, compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company'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 Company'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

22 December, 2025