REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KONZA TECHNOPOLIS DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

elephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KONZA TECHNOPOLIS 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 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 the 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 FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Konza Technopolis Development Authority set out on pages 1 to 39, which comprise 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 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, the financial statements present fairly, in all material respects the financial position of the Konza Technopolis 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 Legal Notice No. 23 on 28 March, 2012 under State Corporations Act (Cap.446) 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 Konza Technopolis Development 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 opinion.

Emphasis of Matter

Sustainability of the Data Centre Operations and Commercialization Strategy

The statement of financial performance for the year ended 30 June, 2025 reflects a total of Kshs.247,775,442 as revenue from exchange transactions. Included in this amount is Kshs.190,526,432 classified as rental revenue from facilities and equipment as reflected in Note 8 to the financial statements. This figure also includes Kshs.126,763,033 being revenue generated from Data Centre revenue solutions and cloud services as disclosed in Note 8 to the financial statements. Further review of the detailed financial records and supporting schedules revealed that the Data Centre incurred administration costs amounting to Kshs.188,065,119 as disclosed in Note 14 to the financial statements, against total revenue of Kshs.126,763,033 resulting to an operational loss of Kshs.61,302,086 during the year under review. The high expenditure levels as compared to lower revenue generation was an indication that the Data Centre operated below cost recovery thresholds. This raises concern regarding the sustainability and effectiveness of the existing commercialization and pricing strategy, and whether there is value for money on the Data Centre investment.

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

Other Matter

Unresolved Prior Year Issues

In the prior year's audit report, several issues were raised under the Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit of the Authority in 2024/2025 revealed that the issues remained unresolved as at 30 June, 2025 as listed below.

Unresolved Prior Year Audit Issues

No.	Financial Year	Observation
1	2023/2024	Budgetary Control and Performance
2	2023/2024	Unutilized Virtual Desktop Infrastructure
3	2023/2024	Understaffing of the Authority
4	2023/2024	Non-Compliance with the One-Third Basic Salary Rule
5	2023/2024	Non-compliance on Employment Requirements for Persons with Disabilities (PWD)
6	2023/2024	Delay in Completion of Infrastructure Projects
7	2023/2024	Long Outstanding Receivables
8	2023/2024	Failure to adhere to Council and Committees Meeting Regulations

Other Information

Management is responsible for the Other Information set out on page iv to lxiv which comprise of Key Entity 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, Statement of Governance, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the 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'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 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. Failure to Submit Annual Report and Financial Statements for Staff Mortgage Scheme for Audit

The statement of financial position reflects total current assets of Kshs.1,072,794,876 which include receivables from exchange transactions of Kshs.201,560,064 as disclosed in Note 17 to the financial statement and further includes mortgage disbursements due of Kshs.73,394,525. The audit revealed that these were disbursements due from the staff mortgage scheme whose financial statements had not been prepared and submitted to the Auditor General since its inception. This is contrary to Section 84(1) and (3) of The Public Finance Management Act, 2012 which provides that the administrator of a national public fund established by the Constitution or an Act of Parliament shall prepare financial statements for the Fund for each financial year in a form prescribed by the Accounting Standards Board and not later than three months after the end of each financial year, the administrator of a national public fund shall submit the financial statements prepared under this section to the Auditor-General.

Similarly, included in the statement of financial position as at 30 June, 2025 is cash and cash equivalents balance of Kshs.722,590,504. Included in Note 16 to the financial statements on cash and cash equivalents is the mortgage account balance of Kshs. 38,361,607. Audit review revealed that the Authority did not prepare and submit annual report and financial statements for the staff mortgage scheme fund to the Auditor General since the establishment of the Fund. This is contrary to the prescribed Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 which

Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 which requires that the administrator of the fund shall prepare, sign and submit to the Auditor General, in respect of each financial year and within three months after the end thereof, a statement of accounts relating to the Fund and submit a copy to The National Treasury and the statements shall be prepared in such a manner as the Public Sector Accounting Standards Board shall prescribe.

In the circumstances, Management was in breach of law.

2. Settlement of Recurrent Expenditure from the Development Vote

Review of the Authority's cash book revealed that payments totalling Kshs.32,487,029 which were recurrent in nature were charged to the development vote instead of recurrent vote. This misclassification not only distorts the Authority's financial reporting but also reduces the funds available for implementing key development projects for the Authority which is a key flagship project purposed with driving digital transformation, creating high-value jobs and expanding digital inclusion through smart city infrastructure and technology.

Further, this is contrary to Regulation 99(1) and (2) of the Public Finance Management (National Government) Regulations, 2015 which provides that as a general rule, the classification of financial transactions in national government entity's accounts shall be based on the standard chart of accounts approved by The National Treasury.

In the circumstances, Management was in breach of law.

3. Long outstanding Trade payables

The statement of financial position reflects a trade in other payables balance of Kshs.571,370,347. Included in this balance and as disclosed in note 22 to the financial statements is an amount of Kshs.455,401,513 relating to trade payables. However, the Management did not include the aging analysis in the note as required by the reporting template for the year under review.

Further, a review of trade payables balance of Kshs.455,401,513 supporting ledger schedules revealed that balances of Kshs.92,847,150 or 20% of trade payables relates to prior years 2022/2023 and 2023/2024. It is not clear why these obligations were not prioritized as a first charge during budget execution in 2024/2025 contrary to Regulation 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, Management was in breach of law.

4. Non- Functional Boreholes

Review of the asset register revealed that the Authority has six (6) boreholes with a net book value of Kshs.2,425,000 as at 30 June, 2025. Further, physical inspection revealed that the Authority had drilled seven (7) boreholes and only two (2) boreholes were functional. No explanation was provided why the Authority remained with non- functional boreholes due to lack of maintenance despite having heavily invested in them. It is not clear why the Authority has no service level agreement with the service provider for continuous maintenance.

In the circumstances, the value for money on the total amount invested in the drilling and equipping the boreholes could not be confirmed.

5. Incomplete Security Feature and Transit Hub

Review of documents provided for audit including Engineering, Procurement, Construction and Financing (EPCF) contract documents, payment vouchers, Contract Implementation Committee reports, handing over reports, interviews with the Authority construction engineer and physical site inspection of the Horizontal Infrastructure Development for Konza Technopolis Phase 1, revealed that the contractor completed the construction and handed over the infrastructure to the employer (Authority) in May, 2024. However, at the time of audit in November, 2025; over one (1) year after the contractor had handed over the project to the employer, the security feature and transit hub remained incomplete contrary to paragraphs 4.11 and 4.12 of the contract agreement despite being part of the deliverables in the signed contract amount of USD.391,905,798 (Kshs.50,555,847,919). No explanation was provided for failure to complete the construction and the cost of construction is unknown and bills of quantities or separate contracts not provided for audit review.

Further, it was noted the consultant appointed to supervise the remaining works had not provided the way forward for the two facilities despite the Authority incurring an expenditure of Kshs.65,219,600 on consultancy services to cater for the defect liability period.

In the circumstances, value for money on the project investment and consultancy services may not have been realized.

6. Delay in Completion of Konza Complex Conference Facility

The Authority invited qualified bids for construction of Konza Complex Conference facility Phase 2 through Tender No. KoTDA/MCO40/2019-2020. The tender was awarded to a construction company at contract sum of Kshs.1,439,976,976 (inclusive of taxes). The commencement date was 13 April, 2021 with the completion date of 11 April, 2023 However, a total of five (5) contract extensions have been awarded; the fifth extension completion date was 12 June, 2025. Physical verification carried out in November, 2025 revealed that the project had stalled.

In the circumstances, the value for money of Kshs.1,439,976,976 on project investment may not have been realized.

7. Irregular Holding of Board and Committee Meetings

During the year under review, the Authority held multiple Board and Committee meetings exceeding the maximum limit of six (6) meetings as stipulated in the applicable guidelines. A total of ten (10) Special Committee meetings were held between July, 2024 and February, 2025 which were mainly on recruitment related activities. There was no evidence that approval for the excess Special Board meetings was sought and obtained from the relevant Cabinet Secretary in consultation with the State Corporations Advisory Committee (SCAC), as required by Circular Ref. No. OP/CAB.9/1A dated 11 March, 2020.

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 effect of the matters 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

1. Incomplete Assets Register

The assets register provided for audit reflected a net book value of Kshs.49,362,160,729. The assets include horizontal infrastructure and Data Centre assets handed over to the Authority in a report dated 13 June, 2025. However, review of the asset register revealed that the Authority did not have comprehensive register including items acquired from the contractor making it incomplete. Further, the assets register provided lacks the following information; date of acquisition of the assets, description of the assets, location of the assets, custodian of the asset especially, laptops, tablets and iPads, and ICT equipment have no serial numbers. In addition, one (1) out of the seven (7) boreholes within the city was not captured in the assets register.

In the circumstances, the effectiveness of internal controls surrounding management and safeguarding of the Authority's assets could not be confirmed.

2. Omission of Reported Cloud Customers from Revenue Ledgers

Review of cloud customer onboarding records provided for audit revealed that clients listed on provided schedules that were quantified did not appear in the revenue schedules provided by the Data Centre for the period under audit. This discrepancy raises concerns about the accuracy and completeness of reported revenue and onboarding data.

In the circumstances, the effectiveness of aligning onboarding records with revenue reporting at the Data Centre may not be achieved.

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 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 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 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 also 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

18 December, 2025