REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON TANA AND ATHI RIVERS 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 aim to address the Auditor-General's statutory roles and responsibilities 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 Tana and Athi Rivers Development Authority set out on pages 1 to 47, 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 the Tana and Athi Rivers 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 Tana and Athi Rivers Development Authority Act, 1974 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.7,893,805,816 in respect of property, plant and equipment as disclosed in Note 24 to the financial statements. However, as previously reported, several anomalies were noted as indicated below;

1.1. Land Without Ownership Documents

The property, plant and equipment balance of Kshs.7,893,805,816 includes a balance of Kshs.1,909,135,430 relating to land which in turn include a parcel of land measuring 0.6 hectares valued at Kshs.1,539,000. However, ownership documents for the parcel of land were not provided for audit. Further, the land balance of Kshs.1,909,135,430 include two parcels of land measuring 929 hectares in aggregate valued at Kshs.21,135,600 whose respective leases had expired as at 30 June, 2025. In addition, the property, plant and equipment balance of Kshs.7,893,805,816 excludes land of undetermined value measuring 152 hectares. Further. records provided for audit indicated that some of the land owned by the Authority had been unlawfully occupied by informal settlers.

1.2. Fully Depreciated Assets

The property, plant and equipment balance of Kshs.7,893,805,816 include fully depreciated assets with a total historical cost value of Kshs.2,237,524,962 which were still in use. However, the Authority did carry out annual review of the asset's residual values and useful life to ensure accurate reporting in financial statements. This was contrary to IPSAS 17 which requires that the residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and if expectations differ from previous estimates.

In the circumstances, the valuation, ownership and fair presentation of the property, plant and equipment balance of Kshs.7,893,805,816 could not be confirmed.

2. Revaluation Reserve

The statement of changes in net assets reflects a balance of Kshs.19,697,833,221 being revaluation reserve. Review of the Authority's documents and inquiry from Management revealed that the balance was as a result of a revaluation which took place in the year 2006. Further, during the year 2023/2024, the Authority disposed plant and equipment with a revalued cost of Kshs.35,370,406. However, despite the disposal of revalued assets over the years, Management did not pass the relevant adjustments on the revaluation reserve account resulting into an overstatement of revaluation reserve.

In the circumstances, the accuracy of revaluation reserve balance of Kshs.19,697,833,221 could not be confirmed.

3. Inaccuracies in the Reported Capital Funds and Accumulated Deficit

The statement of changes in net assets reflects balances of Kshs.6,242,841,140 and Kshs.17,697,034,951 being capital fund and accumulated deficit respectively as at 30 June, 2025. However, review of records provided indicated that balances were accumulation of development grants from the parent Ministry over the years. The development funds were utilized on infrastructure and irrigation projects, some of which have been handed over to the community after completion. Over the past five years, the Authority has handed over to the community, projects valued at Kshs.692,740,141. Although the handed over community projects were expensed in the financial statements, their corresponding revenue were not reflected in the statements of financial performance resulting to deficits while no adjustments were made on the capital fund.

In the circumstances, the accuracy of the capital fund and accumulated deficit of Kshs.6,242,841,140 and Kshs.17,697,034,951 respectively could not be confirmed.

4. Work-In- Progress

The statement of financial position reflects property, plant and equipment balance of Kshs.7,893,805,816 which, as disclosed in Note 24 to the financial statements, includes a balance of Kshs.234,152,289 in respect of work in progress relating to the Tana Delta Irrigation Project. As previously reported, the amount relates to construction works on staff houses, a school and a dispensary initiated in 1990 under Tana Delta Irrigation Project in Garsen, Tana River County. Management indicated that the structures were damaged by El Nino floods in 1997.

Although the structures have remained incomplete for a long time and the physical condition of the works has degenerated, Management has not made any provision for impairment of the work in progress in the financial statements. Further, delay in completion of the projects implies that their intended purpose and value for money were not realized.

In the circumstances, accuracy and valuation of the work in progress for Tana Delta Irrigation Project balance of Kshs.234,152,289 could not be confirmed.

5. Long Outstanding Receivables

The statement of financial position reflects trade receivables balance of Kshs.321,131,227 as disclosed in Note 21 to the financial statements. However, the receivables include a debtors balance of Kshs.281,043,721 or 88% of the total receivables which has remained outstanding for more than three (3) years.

In the circumstances, the accuracy, completeness and existence of the trade receivables balance of Kshs.321,131,227 could not be confirmed.

6. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.120,404,270 as disclosed in Note 26 to the financial statements. However, included in the payables balance are creditors of Kshs.88,832,883 or 74%of the total payables which has remained outstanding for more than three (3) years.

In the circumstances, the accuracy, completeness and existence of the trade and other payables balance of Kshs.120,404,270 could be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tana and Athi Rivers 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.

Material Uncertainty Related to Going Concern

During the year under review, the Authority recorded a deficit of Kshs.502,657,09 (2024 – Kshs.455,908,190) increasing the accumulated deficit to Kshs.17,697,034,951. Management attributed the deficit to depreciation charges of Kshs.387,984,973 on Masinga and Kiambere Dams and non-remittance of accrued revenue due from the Kenya Power and Lighting Company (KPLC) and the Kenya Electricity Generating Company (KenGen).

Although the hydro power generation plants were handed over to KenGen, the two dams are owned by the Authority. The dams have been recognized in the books at a combined net book value of Kshs. 5,431,789,619 as at 30 June, 2025 and depreciated at a rate of 2.5% per annum. However, the Authority does not receive any consideration from the right of use of the dams by KenGen since there is no existing lease arrangement.

The financial statements have been prepared on a going concern basis on the assumption of continued financial support from its creditors and the National Government.

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 a final revenue budget and actual on comparable basis of Kshs.719,115,910 and Kshs.678,931,187 respectively, resulting to an underfunding of Kshs.40,184,722 or 6% of the budgeted revenue. The underfunding affected the operations and negatively impacted on the planned activities of the Authority and the non-remittance of the statutory and employee's deductions.

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 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 Management is responsible for the Other Information set out on page v to Liii which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the 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 Tana and Athi Rivers 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 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 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

Non-Remittance of Payroll Deductions

Review of payroll records indicated that the Authority's wage bill for the month of June amounted to Kshs.37,962,479. The Authority paid net pay amounting to Kshs.14,654,546 and withheld deductions. However, deductions amounting to Kshs.23,167,362 had not been remitted at the time of audit in October,2025. This was contrary to Section 19 (4) of the Employment Act, 2007 on payroll deduction which requires that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a),(f),(g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement, court order or arbitration as the case may be.

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. Manual Processing of Information

During the financial year under audit, the Authority's financial information and the books of account were processed manually. Manual processing of transaction is time consuming and prone to errors.

In the circumstances, the completeness of reported transactions and audit trail for transactions could not be achieved in the manual system.

2. Incomplete Asset Register

The Asset and Liability Reporting Template issued by The National Treasury in June 2020 requires the Asset register to include key details such as serial numbers, asset status, and adjustments for disposals to ensure uniformity and completeness in asset management and reporting. However, the Authority currently maintains a manual asset register that was incomplete and did not include all classes of assets and key details such as serial numbers, asset status, and adjustments for disposals. Further, the Authority's assets have not been tagged.

In the circumstances, the effectiveness of the Authority's internal controls in the management of assets 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 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 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

17 November, 2025