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**REPORT**

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OF

TABLED  
BY:

Haji Gergo Mwangi  
Quibehuf to LOM

CLERK-AT  
THE-TABLE:

Kanala Titilei

**THE AUDITOR-GENERAL**

**ON**

**ROADS 2000 PHASE TWO-CENTRAL KENYA  
RURAL ROADS IMPROVEMENT AND  
MAINTENANCE PROJECT AFD LOAN  
NO. CKE 1046.01.J**

**FOR THE YEAR ENDED  
30 JUNE, 2025**

**KENYA RURAL ROADS AUTHORITY**



**ROADS 2000 PHASE TWO-CENTRAL KENYA RURAL ROADS  
IMPROVEMENT AND MAINTENANCE PROJECT**

**KENYA RURAL ROADS AUTHORITY**

**PROJECT GRANT/CREDIT NUMBER: CKE 101201B, 1046 01 J AND  
CKE 1094**



**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE  
FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2025**

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**Transitional IPSAS Financial Statements/Prepared in accordance with the Accrual Basis of Accounting  
Method under the International Public Sector Accounting Standards (IPSAS)**

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***Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**1. Acronyms and Definition of Terms**

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
AFD	Agence Francaise De Developpement
Comparative FY	Financial year preceding the current financial year.

## **2. Project Information and Overall Performance**

### **2.1 Name and registered office**

#### **Name**

The project's official name is Roads 2000 Phase Two- Central Kenya Rural Roads Improvement and Maintenance Project

#### **Objective**

The key objective of the project is to improve 700 Kms of rural roads in Muranga, Kiambu, Nyeri, Kirinyaga, Nyandarua and Laikipia to gravel standards and 157 Km of low volume seal roads in the 6 regions.

#### **Address**

The project headquarters offices are in Nairobi, Nairobi County, Kenya.

#### **The address of its registered office is:**

Kenya Rural Roads Authority,  
Block B Barabara Plaza, Off Msa. Rd.  
Opposite KCAA Building Along Airport South Rd, JKIA  
P.O. Box 48151-00100 Nairobi

#### **The project also has offices/branches as follows:**

- Kiambu
- Murang'a
- Nyeri
- Kirinyaga
- Laikipia
- Nyandarua

**Contacts:** The following are the project contacts

Telephone: (254) (20) 2710464/0724735568/0733619197

E-mail: [dg@kerra.go.ke](mailto:dg@kerra.go.ke)

Website: [www.kerra.go.ke](http://www.kerra.go.ke)

**Project information and overall performance (continued)**

**2.2 Project Information**

Project Start Date:	The project Phase 1 start date is <b>June 2007</b> Phase 2 start date is <b>July 2010</b>
Project End Date:	The project Phase 1 end date is <b>September 2011</b> Phase 2 end date was originally <b>December 2019</b> but it was subsequently extended to <b>31<sup>st</sup> December 2021</b>
Project Coordinator:	The Project Coordinator is <b>Eng Julius K. Gakubia</b>
Project Development Partner:	The project partners are Government of Kenya (GOK) and Agence Francaise De Development (AFD)

**2.3 Project Overview**

Line Ministry or State departments/ County Department	The project is under the implementation of Kenya Rural Roads Authority which falls under the State department for Roads
Project number	CKE101201B, CKE1046 01J and CKE 1094
Strategic goals of the project	The strategic goals of the project is to improve 110 Kms of rural roads in Kiambu, Nyeri, Kirinyaga and Laikipia to gravel standards and 76.4 km of low volume seal roads in the 4 regions.
Summary of Project Strategies for achievement of strategic goals	15 out of the 15 batch 3 Gravel Contracts covering 110 Km have been completed. All Low Volume Seal Batch 3 contracts are completed in Kiambu, Kirinyaga and Nyeri Regions
Other important background information of the project	The project agreement was signed on the 5 <sup>th</sup> July 2010 and the additional Credit Financing Agreement was signed in April 2016. The original implementation period was 48 months with a completion date of 30 <sup>th</sup> June 2016. An application to extend the completion date by 30 months to December 2019 was approved by the Development Partner. An extension for the usage of funds has been granted up to April 2021. Due to Covid-19 the extension was given up to 30 <sup>th</sup> June 2022.

***Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: Roads development Training contractors on labour based routine maintenance Improvement of accessibility to markets
Project duration	The Phase I project started in June 2007 and ran up to September 2011. Phase II started in July 2010 and ended in December 2021.

**Project Information and Overall Performance (Continued)**

**2.4** The following are the bankers for the current year:

(i) Special Deposit Account

**Central Bank of Kenya- EURO Account**

Haile Selassie Avenue,  
P.O. Box 60000-00200,  
Nairobi, Kenya.

(ii) Local Special Project Accounts

**NCBA Bank Ltd**

NIC House Branch  
P.O Box 445990-00100  
Nairobi Kenya

KeRRA AFD Account Number 1000014814  
AFD Retention Account Number 1001964972

**Kenya Commercial Bank**

Kencom House, Moi Avenue Branch,  
P.O. Box 48400-00100  
Nairobi, Kenya.

GoK Counterpart Account Number 1179736125

## 2.5 Auditors

**The project is audited by the:**

Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
Nairobi

## 2.6 Roles and Responsibilities

<b>Names</b>	<b>Title designation</b>	<b>Key qualification</b>	<b>Responsibilities</b>
Eng. Jackson K. Magondu <a href="mailto:dg@kerra.go.ke">dg@kerra.go.ke</a> +254 0777851103,0207807600	Ag. Director General	BSc., MIEK, P.Eng, M(IBL), A(CLArb-UK)	Accounting Officer
Eng. Jackson K. Magondu <a href="mailto:jackson.magondu@kerra.go.ke">jackson.magondu@kerra.go.ke</a> +254 0777851103,0207807600	Director (Planning, Design & Environment)	BSc., MIEK, P.Eng, M(IBL), A(CLArb-UK)	Supervisor
Eng. Julius K. Gakubia <a href="mailto:dpde@kerra.go.ke">dpde@kerra.go.ke</a> <a href="mailto:julius.gakubia@kerra.go.ke">julius.gakubia@kerra.go.ke</a> +254 0777851103,0207807602	Project Manager	<i>BSc MIEK, R. Eng.</i>	Coordinator of the Program Activities
CPA Jane K. Murage <a href="mailto:dcs@kerra.go.ke">dcs@kerra.go.ke</a> <a href="mailto:jane.murage@kerra.go.ke">jane.murage@kerra.go.ke</a> +254 0777851103,0207807601	Project Accountant	<i>BBA(Acc), CPA(K), ICPAK, MBA (Acc.)</i>	Accountant, support the project team regarding compliance, payments and reports.

## 2.7 Funding summary

The Project was originally planned for duration of Twelve (12) years from 2007 to 2019. However, it has been subsequently extended to December 2022. The approved budget is Euros 96,400,000 equivalent to Kshs 9,640,000,000 as highlighted in the table below:

**Project information and overall performance (continued)**

Below is the funding summary:

**A. Source of Funds**

Source of funds	Development Partner Commitment		Amount received to date – (30 <sup>th</sup> June 2025)		Undrawn balance to date	
	Development Partner currency	Kshs	Development Partner currency	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
<b>(i) Grant</b>						
(i) AFD Grant	8,100,000	810,000,000	8,100,000	810,000,000	-	-
(ii) AFD Loan	65,900,000	6,590,000,000	65,900,000	6,590,000,000	-	-
<b>Total</b>	<b>74,000,000</b>	<b>7,400,000,000</b>	<b>74,000,000</b>	<b>7,400,000,000</b>	-	-
<b>(iii) Counterpart funds</b>						
Government of Kenya	22,400,000	2,240,000,000	12,067,453	1,206,745,268	(10,332,547)	1,033,254,732
Interest Income			926,111	92,611,133	(926,111)	(92,611,133)
<b>Total</b>	<b>96,400,000</b>	<b>9,640,000,000</b>	<b>86,993,564</b>	<b>8,699,356,401</b>	-	<b>11,258,658</b>

**Project information and overall performance (continued)**

**B. Application of Funds**

Application of funds	Amount received to date – (30 <sup>th</sup> June 2025)		Cumulative amount paid to date – (30 <sup>th</sup> June 2025)		Unutilised balance to date (30th June 2025)	
	Development Partner currency	Kshs	Development Partner	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Grant</b>						
AFD Grant	7,856,441	810,000,000	7,856,441	810,000,000		
<b>(i) Loan</b>						
AFD Loan	53,859,488	6,590,000,000	53,859,488	6,590,000,000	1,923,969	-
<b>Total</b>	<b>61,715,929</b>	<b>7,400,000,000</b>	<b>61,715,929</b>	<b>7,400,000,000</b>	<b>1,923,969</b>	<b>-</b>
<b>(ii) Counterpart funds</b>						
Government of Kenya	12,067,253	1,206,745,268	11,758,058	1,175,805,837	(1,614,575)	30,939,431
Interest Income	926,111	92,611,133			926,111	92,611,133
<b>Total</b>	<b>86,993,564</b>	<b>8,699,356,401</b>	<b>73,473,987</b>	<b>8,575,805,837</b>	<b>1,235,505</b>	<b>123,550,564</b>

***Roads 2000 Phase Two Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

**Project information and overall performance (continued)**

**2.8 Summary of Overall Project Performance:**

- i) Budget performance against actual amounts for the current year and for cumulative to-date, the project absorbed 100% of the budget received in the financial year.
- ii) Physical progress based on outputs and outcomes since project commencement, 15 out of the 15 Batch 3 Gravel Contracts covering 110 Km have been completed in Kiambu, Kirinyaga and Nyeri Regions. The training has delivered 34,831 trainee days or approximately 104% of the original training program.
- iii) The absorption rate for each year since the commencement of the project.

Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2022/23	2023/24
<b>Absorption Rate</b>	95%	79%	64%	58%	71%	144%	54%	26%	100%

- iv) These are the implementation challenges and recommended next steps.

Challenges	Recommendation/Way Forward
Inadequate Budget Provision	The Ministry in consultation with the National Treasury to enhance budgetary allocation
Lengthy Disbursement Process	Fast Track Disbursement
Delays in issuance of tax exemptions	Faster response by the National Treasury to exemption requests

**2.8 Summary of Project Compliance:**

The Program has ensured that all its activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed. Among the regulations is the Environmental and Social Impact Assessment (ESIA). This was issued and authority was given for the implementation of the project.

### **3. Statement of Performance against Project's Predetermined Objectives**

#### **Introduction**

Section 81(2)(f) /Section 164 (2)(f) of the Public Finance Management Act, 2012, requires that, at the end of each financial year, the Accounting Officer include a statement of the national government entity's performance against predetermined objectives at the end of each financial year. The key development objectives of the *project's agreement/ plan* are to:

- a) Improve 110 Kms of rural roads in Kiambu, Nyeri, Kirinyaga and Laikipia to gravel standards and 76.4 of low volume seal roads in the 4 regions.
- b) Improvement of accessibility to markets
- c) Roads Development
- d) Training contractors on Labour based Routine Maintenance

#### **Progress on the attainment of strategic development objectives**

To implement and cascade the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic, and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified to track progress and performance measurement.

***Roads 2000 Phase Two Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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Below, we provide the progress on attaining the stated objectives:

<b>Project</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Roads 2000 Phase Two Central Kenya	The strategic goal of the project is to improve 110 Kms of rural roads in Kiambu, Nyeri, Kirinyaga and Laikipia to gravel standards and 76.4 Km of low volume seal roads in the 4 regions	Increased efficient transportation of people, goods and services. Improved accessibility to markets. Training contractors on Labour Based Routine Maintenance	Kms of roads improved to low volume seal standard.  Number of trainee days achieved	15 out of the 15 Batch 3 Gravel Contracts covering 110 Km have been completed. All Low Volume Seal Batch 3 contracts are completed in Kiambu, Kirinyaga and Nyeri Regions. The training program has delivered 34,831 trainee days or approximately 104% of the original training program.

#### **4. Environmental and Sustainability Reporting**

The attainment of Vision 2030 aspirations relies heavily on the quality of road infrastructure network which will serve to reduce transport costs, improve accessibility and enhance road safety. National secondary trunk road infrastructure development and maintenance is a critical enabler in the realization and sustainability for each of the Big 4 government development agenda.

In undertaking its mandate of Connecting Devolved Kenya, the Authority addresses environmental sustainability concerns through undertaking ESIA's on its activities and implementation of the corresponding Environmental Management Plans to mitigate against negative environmental impacts.

Human Resources form the key asset through which The Authority meets its objectives. To safeguard employee welfare, The Authority has an Occupational Safety and Health Policy whose main goal is to define standards for promotion and maintenance of occupational safety and health and to foster a safe and healthy work environment for all. It inculcates best work practices and a sustainable safety and health culture that enhances competence and productivity.

The Authority's suppliers are key stakeholders in the achievement of the Authority's Strategic Objectives. Therefore, The Authority safeguards them by ensuring open and fair competition in the tendering process. This is achieved through the advertising of tenders in local newspapers with nationwide circulation in addition to the Authority's website. The Authority also requires all suppliers to sign a declaration against conflict of interest, fraudulent and corrupt practices.

Society is the mainstay of any organization, they are the producers of raw materials, suppliers, employees, policy-makers and eventual consumers of the organization products. In recognizing the important contribution of the wider society to achievement of our goals, the Authority undertakes community engagements by sponsoring and participating in marathon events, e.g. The Mater Heart Run and Chemususu Dam marathon. In compliance with the Presidential directive of attaining at least 10% forest cover, the Authority participated in the National Tree Planting Exercise undertaken in Ngong', Kajiado County. Further, in an effort to contribute to the growth of knowledge in the Engineering field, the Authority was one of the sponsors of the Engineering Students Association Annual Conference.

#### **5. Statement of Project Management Responsibilities**

The Director General, Kenya Rural Roads Authority and the Project Coordinator for Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2025. This responsibility includes: -

- i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period
- ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project

***Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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- iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud
- iv) Safeguarding the assets of the project
- v) Selecting and applying appropriate accounting policies
- vi) Making accounting estimates that are reasonable in the circumstances.

The Director General, Kenya Rural Roads Authority and the Project Coordinator for Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General, Kenya Rural Roads Authority and the Project Coordinator for Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2025, and of the Project's financial position as at that date.

They further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control. They also confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project Financial Statements**

The Project Financial Statements were approved by the Director General, Kenya Rural Roads Authority and the Project Coordinator for Roads 2000 Phase Two- Central Kenya Rural Roads Improvement and Maintenance Project on 18<sup>th</sup> August 2025 and signed by them.



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**Principal Accountant**  
CPA William Abungu  
ICPAK Member Number: 4479



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**Project Coordinator**  
Eng. Julius Gakubia



-----  
**Ag, Director General**  
Eng J. K. Magondu

# REPUBLIC OF KENYA

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

## REPORT OF THE AUDITOR-GENERAL ON ROADS 2000 PHASE TWO-CENTRAL KENYA RURAL ROADS IMPROVEMENT AND MAINTENANCE PROJECT AFD LOAN NO. CKE 1046.01.J FOR THE YEAR ENDED 30 JUNE, 2025 – KENYA RURAL ROADS AUTHORITY

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### 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 transitional IPSAS financial statements of Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project set out on pages 1 to 20, which comprise of the statement of financial position as at 30 June, 2025, and the statement of financial performance, statement of changes in net

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*Report of the Auditor-General on Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project AFD Loan No. CKE 1046.01.J for the year ended 30 June, 2025 – Kenya Rural Roads Authority*

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 transitional IPSAS financial statements present fairly, in all material respects, the financial position of Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project 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) including the transitional provisions permitted under IPSAS 33 and comply with the Financing Agreement No. CKE 1046.01.J between the Republic of Kenya and Agence Francaise De Development (AFD) dated 2 July, 2010 and the Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No.3 of 14 June, 2025.

### **Basis for Qualified Opinion**

#### **Inaccuracies in Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts had no original, adjustments, final budget amounts and actuals on comparable basis. However, the statement financial performance reflects total revenue and payment balances of Kshs.2,468,070 and Kshs.15,085,842 respectively.

In the circumstances, the accuracy and completeness of the amounts in the statement of comparison and actual amounts could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project 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 matter 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 Matter**

##### **Unresolved Prior Year Matters**

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of

Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Financial Year	Audit Issue
1.	2023/2024	Unsupported Prior Year Adjustment
2.	2023/2024	Inaccuracy in Accounts Payable
3.	2023/2024	Nugatory Expenditure on Accrued Interest
4.	2023/2024	Inaccuracy in Acquisition of Non-Financial Assets
5.	2023/2024	Unspent Project Funds
6.	2023/2024	Unbalanced Budget
7.	2023/2024	Presentation of the Financial Statements

### Other Information

The Management is responsible for the Other Information set out on page iii to xiv which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Project'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 effects 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

#### Lack of Project Closure Report

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of twelve (12) years starting from 2007 and end in 2019 with an approved budget of Euros 74,000,000, equivalent to Kshs.7,400,000,000 financed by the Donor component while an amount of Kshs.2,240,000,000 was to be financed by the Government of Kenya (GoK)

as counterpart funds. The statement of source of funds reflects undrawn balance of Kshs.940,643,599 as at 30 June, 2025 from the donor. The statement on Application of Funds reflects that as at 30 June, 2025, there was an unutilized balance of Kshs.123,550,564 from the donor.

Further, paragraph 2.8 on Summary of Overall Project Performance indicates that the Project had achieved its outputs and outcomes. However, the Project closure report was not provided for audit. This was contrary to Regulation 24 of the Public Finance Management (Public Investment Management) Regulations, 2022 which states that an Accounting Officer shall prepare a Project completion certificate and or a Project completion report confirming that the Project has delivered all the outputs as per the standards and specifications set out in the contract or Project implementation plan.

In the circumstances, the Management was in breach of 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, 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 Financing Agreement No. CKE 1046.01.J between the Republic of Kenya and Agence Francaise De Development (AFD) dated 2 July, 2010, 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.

As required by the Financing Agreement No. CKE 1046.01.J between the Republic of Kenya and Agence Francaise De Development (AFD) dated 2 July, 2010, 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. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

### **Basis for Conclusion**

The Financing Agreement 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 Project's 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 those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Transitional 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 Project'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 Project'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**


**25 November, 2025**


**Roads 2000 Phase Two- Central Kenya Rural roads Improvement and Maintenance project  
Annual Report and Financial Statements for the financial year ended June 30, 2025**


**7. Statement of Financial Performance for the Year Ended 30th June 2025.**

	Notes	2024/25 Kshs
<b>Revenue</b>		
Miscellaneous Revenue	6	2,468,070
<b>Total revenue</b>		<b>2,468,070</b>
<b>Expenses</b>		
Use of goods and services	7	15,168
Payment of Third Party Deposits	8	15,070,674
<b>Total expenses</b>		<b>15,085,842</b>
<b>Surplus/ (deficit)</b>		<b>(12,617,772)</b>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

  
.....  
**Principal Accountant**  
CPA William Abungu  
ICPAK Member No: 4479

  
.....  
**Project Coordinator**  
Eng. Julius Gakubia

  
.....  
**Ag. Director General**  
Eng J. K. Magondu

*Roads 2000 Phase Two- Central Kenya Rural roads Improvement and Maintenance project  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

**8. Statement of Financial Position as at 30<sup>th</sup> June 2025**

	Note	2024/25 Kshs	1 <sup>st</sup> July 2024 Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash equivalents	9	123,550,564	136,791,336
Receivable from ASAL	9	623,000	
<b>Total Current Assets</b>		<b>124,173,564</b>	<b>136,791,336</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	10	8,560,096,995	8,560,096,995
<b>Total Non- Current Assets</b>		<b>8,560,096,995</b>	<b>8,560,096,995</b>
<b>Total Assets (a)</b>		<b>8,684,270,559</b>	<b>8,696,888,331</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Third Party Deposits	11	17,699,894	32,770,568
<b>Total Liabilities (b)</b>		<b>17,699,894</b>	<b>32,770,568</b>
<b>Net Assets (a-b)</b>		<b>8,666,570,665</b>	<b>8,664,117,763</b>
<b>Represented By:</b>			
Accumulated Surplus		8,666,570,665	8,664,117,763
<b>Total Net Assets</b>		<b>8,666,570,665</b>	<b>8,664,117,763</b>

The financial statements were approved on 18<sup>th</sup> August 2025 and signed by:

  
.....

**Principal Accountant**  
CPA William Abungu  
ICPAK Member No: 4479

  
.....

**Project Coordinator**  
Eng. Julius Gakubia

  
.....

**Ag. Director General**  
Eng J. K. Magundu

*Roads 2000 Phase Two- Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

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**9. Statement of Changes in Net Assets**

<b>Description</b>	<b>Accumulated Surplus Kshs</b>
<b>As at 30<sup>th</sup> June 2024 (Cash Basis)</b>	<b>104,020,768</b>
Adjustments:	
Asset Recognition	8,560,096,995
<b>As at 1<sup>st</sup> July 2024</b>	<b>8,664,117,763</b>
Liabilities Recognition	15,070,674
Surplus/(Deficit) for the year	(12,617,772)
<b>As at 30<sup>th</sup> June 2025</b>	<b>8,666,570,665</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

The financial statements were approved on 18<sup>th</sup> August 2025 and signed by:

  
.....

**Principal Accountant**  
CPA William Abungu  
ICPAK Member No: 4479

  
.....

**Project Coordinator**  
Eng. Julius Gakubia

  
.....

**Ag. Director General**  
Eng J. K. Magondu

*Roads 2000 Phase Two- Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

**10. Statement of Cashflow for the year ended 30<sup>th</sup> June 2025**

Description	Note	2024/25 Kshs
<b>Cashflow from operating activities</b>		
<b>Receipts</b>		
Miscellaneous Revenue	6	2,468,070
<b>Total receipts</b>		<b>2,468,070</b>
<b>Payments</b>		
Use of goods and services	7	15,168
Payment of Third Party Deposits	8	15,070,674
<b>Total payments</b>		<b>15,085,842</b>
<b>Net cash flow from operating activities</b>		<b>(12,617,772)</b>
<b>Cash flow from financing activities</b>		
<i>Proceeds from foreign borrowings</i>		
<b>Net cash flow from financing activities</b>		<b>-</b>
Net increase/Decrease in cash and cash equivalents		(12,617,772)
<b>Cash and cash equivalent at 1<sup>st</sup> July 2024</b>	9	<b>136,791,336</b>
<b>Cash and cash equivalent at end June 2025</b>	9	<b>124,173,564</b>



.....  
**Principial Accountant**

CPA William Abungu  
ICPAK Member No: 4479



.....  
**Project Coordinator**

Eng. Julius Gakubia



.....  
**Ag. Director General**  
Eng J. K. Magondu

*Roads 2000 Phase Two-Central Kenya Rural Roads Improvement and Maintenance Project*  
**Annual Reports and Financial Statements for the year ended June 30, 2025.**

**11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30<sup>th</sup> June 2025**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Budget Carry Overs from previous periods</b>						
<b>Receipts</b>						
Revenue Transfers					-	
Miscellaneous Revenue						
<b>Total Revenue</b>	-	-	-	-	-	
<b>Payments</b>						
Employee costs						
Use of goods and services						
Certified Works						
<b>Total Payments</b>				-		
<b>Surplus</b>			-	-		

**NOTE:** No budget was allocated for this project in FY 2024/2025

*Roads 2000 Phase Two Central Kenya Rural Roads Improvement and Maintenance Project  
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**Budget Reconciliation**

	<b>Description of Particulars</b>	<b>Amount in Kshs</b>
	Actual Surplus Amounts as per the statement of Budget	-
1	Proceeds from foreign grants	
2	Opening cash and cash equivalent	
	<b>Closing Cash and Cash Equivalent as per the statement of Cash flows</b>	<b>-</b>

## 12. Notes to the Financial Statement

### 1. General Information

Kenya Rural Roads Authority entity is established by and derives its authority and accountability from Kenya Roads Act 2007. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to manage, develop, rehabilitate and maintain rural roads network in the Country

### 2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with the Public Finance Management Act, 2012 and with the International Public Sector Accounting Standards (IPSAS).

These financial statements were authorized for issue by the accounting officer on 18<sup>th</sup> August 2025

### 3. Adoption of New and Revised Standards

#### i) *New and amended standards and interpretations in issue effective in the year ended 30 June 2025.*

Standard	Effective date and impact:
IPSAS 43	<i>Applicable 1<sup>st</sup> January 2025</i> The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<i>Applicable 1<sup>st</sup> January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.
IPSAS 45- Property Plant and Equipment	<i>Applicable 1<sup>st</sup> January 2025</i> The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure

**Roads 2000 Phase Two Central Kenya Rural Roads Improvement and Maintenance Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

Standard	Effective date and impact:
	assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.
IPSAS 46 Measurement	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <p>Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.</p> <p>Clarifying transaction costs guidance to enhance consistency across IPSAS;</p> <p>Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</p> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p>

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025**

Standard	Effective date and impact:
IPSAS 47- Revenue	<p><b><i>Applicable 1<sup>st</sup> January 2026</i></b></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>
IPSAS 48- Transfer Expenses	<p><b><i>Applicable 1<sup>st</sup> January 2026</i></b></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p>

**Roads 2000 Phase Two Central Kenya Rural Roads Improvement and Maintenance Project  
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Standard	Effective date and impact:
IPSAS 49- Retirement Benefit Plans	<p><b>Applicable 1<sup>st</sup> January 2026</b></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p>
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<p><b>Applicable 1<sup>st</sup> January 2027</b></p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: Limited improvements to existing accounting practices for exploration and evaluation expenditures.</p> <p>Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26.</p> <p>Disclosures that identify and explain the amounts in the entity’s financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.</p>

**iii) Early adoption of standards**

The Entity did not early – adopt any new or amended standards in the financial year or *the entity adopted the following standards early (state the standards, reason for early adoption and impact on entity’s financial statements.)*

**4. Summary of Significant Accounting Policies**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. To the extent

that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

**ii) Revenue from exchange transactions**

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**b) Budget information**

The original budget for FY 2024/2025 was approved by the Council or Board on xxx. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals to conclude the final budget. Accordingly, the entity recorded additional appropriations of 2025 on the FY 2024/2025 budget following the Council/ Board's approval. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page xx under section xxx of these financial statements.

**c) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the item of property appropriately according to the acronyms you use in your financial statements plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition

criteria are satisfied. All other repair and maintenance costs are recognized in surplus, or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

**d) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

**e) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

**f) Research and development costs**

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**g) Financial instruments**

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The entity does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements. (amend as appropriate).* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

***Financial assets***

***Classification***

The entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity, or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made an irrevocable election at initial recognition for particular investments in equity instruments.

**Subsequent measurement**

Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

**Amortized cost**

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through net assets/ equity**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through surplus or deficit**

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

**Trade and other receivables**

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year-end.

**Impairment**

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out.

***Financial liabilities***

***Classification***

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

**h) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

**Inventories (Continued)**

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the *Entity*.

**i) Provisions**

Provisions are recognized when the *Entity* has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the *Entity* expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

The *Entity* does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

***Contingent assets***

The *Entity* does not recognize a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events

not wholly within the control of the *Entity* in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**j) Nature and purpose of reserves**

The *Entity* creates and maintains reserves in terms of specific requirements. (*Entity to state the reserves maintained and appropriate policies adopted*).

**k) Changes in accounting policies and estimates**

The *Entity* recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**l) Employee benefits**

**Retirement benefit plans**

The *Entity* provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**m) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. At each reporting date, foreign currency monetary items are translated using the closing rate. Non-monetary items measured in historical cost are translated using the exchange rate at the date of the transaction, and those measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising from the settlement of monetary items or translation of monetary/non-monetary items at rates different from those at which they were initially reported are recognized in surplus or deficit in the period.

**n) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**o) Related parties**

The *Entity* regards a related party as a person or an entity with the ability to exert control individually or jointly or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

**p) Service concession arrangements**

The *Entity* analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the *Entity* recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the *Entity* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**q) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

**r) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025.

**5. Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the *Entity's* financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and assumptions.**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

**Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the *Entity*.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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**6. Miscellaneous revenue**

Description	2024/25
	Kshs
Interest Income	2,468,070
<b>Total</b>	<b>2,468,070</b>

**7. Use of Goods and Services**

Description	2024/25
	Kshs
Bank charges	15,168
<b>Total</b>	<b>15,168</b>

**8. Payment of Third Party Deposits**

Description	2024/25
	Kshs
Payment of Third Party Deposits	15,070,674
<b>Total</b>	<b>15,070,674</b>

**9. Cash and Cash Equivalents**

Description	2024/25	1st July
	Kshs	Kshs
Cash in Bank	123,550,564	136,791,336
Receivable from ASAL	623,000	
<b>Total Cash and Cash Equivalents</b>	<b>124,173,564</b>	<b>136,791,336</b>

**9(b) Project Bank Accounts**

Details	2024/25	2024/25
	Kshs	Kshs
<b>Local Currency Accounts</b>		
NCBA Bank(A/c No 1000014814)	97,005,348	94,967,519
NCBA Bank(A/c No 1001964972)	18,122,085	32,770,568
KCB Bank Counterpart Ac No 1179736125	8,423,131	9,053,249
<b>Total bank account balances</b>	<b>123,550,564</b>	<b>136,791,336</b>

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**10. Property, Plant and Equipment**

<b>Cost</b>	<b>Other Assets (Roads) Kshs</b>	<b>Total Kshs</b>
<b>Depreciation rate</b>		
As At 1 <sup>st</sup> July 2024 (opening balances)	8,560,096,995	8,560,096,995
Additions	-	-
<b>As at 30<sup>th</sup> June 2025</b>	<b>8,560,096,995</b>	<b>8,560,096,995</b>
<b>Net Book Values</b>		
As at 1 <sup>st</sup> July 2024	8,560,096,995	8,560,096,995
<b>As at 30<sup>th</sup> June 2025</b>	<b>8,560,096,995</b>	<b>8,560,096,995</b>

**11. Third-Party Deposits**

<b>Description</b>	<b>2024/25 Kshs</b>	<b>1<sup>st</sup> July 2024 Kshs</b>	
Contractor's Retention	17,699,894	32,770,568	
<b>Total deposits</b>	<b>17,699,894</b>	<b>32,770,568</b>	
<b>Ageing analysis: (Refundable deposits)</b>			
	<b>2024/25</b>	<b>Comparative 2023/24</b>	<b>% of the Total</b>
<b>Under one year</b>			
1-2 years			
2-3 years			
Over 3 years	17,699,894	32,770,568	100%
<b>Total</b>	<b>17,699,894</b>	<b>32,770,568</b>	

**12. Special Deposit Accounts**

The balances in the Project's Special Deposit Account(s) as of 30th June 2025 are not included in the Statement of Financial Assets since the line items are yet to be drawn into the Exchequer Account as a voted provision.

**13. Related Party Disclosures**

**Nature of related party relationships**

Entities and other parties related to the *Entity* include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

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**Government of Kenya**

The Government of Kenya is the principal shareholder of the *Entity*, holding 100% of the *Entity*'s equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Entity*, both domestic and external.

**Other related parties include:**

- i) The Parent Ministry.
- ii) County Governments
- iii) Other SCs and SAGAs
- iv) Key management.
- v) Board of Directors.

**14. Events after the Reporting Period**

There were no material adjusting and non-adjusting events after the reporting period.

**15. Ultimate And Holding Entity**

The *Entity* is a State Corporation/ or a Semi-Autonomous Government Agency under the Ministry of xxx. Its ultimate parent is the Government of Kenya.

**16. Currency**

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

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**13. Annexes**

**Annex 1: Prior Year Auditor-General's Recommendations**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Basis for Qualified Opinion	<p><b>1 Unsupported prior year adjustments;</b> The statement of financial assets reflects prior year adjustment balance of Kshs 32,770,568. However approved journal vouchers and details were not provided for audit. In the circumstances, the accuracy and completeness of the prior year adjustment balance of Kshs 32,770,568 could not be confirmed.</p>	This amount was the retention money held in the NCBA retention Account No 1001964972	Resolved	
	<p><b>2 Inaccuracy in Accounts Payable;</b> The statement of financial assets reflects accounts payable balance of Kshs 32,770,568. However, the adjustment from Nil balance reflected in the initially submitted financial statements to the balance of Kshs 32,770,568 in the amended financial statements was not supported by journal vouchers, ageing analysis and ledgers. Further the statement reflects Nil accounts payable comparative balance while Note 9 to the financial statements discloses comparative accounts payable balance of Kshs 3,363,070. This leads to unreconciled and unexplained variance of Kshs 3,363,070. In the circumstances, the accuracy and completeness of accounts payable balance of Kshs 32,770,565 and Nil comparative balance could not be confirmed.</p>	This will be corrected in the subsequent financial reports	Resolved	
	<p><b>3 Nugatory Expenditure on Accrued Interest;</b> The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs 63,618,534 being construction of roads as disclosed in Note 4 to the financial statements. However,</p>	The delay of payment on the principal amount	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>review of documents provided revealed that payments amounting to Kshs 4,820,323 were made to a consultancy firm in respect of interest claim of Kshs 3,649,573 and 50% arbitration fee of Kshs 1,170,750 resulting from delayed settlement of a principal amount of Kshs 30,919,686 awarded by the Arbitral Tribunal for arbitration proceedings for not honouring on consultancy services for design and supervision of Batch 2 low volume seal and gravel roads in Kiambu, Muranga and Kirinyaga regions under the phase II of AFD Roads 2000 Programme. No explanation was given by management as to why the principal amount remained unpaid for three hundred and forty eight (348) days after the fortyfive (45) days granted by the Arbitral Tribunal, resulting to an interest claim of Kshs 3,649,573. In the circumstances, the interest payment of Kshs 3,649,576 and arbitration fee of Kshs 1,170,750 were irregular charges to public funds</p>	<p>was occasioned by lack of budgetary allocation from Treasury for the expenditure.</p>		
	<p><b>4 Inaccuracy in acquisition of non-financial assets</b></p> <p>The statement of receipts and payments reflects acquisition of amount of Kshs 63,618,534 being construction of roads as disclosed in Note 4 to the financial statements. However, examination of the payment vouchers and ledgers provided in support of the balance revealed that the authority paid retention money amounting to Kshs 9,609,481 from the Kerra-GOK counterpart-AFD account and not from the designated retention account in respect of retention withheld in respect of two contracts no. AFD/NYR/LVS/3/2016/17. and AFD/NYR/LVS/2/2016/17.</p> <p>In the circumstances, the accuracy and completeness of acquisition of non-financial assets amount of Kshs 63,618,534 could not be confirmed</p>	<p>The two contracts were paid from the GOK Account since they were part of the works component.</p>	<p>Resolved</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Emphasis of Matter	<p><b>Unspent Project Funds</b></p> <p>Review of project records in respect of the completed projects revealed unspent projects funds amounting to Kshs 104,020,768 held at the KERRA AFD bank account and KERRA GOK AFD Counterpart bank account. The balance represents a significant amount that would have been disbursed for implementation of road maintenance, rehabilitation and development programmes. Management did not provide a satisfactory explanation for retaining the significant amount of cash in bank accounts at the expense of service delivery, since the roads implemented are in dire need of maintenance. In the circumstances, the under-utilization of funds affected service delivery to the public.</p>	The project is in the final stages of closure and direction will be provided on the treatment of unspent funds.	Resolved	
Other Matter	<p><b>Unresolved Prior Year Audit Matters</b></p> <p>In the audit report of the previous year, several issues were raised under the Report on Financial Statements. However, Management has not provided an explanation of how issues were resolved.</p>	All the prior year issues were resolved.	Resolved	
Basis for Conclusion	<p><b>I Unbalanced Budget</b></p> <p>The statement of comparative budget and actual amounts reflects final budget receipts and expenditure of Kshs 50,000,000 and Kshs 44,340,988 resulting to a variance of Kshs 565,339 contrary to Regulation 33( C ) of the Public Finance Management Regulations, 2015. Unless provided otherwise in the Act, these regulations or any other guidelines developed in furtherance of the Act or these Regulations, the following guidelines shall be observed at all times during budget formulation and approval that the budget shall be balanced. In the circumstances, Management was in breach of the law</p>	This is noted and will be adhered to.	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p><b>2 Presentation of the Financial Statements</b></p> <p>The statement of receipts and payments reflects purchase of goods and services, acquisition of non-financial assets and total payments amounts of Kshs (4,875,185), Kshs (63,618,534) and Kshs (68,493,719) respectively. However no explanation has been provided as to why the amounts have been presented in brackets contrary to the requirements of the financial reporting template issued by the Public Sector Accounting Standards Board. In addition the statement of assets and liabilities reflects Note 10 to the financial statements which has not been disclosed under notes to the financial statements. Further, Note 9 to the financial statements does not correspond to the statement of financial assets. In the circumstances, the financial statements have not been presented in accordance with the financial reporting template issued by the Public Sector Accounting Standards Board and IPSAS.</p>	<p>This is noted and has been corrected in the current year financial reports 2024/25</p>	<p>Resolved</p>	



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**Project Coordinator**  
 Eng. Julius K. Gakubia



.....  
**Ag. Director General**  
 Eng J.K. Magondu

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**Annex 2: Reconciliation of inter-entity transfers**

Project Name:			
Break down of transfers from the State Department of 2025			
<b>a. Government Counterpart funding</b>			
		Amount (Kshs)	FY 24/25
		-	
<b>B. Direct payments</b>			
		Amount (Kshs)	FY 24/25
		-	
<b>C. Others</b>			
		Amount (Kshs)	FY 24/25
		-	
		-	

There were no funds received for this project.

**Annex 3: Fixed Asset Register**

	<b>Previous Year</b>		<b>Current Year</b>
Infrastructure Assets- Roads, Rails	8,560,096,995		8,560,096,995
<b>Total</b>	<b>8,560,096,995</b>	<b>-</b>	<b>8,560,096,995</b>

**Annex 4: Other Support Documents**

- i) Bank Reconciliations statement as at 30<sup>th</sup> June 2025
- ii) Special Deposit Account(s) reconciliation statement(s)