REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

LANDS LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON LANDS LIMITED 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 Lands Limited set out on pages1 to 23 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 Lands Limited 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 Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Understatement of Total Expenses-Nil Bank Charges

The statement of financial performance at Note 4 reflects Nil balance for bank charges. However, ledgers provided reflect bank charges for the period amounting to Kshs.550,769.

In the circumstances, the accuracy and completeness of the total expenses of Kshs.2,000,000 in the statement of financial performance could not be confirmed.

2. Unsupported Related Party Transactions with Parent Company

The statement of financial position reflects current account with parent Company balance of Kshs.135,411,000 as disclosed in Note 9 to the financial statements, having reduced from the prior year balance of Kshs.554,764,000. However, the difference of Kshs.419,353,000 was spent on the parent entity`s expenditure without evidence of Board resolutions, internal memo or parent Company acknowledging receipt of these funds. This is contrary to paragraph 25 of IPSAS 20 which states that related party relationships where control exists shall be disclosed irrespective of whether there has been transaction between the related parties.

In the circumstances, the financial statements were not prepared in accordance with requirements of International Public Sector Accounting Standards.

3. Revaluation Reserves

The statement of financial position reflects revaluation reserves balance of Kshs.447,701,000 as disclosed in Note 12 to the financial statements. However, no valuation reports prepared by qualified valuers, revaluation schedules nor Board approval for such revaluations were available for audit review. It was therefore clear that Management had not carried out valuation of its assets since inception of the Company. The basis of revaluation reserve of Kshs.447,701,000 was therefore unclear.

In the circumstances, the accuracy of the disclosed revaluation reserve balance of Kshs.447,701,000 could not be confirmed.

4. Unsupported Grant

The statement of financial position reflects grants balance of Kshs.55,694,000. However, as previously reported, details on source and purpose of the grants that has been appearing in the ledgers since 1994 were not provided. Although Management explained that it relates to long-term financing provided by Government of Kenya to facilitate the initial acquisition of land from European settlers for redistribution to the local population after independence, no documentary evidence to support this fact was provided.

In the circumstances, the accuracy and completeness of the balance of Kshs.55,694,000 in respect of grants received could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Lands Limited 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 performance reflects approved revenue estimates of Kshs.2,000,000 against actual revenue collection of Kshs.708,000, resulting in under collection of Kshs.1,292,000 or 65% of the approved budget.

The statement further indicates that actual expenditure amounted to Kshs.2,000,000 against an approved expenditure budget of Kshs.2,683,000, representing under absorption of Kshs.683,000 or 25% below the approved estimates.

In the circumstances, the under collection of revenue and under absorption affected the planned activities and may have impacted negatively on goods and service delivery to the public.

2. Sustainability of Services

Review of the Memorandum and Article of Association of Land Limited dated 22 July,1958 revealed that the objective of the Company was as follow;

i. To advance money on the security of lands, buildings and other real property of every description and tenure in Kenya.
ii. To purchase or otherwise acquire, hold, manage and work any lands, buildings and other real property of every description and tenure in Kenya.

iii. To develop the resources of and turn to account the lands and others of the Company and in particular by clearing, draining, irrigating, fencing among others.
iv. To carry on the business of farming in all its branches.

Review of the operations of Lands Limited revealed that the Company has fulfilled its mandate of facilitating the transfers of Land from European settlers and that the entity operations has remained dormant as all the land is currently being controlled and utilized by Agricultural Development Corporations in line with its functions, a state owed entity that holds 100% shareholding of the Company.

In the circumstances, the Company no longer performs the functions as stipulated in the Memorandum and Article of Association. It is therefore prudent that all assets including lands owned by Company be valued and transferred to the Corporation and Lands Limited be winded up.

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

Other Matter

Unresolved Prior Year Audit Matters

In the audit report of the prior year, six (6) matters were raised under qualified opinion. Although management had indicated that four (4) out of the six (6) issues had been resolved, no evidence was provided on how they were resolved as at 30 June, 2025 as shown below;

1. Anomalies in the financial statements.
2. Lack of board of survey.
3. Long outstanding receivable from exchange.
4. Unconfirmed land ownership.
5. Unsupported grants.
6. Failure to separate activities of Lands Limited from parent Company.

My opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information set out on page iii to xxxvi which comprise of Key Entity Information and Management, the Board of Directors, Management Team, Chairman's Statement, Managing Director's Statement, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Statement of Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company'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 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 effects 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

Failure to Carry out Land Valuation

The statement of financial position at Note 8(b) reflects property, plant and equipment balance of Kshs.483,843,000. Included in this amount were farms valued at Kshs.483,602,000, comprising 104,891.24 acres. The parcels of land acquired from colonial settlers have never been subjected to valuation since acquisition, contrary to Clause 3.2 of the Agriculture Development Corporation asset register policy which requires that revaluations be conducted after every five (5) years or earlier if considered appropriate by management.

In the circumstances, Management was in breach of its policy.

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 xiv to xv is consistent with the financial statements; and

iii. The Company's financial statements are in agreement with accounting records and returns.

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 the Lands Limited 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 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 Company'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 Company'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

19 December, 2025