REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

EXPORT PROCESSING ZONES AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON EXPORT PROCESSING ZONES AUTHORITY 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 which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which 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 Government achieves value for money and that such funds are applied for intended purpose; and,

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Export Processing Zones Authority set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, the statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the

Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Export Processing Zones Authority as at 30 June, 2025 and of its financial performance and of cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and complies with the Public Finance Management Act, 2012 and the Export Processing Zones Act, 1990.

Basis for Qualified Opinion

1. Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.14,837,858,019 which includes land balance of Kshs.5,455,260,000 as disclosed in Note 24(a) to the financial statements. Included in the balance are two parcels of land, measuring two (2.0) hectares with a book value of Kshs.2,250,000 acquired through Gazette Notice Nos. 2802 and 2803 of July 1991. However, as at the time of audit, only one parcel of land had ownership documents, while the other parcel of land remained outstanding due to an ongoing court case. Further, as previously reported, the Authority acquired land measuring 0.08 Ha at a cost of Kshs.6,500,000 in the financial year 2015/2016. However, the Authority had not processed or obtained ownership documents for the parcel of land as at 30 June, 2025.

In the circumstances, the accuracy, existence and ownership of the property, plant and equipment balance of Kshs.14,837,858,019 could not be confirmed.

2. Long Outstanding Trade Receivables

Note 15(a) to the financial statements reflects trade receivables balance of Kshs.780,414,106. Included in the balance is Kshs.674,962,037 which has been outstanding for a period of more than one year with diminishing chances of recovery.

In the circumstances, the accuracy and recoverability of the trade receivables balance of Kshs.780,414,106 could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.2,646,814,821 and Kshs.2,414,370,717 respectively resulting to an under-collection of Kshs.232,444,104. However, the Authority spent Kshs.1,640,790,235 against revenue of Kshs.2,414,370,717 resulting to an under-expenditure of Kshs.773,580,482 or 32% of the actual revenue.

The under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. The issues as detailed in Appendix I remain unresolved as Parliament has not deliberated on the same.

Other Information

The Management is responsible for the Other Information set out on page ii to xxxv which comprise of Key EPZA Information and Management, The Board of Directors, Key management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Authority financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. In my opinion, except for the matter described below, I confirm that the Other Information is not materially inconsistent with the financial statements.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, 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. Uncommissioning of Common Effluent Treatment Plant

The statement of financial position reflects property, plant and equipment balance of Kshs.14,837,858,000 which includes work-in-progress balance of Kshs.3,149,759,000 as disclosed in Note 24(a) to the financial statements. Included in the balance is Kshs.1,132,662,113 (50% of contract sum) which relates to design, supply and construction of Kenya Leather Park (Machakos) common effluent treatment plant and associated infrastructure at Kinanie EPZ site, Machakos County. The Contractor raised an interim payment Certificate No.13 dated 18 June, 2024 amounting to Kshs.63,593,302 which was due on 16 July, 2024. However, due to non-payment for a period of one (1) year, an interest of Kshs.9,916,931 had been charged. Further, during the year under review, the Authority incurred electricity costs amounting to Kshs.10,600,238 for running the installed machines occasionally as part of testing and maintenance requirements prior to operationalization. A balance of Kshs.207,979,666 due to the contractor has been outstanding for more than two (2) years. The contractor may continue charging interest for unpaid pending bills.

In the circumstances, the value for money on common effluent treatment plant and associated infrastructure may not be realized.

2. Delay in Construction of Flagship Projects

The Authority contracted various contractors to construct flagship projects in Kabati-Muranga County, Nasewa- Busia County, Eldoret- Uasin Gishu County and Sagana – Kirinyaga County at contract costs of Kshs.475,194,963, Kshs.572,319,823, Kshs.477,021,268 and Kshs.493,514,895, respectively all totalling Kshs.2,018,050,949. At the time of audit in October 2025, total sum paid on interim certificates raised for the respective projects was Kshs.1,107,606,273 or 55% of the gross contract sum as follows:

No	Flagship Project	Contract Sum (Kshs)	Paid Amount (Kshs)	Percentage (%)
1	Kabati	475,194,963	236,698,893	50%
2	Nasewa	572,319,823	338,446,368	59%
3	Eldoret	477,021,268	267,437,608	56%
4	Sagana	493,514,895	265,023,404	54%
	Total	**2,018,050,949**	**1,107,606,273**	

There has been delay from the Authority in payment of interim certificates which has resulted in several extensions of completion dates.

In the circumstances, the objectives of the projects and value for money of Kshs.1,107,606,273 may not be realized.

3. Understaffing of the Authority

Review of the Authority's records revealed that it has an approved establishment of three hundred and fifty-three (353) members of staff. However, the Authority has an in-post of one hundred and seventy-two (172) staff members resulting to understaffing of one hundred and eighty-one (181). A situation that may lead to overloaded work force.

In the circumstances, the staff of the Authority may not discharge its mandate effectively which may impact negatively on service delivery to the public.

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 are in compliance, in all material respects, with the authorities which 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 and based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control 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 overall governance.

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

26 November, 2025

Appendix I

Unresolved Prior Year Matters

No	Reference	Observation
		Basis for Qualified Opinion
1		Lack of Ownership Documents and Valuation
2		Valuation of Biological Assets
3		Long Outstanding Trade Receivables
		Emphasis of Matter
4		Budgetary Control and Performance
		Lawfulness and Effectiveness in Use of Public Resources
5		Delayed Projects Implementation