

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON LAPSET CORRIDOR 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 LAPSET Corridor Development Authority set out on pages 1 to 30, which comprise of the statement of

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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 LAPSSET Corridor Development Authority 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 the LAPSSET Corridor Development Authority Order, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.93,936,697. However, the bank reconciliation statement for KCB Account bank account had unrepresented cheques with no dates amounting to Kshs.34,236,179. Review of subsequent months' bank statements revealed that eleven (11) cheques with amounts totalling Kshs.6,289,390 had not cleared by 30 June, 2025.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance could not be confirmed.

2. Lack of Clear Ownership Status

The statement of financial position reflects property, plant and equipment balance of Kshs.17,652,781,565 and as disclosed in Note 14 to the financial statements. Included in this balance is freehold land balance of Kshs.17,539,000,700. It was noted that within the freehold land at Lamu, there were developments which included residential flats, three-storey office block and a police station. The office block was occupied by public and private institutions while some spaces were vacant. The administration block accommodated the Authority's Regional Office, Kenya Ports Authority, Kenya Maritime Authority, Express Shipping and Logistics, Coast Guards and Seaforth Ship Agency Expert East Africa.

Review of the budgetary allocation for the infrastructural projects revealed that the budgetary allocations were provided to the respective implementing agencies, for instance, for all roads and highways, allocation was to Kenya National Highways Authority while port construction funds was to Kenya Ports Authority among others. However, there were no arrangements or agreements on who would control such facilities erected on the Authority's land.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the LAPSSET Corridor 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 qualified opinion.

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 prior years' audit reports, several issues were raised under the Report on Financial Statements, 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 audit of the Authority in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Non-Disclosure of Buildings
2	2023/2024	Non-Compliance with the One-Third Basic Salary Rule
3	2023/2024	Non-Compliance with Fiscal Discipline on Compensation of Employees
4	2023/2024	Delayed Implementation of the Authority's Mandate
5	2023/2024	Lack of Clear Ownership Status

Other Information

Management is responsible for the Other Information set out on page iii to L which comprise of Key LAPSSET Corridor Development Authority Information and Management, Board of Directors, 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 and Statement of Board of Director's 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, 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. Non-Compliance with the One-Third Basic Salary Rule

Review of the payroll revealed that an average of sixty-four (64) members of staff were earning salaries below the required one third of their basic salary as detailed below.

	2024						2025					
Month	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan	Feb	March	April	May	June
No of Officers	37	37	38	56	37	51	56	89	93	91	92	91

This was contrary to Section 19(3) of the Employment Act, 2007 which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry."

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

2. Non-Compliance with Fiscal Discipline on Compensation of Employees

The statement of financial performance reflects revenue from exchange transaction balance of Kshs.638,400,000, compared to employee costs of Kshs.413,970,615. The compensation of employee costs represents 65% of the total Authority's revenue. The Authority exceeded the 35% limit by 30% contrary to Regulation 26(1)(a) of the Public Finance Management (National Governments) Regulations, 2015 which states that in addition to the fiscal responsibility principles set out in Section 15 of the Act, the following fiscal responsibility principles shall apply in the management of public finances - National Government's expenditure on the compensation of employees (including benefits and

allowances) shall not exceed 35 percent of the National Government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution.

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

3. Slow Implementation of the Authority's Mandate

As previously reported, and according to the records that were reviewed, the 1st three berths at the port of Lamu have been completed. However, cargo evacuation through the Project's intended route is facing serious challenges as construction of key infrastructure have not been completed while others are yet to start, including Lamu-Ijara-Garisa-Isiolo and Isiolo-Maralal-Lokori-Lokichar.

In the circumstances, delayed implementation of LAPSSET Corridor Projects denied the public benefits that could have accrued from completed projects.

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

Inadequate Staffing

Review of the Human Resource records revealed that the Authority has an Approved Staff Establishment of two hundred and forty-nine (249) against in-post staff of one hundred and forty (149) resulting to understaffing of one hundred (100) across the Departments and Sections thus affecting key operations in both technical and support services.

Further, Note 8 to the financial statements indicates that the Authority has thirteen (13) permanent and five (5) temporary staff with total salaries amounting to Kshs.344,957,148 yet the in post staff are one hundred and forty nine (149).

In the circumstances, the operations of the Authority may be hindered due to understaffing thus affecting effective and efficient delivery of service to the public.

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 the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance 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 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

