REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

LAKE BASIN DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +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 LAKE BASIN 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 Lake Basin Development Authority set out on pages 1 to 35, 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 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 Lake Basin 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 the Lake Basin Development Authority Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Employee Costs

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects an amount of Kshs.405,572,110 relating to employee costs. Included in the amount is Kshs.303,193,014 being salaries and allowances. However, scrutiny of the payroll provided for audit revealed an amount of Kshs.301,692,161 resulting to an unexplained and unreconciled variance of Kshs.1,500,853.

In the circumstances, the accuracy and completeness of employee costs of Kshs.405,572,110 could not be confirmed.

2. Long Outstanding Receivables from Exchange and Non-Exchange Transactions

The statement of financial position reflects receivables balances from non-exchange and exchange transactions of Kshs.5,815,533 and Kshs.108,899,441 as disclosed in Note 20a and Note 20b to the financial statements respectively. Review of the records provided for audit revealed that the following unsatisfactory matters:

i. Staff debtors amounting to Kshs.1,531,567 issued on account of imprest but un-surrendered as at 30 June, 2025;
ii. Overdue imprests and amounts arising from credit sales to former staff totaling Kshs.4,283,966 but the basis for their computation was not provided for audit review;
iii. Debt from ex -board members of Kshs.30,112 arising from credit sale of rice which was not supported with any documentation;
iv. Provision for bad debts amounting to Kshs.3,104,166 was unsupported.

Further, there was no evidence on efforts being made to recover the long outstanding receivables from the current and past staff and board members.

In the circumstances, the accuracy and recoverability of receivables balances from non-exchange and exchange transactions balance of Kshs.5,815,533 and Kshs.108,899,441 respectively could not be confirmed.

3. Material Uncertainty Related to Going Concern

The statement of financial position reflects current assets and current liabilities balances of Kshs.173,031,491 and Kshs.440,481,692 respectively resulting to negative working capital of Kshs.267,450,201. However, this fact has not been disclosed by way of Notes to the financial statements contrary to the IPSAS accrual reporting framework. The negative working capital is indicative of the Authority's dependency on financial support of Government and its creditors for continued operations.

In the circumstances, the financial statements as prepared and presented are not in accordance with IPSAS accrual reporting framework.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Lake Basin 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 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 Information

The Directors are responsible for the Other Information set out on page iv to xxxviii which comprise of Key Lake Basin Development Authority Information and Management, The Board of Directors, Management Team, Chairman's Statement, Report of the Chief Executive Officer, the Statement of the Authority's Performance Against Predetermined Objectives for the FY 2024/2025, Corporate Governance Statement, 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, I am required to report that fact. I have nothing to report in this regard.

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 Law on Ethnic Composition

Review of human resource records revealed that the Authority had two hundred and eighty-two (282) employees during the year under review, out of which one hundred and fifty-seven (157) or 56% were from the dominant community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

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

2. Failure to Reserve Employment Opportunities for PWD

Review of human resources records also revealed out of the two hundred and eighty-two (282) employees only five (5) are persons living with disabilities; representing 2% of the total population which is against the Human Resource Policy Manual which requires the board to secure a reservation of 5% for all appointments to persons with disabilities.

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

3. Non-Compliance with Loan Agreement Terms

The statement of financial position reflects borrowings from Government of Kshs.2,000,000,000 which represents loan from the Government of Kenya, pursuant to a loan agreement dated 29 June, 2017. This was a bailout to the Authority to facilitate settlement of outstanding debts in regard to Lake Basin Mall Complex Project in Kisumu.

According to the loan agreement, the loan was payable semi-annually on 30 September and 31 March and with the first loan instalment of Kshs.58,823,529 being due on 30 September, 2021. The Authority was to also repay interest on the outstanding principal amount at the rate of 5% per annum on reducing balance. Further, according to the loan agreement, interest shall accrue from the respective dates of disbursement of the loan proceeds and shall be computed on the basis of a 360-days year of twelve 30-days months and interest accruing over the first year of the grace period will be capitalized on the first principal repayment date and thereafter payable semi-annually on the 31 day of March and 30 day of September each year. However, as at 30 June, 2025, the Authority had not paid the eight due loan instalments totaling Kshs.470,588,232 and cumulative interest of Kshs.781,250,000 for which Kshs.100,000,000 related to current period under review.

In the circumstances, Management was in breach of the terms of the loan agreement.

4. Non-Compliance with Fiscal Responsibility Principal on Wage Bill

The statement of financial performance and as disclosed in Note 12 to the financial statements is an amount of Kshs.405,572,110 relating to employee costs. This expenditure is equivalent to 43% of the total revenue for the year under review. The exceedingly high rate is contrary to Regulation 26(1) of Public Financial Management (National Governments) Regulations, 2015 which sets the threshold for the expenditure on employee costs at 35%.

In the circumstances, the Authority's Management was in breach of the law.

5. Non-Compliance with Public Procurement Capacity Building Levy Order, 2023

The Authority did not remit 0.03% capacity building levy amounting to Kshs.3,955,488.64 to Public Procurement Regulatory Authority for all contracts entered during the year under review amounting to Kshs.131,849,621. This was contrary to Procurement Capacity Building Levy Order, 2023 Section 5 (1) (a) which requires the procuring entity to deduct the Levy from the contract value at the time of making payments for such contracts; and not later than the 20th day of the following month, remit the funds to the Public Procurement Regulatory Authority or its authorised agent.

In the circumstances, the Authority's Management was in breach of the law.

6. Dormant Bank Account

The statement of financial position and as disclosed in Note 19 to the financial statements reflects cash and cash equivalents balance of Kshs.35,655,003. The balance includes an amount of Kshs.59,011 held at Cooperative Bank of Kenya, that has been dormant for prolonged period. Management has not rendered explanation for failure to close the dormant bank account while it continues to incur avoidable bank charges.

In the circumstances, the effectiveness of controls over the management of bank accounts could not be confirmed while value for money has not been realized from the bank charges being incurred.

7. Failure to Prepare Quarterly Reports on Implementation of the Procurement Plan

During the audit the Authority did not prepare and submit quarterly reports on the implementation of the procurement plan to the Public Procurement Review Authority contrary to Regulation 40(6) of the Public Procurement and Assets Disposal Regulations, 2020.

In the circumstances, the Authority's 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. Underutilization of Lettable Space at Lake Basin Development Mall

The statement of financial performance and as disclosed in Note 8 to the financial statements is an amount of Kshs.78,903,652 relating to rental revenue from facilities and equipment. Physical verification carried out in May, 2025 revealed that Lake Basin Development mall has a lettable space of 360,000 square feet, out of which 139,703 square feet is occupied with active tenants and 17,138 square feet with inactive tenants respectively, which represents 5% of the total space. However, a significant portion, 203,159 square feet or 56% of the total space remained unoccupied. This high vacancy is a matter of concern given that the mall is not realizing its full revenue potential which may lead to cashflow issues and affect the entity's operational capacity.

2. Poor Controls Over Project Implementation and Management

During the financial year under review, the Authority implemented several development projects. However, the following inadequacies were noted in the projects:

2.1. Lichota Integrated Technology Transfer Center

A large portion of the land remained unfenced; which presents significant security concern and increases the risk of encroachment by the nearby communities potentially leading to land disputes. Additionally, the Solar irrigation project which was completed in previous year is in use but underutilized at less than 50% capacity.

2.2. Alupe and Sang'alo Integrated Technology Transfer Centers

There was low production and non- achievement of targets especially in milk production at the centers. Additionally, the Centers had no title deeds and there was a water shortage at Sang'alo Integrated Technology Transfer Centre. This affected production leading to low revenue collection.

2.3. Muhoroni Farm

The farm does not maintain proper records for each animal in terms of productivity, breeding history, health and other factors that might help the management make decisions regarding the animals. It was also noted that there is very low productivity at the farm.

This indicative of weak controls over project implementation and management.

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 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 for 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