REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KERIO VALLEY DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KERIO VALLEY DEVELOPMENT 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 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 Kerio Valley Development Authority set out on pages 1 to 50, 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, 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 Kerio Valley Development Authority as at 30 June, 2025, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis)and comply with Kerio Valley Development Authority Act, Cap 441 of 1979 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding Advance Payments for Multi-Purpose Projects

The statement of financial position reflects advance payments for multi-purpose projects balance of Kshs.7,778,151,688 as disclosed in Note 22 to the financial statements. However, the balance had been outstanding for more than one (1) year without any movement, raising concerns regarding its regularity and recoverability.

In the circumstances, the accuracy and completeness of the advance payments multi-purpose projects balance of Kshs.7,778,151,688 could not be confirmed.

2. Restricted Liability-Arror

The statement of financial position reflects restricted liability-Arror balance of Kshs.497,507,493 as disclosed in Note 26 to the financial statements. However, the balance had been outstanding for more than one (1) year without any movement, raising concerns regarding its propriety and recoverability.

In the circumstances, the propriety and recoverability of the restricted liability–Arror balance of Kshs.497,507,493 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kerio Valley Development Authority Management in accordance with ISSAI 130 on 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.

Material Uncertainty Related to Going Concern

Uncertainty on the Continuity of the Authority

Review of records established that the Authority's ability to continue as a going concern remains subject to significant doubt. In 2024, the Government of Kenya issued Executive Order No. 3 of 2024, which provided for the merger, dissolution, or divestiture of 42 State Corporations into 20, placing the Kerio Valley Development Authority (KVDA) among the entities slated for restructuring. Although the High Court of Kenya, in a ruling delivered in November 2025, nullified the Executive Order, thereby granting the Authority a temporary reprieve and allowing it to continue its operations, the long-term sustainability of the Authority remains uncertain. The persisting ambiguity regarding future government policy directions indicates the existence of a material uncertainty that may cast significant doubt on KVDA's ability to continue as a going concern. However, the financial statements have been prepared on a going-concern basis on the assumption that the Authority will continue to receive the necessary support to sustain its operations.

My opinion is not modified in respect of this matter.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budgeted receipts and actual amount on a comparable basis of Kshs.2,834,190,465 and Kshs.1,684,544,206 respectively, resulting to an underfunding of Kshs.1,149,646,259 or 59% of the budget. Similarly, the Authority spent Kshs.1,547,251,176 against actual receipts of Kshs.1,684,544,206 leading to under-expenditure of Kshs.137,293,030 or 8% of the actual receipts.

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

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 Audit Matters

In the audit report of the previous year, several issues were raised, one (1) issue under the Report on Financial Statements, one (1) issue on the Report on Lawfulness and Effectiveness in Use of Public Resources, and four (4) issues on the Report on

Effectiveness of Internal Controls, Risk Management and Governance. The issues have remained unresolved. See **Appendix I**.

Other Information

The Board of Directors is responsible for the Other Information set out on page iii to xlvi which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer/Managing Director, 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 Kerio Valley Development 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. 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 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 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. Trade and Other Payable

The statement of financial position reflects trade and other payables balance of Kshs.194,194,845 as disclosed in Note 27 to the financial statements. Included in the balance is Kshs.69,643,603 and Kshs.8,541,800 in respect of creditors and National Industrial Training Authority respectively. Review of the creditors ageing analysis revealed that the creditors balance of Kshs.69,643,603 includes a balance of Kshs.43,300,822 or approximately or 22% which has been outstanding for more than ninety days. The outstanding balance of Kshs.8,541,800 has also been outstanding for more than ninety days. This was contrary to Section 53(8) of the Public Procurement and Assets Disposal Act, 2015 and section 10.1.1 of the Kerio Valley Development Authority Financial Management Policy in which the latter states that the purpose of the creditors and accruals system is to ensure that all liabilities of KVDA are recognized as and when they are incurred, and all liabilities are reviewed monthly to ensure that KVDA can honor its obligations as and when they fall due.

In the circumstances, Management was in breach of the law.

2. Non-Compliance with Ethnicity and Regional Balance in Staffing

As previously reported, review of Human Resource Data revealed that the Authority had a total of two hundred and twenty-five (225) employees (excluding casual workers). However, out of the two hundred and twenty five (225) staff, one hundred and fifty eight (158) are from the dominant community representing 70% of staff population contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, Management was in breach of the law.

3. Rental Revenue from Facilities and Equipment - Turkwel Multi-Purpose Dam

During the year, the statement of financial performance indicates total revenue from exchange transactions amount of Kshs.156,948,784. Included in the amount is Kshs.97,163,584 which relates to rental revenue from facilities and equipment as disclosed in Note 8 to the financial statements. This amount includes Kshs.45,000,000 as revenue from Kenya Electricity Generating Company (KENGEN). However, it was observed that KENGEN has been remitting Kshs.45,000,000 annually to KVDA for purposes of conservation of the dam and its catchment area since 1995 against the current conservation costs amounting to Kshs.120,000,000. KVDA has not been able to enforce the increase of dam conservation costs to Kshs.120,000,000 or USD 1.75 million negotiated fees as recommended by an inter-ministerial steering committee. In addition, the Authority does not have ownership rights of the Dam.

In the circumstances, the ownership of the dam could not be confirmed.

4. Violation of Rights and Privileges of Persons with Disabilities

During the year, it was noted that the Authority did not adhere to the principle requiring that they meet at least five (5%) percent of all appointments for persons with disabilities. As at time of audit, persons with disability were three (3) which represented 1% of the total population of one hundred and twenty-four (225) employees in the payroll. This was contrary to the provisions of Section B.23(2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 on rights and privileges of persons with disabilities.

In the circumstances, Management was in breach of the law.

5. Employees Earning less than a Third (1/3) of the Basic Salary

As previously reported , thirty-eight (38) employees from the month of June, 2025 payroll were paid net salaries that were less than a third (1/3) of their respective basic pay contrary to the provisions of Section 19(3) of the Employment Act, 2007 which prohibit employers from making deductions in excess of two thirds of their employees' basic salary.

In the circumstances, Management was in breach of the law.

6. Lack of Annual Recruitment Plans

Review of payroll data and Human Resource documentation revealed that the company recruited one (1) employee during the period under review. It was however noted that the Authority did not have an annual recruitment plan to guide its recruitments. Further, no evidence was provided as proof that budgetary availability was being sought before recruitments were made. As a result, the effectiveness of internal controls in human resource management could not be verified.

In the circumstances, Management was in breach of the law.

7. Failure to Conduct Legal Compliance and Independent Legal Audits

The Authority did not conduct mandatory legal compliance audits annually or an independent legal audit within the last two years, contrary to Section 8.4 of Mwongozo which requires Boards to ensure annual legal compliance audits and an independent legal audit every two years, thereby constituting a material governance deficiency in legal oversight and regulatory adherence

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standard requires 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 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

Lack of an ERP Automation System

Review of transactions revealed that the Authority handled transactions exceeding Kshs.1,000,000,000 annually. However, the Authority continues to maintain its books of accounts using manual Excel spreadsheets rather than leveraging a robust Enterprise Resource Planning (ERP) or integrated financial management system. Considering the foregoing, the entity is compelled to produce manual financial reports which are prone to errors and manipulations.

In the circumstances, the reliability, integrity, and completeness of the financial reports 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.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards 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 intentions to liquidate the Authority or 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 are in compliance 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

28 November, 2025

Appendix I: Unresolved Prior Year Audit Matters

S/No	Issue
	Report on Financial Statements
1.	Property Plant and Equipment
	Emphasis of Matter
2.	Budgetary Control and Performance
	Report on Lawfulness and Effectiveness in use of Public Resources
3.	Trade and Other Payables
4.	Non -Compliance with Law on Ethnic Composition
5.	Excessive Deductions on Staff Pay
6.	Rental Revenue from facilities and Equipment-Turkwel Multi-Purpose Dam