REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA DEVELOPMENT CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

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

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Development Corporation set out on pages 1 to 90, which comprise of the statement of financial position as at

30 June, 2025 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Kenya Development Corporation 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, Kenya Development Corporation (Vesting) Order, 2021 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Presentation and Accuracy of the Financial Statements

Review of the financial statements revealed the following anomalies:

The reporting template under the statement of profit or loss and other comprehensive income shows revenue from contracts with customers and cost of sales but the Corporation did not insert these sub headings to capture the proceeds for investment property of Kshs.52,650,000. Further, Note 20 to the financial statements reflects disposals of investment property of Kshs.52,650,000. However, Management captured the same amount as other miscellaneous income and under administration costs implying that no gain or loss upon disposal.

i. The statement of profit or loss and other comprehensive income reflects other miscellaneous income of Kshs.128,683,154 which includes grant income for Drive and KJET Projects of Kshs.34,375,503 as disclosed in Note 10 to the financial statements. However, the agreements and basis of how the amounts were arrived at was not provided for audit.

ii. The statement of comparison of budget and actual reflects surplus amount of Kshs.839,800,256 which was not reconciled to the closing cash and cash equivalents balance of Kshs.4,008,010,043 as per the statement of cash flows.

iii. Note 18 to the financial statements reports property, plant and equipment balance of Kshs.769,782,290. Included in this amount is Kshs.568,330,000 in respect of buildings and civil works. However, the table summary of cost and accumulated depreciation reflects buildings at a cost of Kshs.374,960,000 resulting in variance of Kshs.193,370,000.

iv. The financial statements for Kenya Jobs and Economic Transformation Project reflect project expenses as Kshs.15,945,838 whereas the Corporation reflects the expenses as Kshs.21,089,433 resulting in unexplained variance of Kshs.5,143,595.

v. Appendix V - inter-entity confirmation letters were not signed by the heads of accounts department from the respective disbursing entities.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Variances in Investments Property

The statement of financial position reflects investment property balance of Kshs.10,108,825,444 as disclosed in Note 20 to the financial statements. Included in this balance is additions for the year amounting to Kshs.103,498,673 for the supply, installation, testing and commissioning of lifts for both Utalii and Finance Houses. However, only Kshs.103,498,673 out of Kshs.123,098,065 certified works was capitalized resulting to an unexplained variance of Kshs.19,599,392.

Further, out of Kshs.123,098,065 of the certified works, only kshs.102,316,851 was paid as at 30 June, 2025 and the difference of Kshs.20,781,214 was not recognized as a payable.

In the circumstances, the accuracy and completeness of investment property of Kshs.10,108,825,444 could not be confirmed.

3. Varying Depreciation Rates on Property, Plant and Equipment

Note 18 to the financial statements on property, plant and equipment reflects depreciation charge for the year of Kshs.29,888,428. However, the depreciation rates used as per Note 4(c) to the financial statements for motor vehicles at 20% and office equipment, furniture and fittings at 10% were not corresponding to the rates of 25% and 12.5% on the two assets respectively as indicated in the Corporation's Finance and Accounts Policy approved by the Board on 9 December, 2021.

Further, Note 4(c) to the financial statements provides that depreciation on property, plant and equipment is recognised in the statement of profit or loss and comprehensive income on a straight-line basis to write down the cost of each asset or the revalued amount to its residual value over its estimated useful life and that the annual depreciation amount is pro-rated on a monthly basis. In addition, the financial statements discloses that a full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal contradicting the use of straight-line pro-rata basis.

In the circumstances, the accuracy and completeness of depreciation charge for the year of Kshs.29,888,428 could not be confirmed.

4. Unconfirmed Receipts in the Bank Statement Posted in the Cash Book

The statement of financial position reflects bank and cash balance of Kshs.192,510,611 as disclosed in Note 28 to the financial statements. Review of the bank reconciliation statements revealed that as at 30 April, 2025 various bank accounts of the Corporation omitted receipts of Kshs.27,096,061 in the bank statements dating back to May 2002 which as at 30 June, 2024 were recorded as unallocated receipts in the cash books and included trade and other payables as unallocated bank credits. Management did not comply with the regulations on cash management which provides that the bank reconciliations shall be prepared on a monthly basis and all the outstanding effects continuously captured until they are investigated and appropriate action taken including updating the relevant cash books.

In the circumstances, the accuracy and completeness of bank and cash balance of Kshs.192,510,611 could not be confirmed.

5. Unsupported Unquoted Investments

Note 22 to the financial statements reflects unquoted investments balance of Kshs.16,295,931,903. However, as previously and as per the accounting policy, is measured at fair value though other comprehensive income (FVTOCI). However, the value attached to each investment was not supported by a valuation report from an independent valuer as detailed working to demonstrate how the amount was arrived at.

In the circumstances, the accuracy and completeness of the unquoted investments balance of Kshs.16,295,931,903 could not be confirmed.

6. Non-Compliance with International Accounting Standards 20 - Accounting for Government Grants

The statement of financial position reflects grant balance of Kshs.4,237,857,051 as disclosed in Note 33 to the financial statements. As previously reported, the accounting treatment was not as per the International Accounting Standards (IAS) 20 which describes the accounting for and disclosure of Government grants which require grants to be accounted for either using the capital or the income approach. Management has not used any of these approaches. Further, the Corporation does not have an accounting policy to guide recognition and accounting for grants.

In the circumstances, the accuracy and completeness of the grant balance of Kshs.4,237,857,051 could not be confirmed.

7. Unsupported Deferred Tax Liability and Non-Compliance with IAS 12

Note 35 to the financial statements reflects deferred tax liability of Kshs.8,901,708. However, the amount has remained constant for the last three years yet there are reversals of timing differences and new timing differences. This is non-compliance with International Accounting Standards 12.

In the circumstances, the accuracy, completeness and compliance with International Accounting Standards 12 could not be confirmed.

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,672,055,336 and Kshs.2,455,906,878 respectively resulting to an under-collection of Kshs.216,148,458 of the budget. However, the Corporation spent Kshs.1,771,829,023 against actual receipts of Kshs.2,455,906,878 resulting to an under-expenditure of Kshs.684,077,855 or 28% of the actual receipts.

In the circumstances, the under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2. Non-Performing Loans

Note 23 to the financial statements reflects loans receivables of Kshs.9,800,624,056. As previously reported, review of loan listings reflected loans classified as loss amounting to Kshs.3,179,613,165. These are loans which are considered uncollectible or of such collateral value that their containing recognition as bankable assets is not warranted. Principal and interest payments are past due for more than three hundred and sixty-five (365) days. Contrary to the loan agreement, the Corporation may either not be able to recover the balances or it will take long to recover its loan from its clients. Further, as previously reported, the Corporation has stopped accrual of interest on the loans in line with the In Duplum principle which requires that interest accrued should not exceed the principal amount outstanding when the loan becomes non-performing. In addition, the securities related to some of the old non-performing loans being borrowers' ancestral lands, were reported to be missing, impaired or irredeemable.

Further, one (1) investment that has currently ceased operations namely Kenya Hotel Properties (Intercon Nairobi) Limited has been valued at Kshs.117,603,012 which is an amount that may not be realizable. In addition, several investments in Companies that are currently in operation including Sunset Hotel Limited, KENATCO Taxis Limited, Kenya National Trading Corporation, South Nyanza Sugar Company, Agro Chemical and Food Industries and Nzoia Sugar Company Limited have been fully written off from the books of the Corporation.

The Corporation may not recover these amounts leading to loss of public funds or may not realize value for money for loans which are taking too much time to be recovered.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion, 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, Other Matter and Report on Lawfulness and Effective in the Use of Public Resources. The issues as detailed in **Appendix I** remain unresolved.

Other Information

The Management is responsible for the Other Information set out on page iii to lxxii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Director General, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Corporation's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. 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 matter 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

Non-Compliance with Government Directive on Revenue Collection through eCitizen

Review of the revenue records revealed that the Corporation had earned a total of Kshs.2,454,574,728. However, it was established that the Corporation continued to receive all its revenue directly into its bank accounts. This was contrary to the Government directive vide Gazette Notice No.16008 on the introduction of the Government services digital payments programme dated 20 December, 2022 requiring that all public revenue be collected through the eCitizen platform.

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, 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.

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 pages Ixx is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on pages 23 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 Corporation'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 the 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 Corporation'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 Corporation'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

11 December, 2025

Appendix I

Unresolved Prior Year Matters

No.	Observation
	Basis of Qualified Opinion
1	Unsupported Unquoted Investments
2	Non-Compliance with IFRS 10 – Consolidated Financial Statements
3	Unresolved Borrowings
4	Non-Compliance with International Accounting Standards 20 – Accounting for Government Grants
	Emphasis of Matter
5	Non-Performing Loans
6	Budgetary Control and Performance
	Other Matter
7	Unrealized Revenue on Investment in Property
	Lawfulness and Effectiveness in Use of Public Resources
8	Prolonged Acting Appointments
9	Lack of Appointment Letter of an Alternate Member
10	Long Outstanding Trade Payables