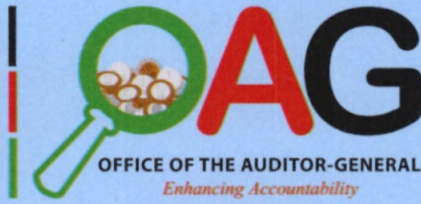


REPUBLIC OF KENYA



# REPORT

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE	OF 24 FEB 2026
	DAY. Tuesday
TABLED BY:	Deputy Leader Majority Party Hon. Owen Baya, MP
CLERK-AT	Mr. Benson Inzola

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OF KENYA  
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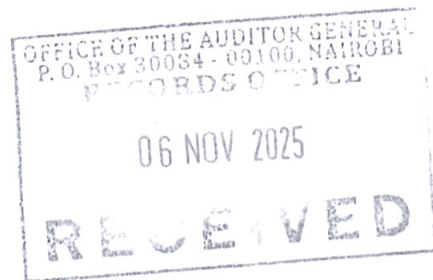
**THE AUDITOR-GENERAL**

**ON**

**SECOND KENYA INFORMAL  
SETTLEMENT IMPROVEMENT PROJECT  
IDA CREDIT NO.6759 AND AFD CREDIT  
NO. CKE 118801S**

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

**STATE DEPARTMENT FOR HOUSING AND  
URBAN DEVELOPMENT**



**PROJECT NAME: SECOND KENYA INFORMAL SETTLEMENT IMPROVEMENT  
PROJECT**

**IMPLEMENTING ENTITY: STATE DEPARTMENT FOR HOUSING AND URBAN  
DEVELOPMENT**

**PROJECT ID: P167814  
CREDIT NUMBER: 6759**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 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)**

*Second Kenya Informal Settlement Improvement Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025*



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## **1. Acronyms and Definition of Terms**

AFD	French Development Agency
CBK	Central Bank of Kenya
Comparative FY	Financial year preceding the current financial year
CPCT	County Project Coordination Team
DPW	Digital Public Works
GRC	Grievance Redress Committee
ICPAK	Institute of Certified Public Accountants of Kenya
IDA	International Development Association
IPSAS	International Public Sector Accounting Standards
KISIP 2	Second Kenya Informal Settlement Improvement Project
LICW	Labour Intensive Cash for Work
LP&LUDPs	Local Physical and land Use Development Plans
NPCT	National Project Implementation Team
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RAP	Relocation Action plan
RIM	Registry Index Map
SEC	Settlement Executive Committee
SGBV	Sexual and Gender Based Violence
WB	World Bank

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

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

#### **Name**

The project's official name is Second Kenya Informal Settlement Improvement Project.

#### **Objective**

The key objective of the project is to improve access to basic services and tenure security of residents in participating urban informal settlements and strengthen institutional capacity for slum upgrading in Kenya.

#### **Address**

The project headquarters offices are in Nairobi City County, Kenya. The address of its registered office is 2<sup>nd</sup> Floor, Ardhi House, 1st Ngong Avenue.

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

P. O. Box 30119, 00100

Nairobi

Email: [kisip2info@housingandurban.go.ke](mailto:kisip2info@housingandurban.go.ke)

Website: [www.housingandurban.go.ke](http://www.housingandurban.go.ke), [www.kisip.go.ke](http://www.kisip.go.ke)

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

**2.2 Project Information**

Project Start Date:	15. 02. 2021
Project End Date:	15. 12. 2028
Project Coordinator:	Mr. George Arwa
Project Development Partner:	IDA, AFD, EU

**2.3 Project Overview**

Line Ministry or State departments/ County Department	State Department for Housing and Urban Development
Project number	IDA 67590 P167814, AFD C2210
Strategic goals of the project	The strategic goals of the project are as follows: (i) Integrated settlement upgrading (ii) Socio-economic inclusion planning (iii) Institutional capacity development for slum upgrading
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Improvement of social and physical infrastructure e.g. roads, footpaths, street lighting, drainage and parks (ii) Targeted socio-economic inclusion of venerable groups in community development plans. (iii) Development of national geospatial data for informal settlements, national and county specific strategies.
Other important background information of the project	The infrastructure upgrading component of the project is devolved to 23 counties
Areas that the project was formed to intervene	The project was formed to intervene in the following areas: (i) lack of security of tenure (ii) lack of physical infrastructure e.g. roads, foot paths, lighting, water, sewer and waste disposal
Project duration	7 Years

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

### **2.4 Bankers**

The following are the bankers for the project:

Designated account: Central Bank of Kenya  
Head Office,  
Account No. 1000487569  
Account No. 1000487698  
Account No. 1000497203  
Account No. 1000660783  
Account No. 1000660791  
Account No. 1000741511

Project Account: Cooperative Bank of Kenya  
Upper Hill Branch  
Account No. 01141164136100  
Account No. 01141164165900  
Account No. 01141164165800  
Stanbic Bank  
Upper Hill Branch  
0100014352125  
0100014352168

### **2.5 Independent Auditor**

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>
George Arwa	Project Coordinator SDS Physical Planning	MA Environmental Management, Bsc Land Survey, BA Urban Planning ISK, AAK	Overall programme coordination.
Stella Gitimu	Deputy Coordinator and Head of Component 4 DD Slum Upgrading	MBA, BA Land Economics ISK	Manage component 4 activities and overall coordination.
Celestine Wanjala	Head of Component 1.1 AD Cartographer	MA Planning, B-Tech Geoinformation, ISK, KIP	Manage component 1.1 activities
Zenah Kurui	Head of Component 2 DD Slum Upgrading	Msc Project Mgt, BA Urban and Regional Planning, KIP	Manage comp 2 activities
Elias Ragalo	Head of Component 3 DD Slum Upgrading	MA Environmental Mgt and Planning	Manage comp 3 activities
Martha Namusonge	Head of Component 1.2 DD Estates	Msc Project Mgt, B/land scape Arch, AAK, PMP	Manage component 1.2 activities
Wagura Theuri	Project Accountant AD SUD	MA, BA (Econ), ICPA(K)	Financial Management

## 2.7 Funding summary

The Project is for duration of seven years from 2021 to 2028 with an approved budget of Euros 190.32M equivalent to Kshs 26,375,200,000 as highlighted in the table below:

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

Below is the funding summary:

**A. Source of Funds**

Source of funds	Donor Commitment-		Amount received to date -- (30 06 2025)		Undrawn balance to date (30 06 2025)	
	<i>Donor currency(Euros)</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
<b>(i) Grant</b>						
European Union	4,450,000	623,000,000	650,000	93,968,225	3,800,000	529,031,775
<b>(ii) Loan</b>						
IDA	127,390,000	17,834,600,000	108,479,885	15,729,527,717	18,910,115	2,105,072,283
AFD	45,000,000	6,300,000,000	18,725,150.46	2,753,487,671	26,274,850	3,546,512,329
<b>(iii) Counterpart funds</b>						
Government of Kenya	13,480,000	1,617,600,000	3,493,720	430,324,165	9,986,280	1,187,275,835
<b>Total</b>	<b>190,320,000</b>	<b>26,375,200,000</b>	<b>131,348,755</b>	<b>19,007,307,777</b>	<b>58,971,245</b>	<b>7,367,892,223</b>

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 06 2025)		Cumulative Amount paid to date – (30th June 2025)		Unutilized balance to date (30 06 2025)	
	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>
	(A)	(A')	B	(B')	(A)-(B)	(A')-(B')
<b>(i) Grant</b>						
European Union	650,000	93,968,225	31	4,465	649,969	93,963,760
<b>(ii) Loan</b>						
IDA	108,479,885	15,729,527,717	106,688,997	15,460,039,878	1,790,888	269,487,838
AFD	18,725,150	2,753,487,671	18,148,106	2,669,748,434	577,044	83,739,237
						-
<b>(iii) Counterpart funds</b>						
Government of Kenya	3,493,720	430,324,165	2,893,845	401,750,681	599,875	28,573,484
<b>Total</b>	<b>131,348,755</b>	<b>19,007,307,777</b>	<b>127,730,979</b>	<b>18,531,543,459</b>	<b>3,617,776</b>	<b>475,764,319</b>

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

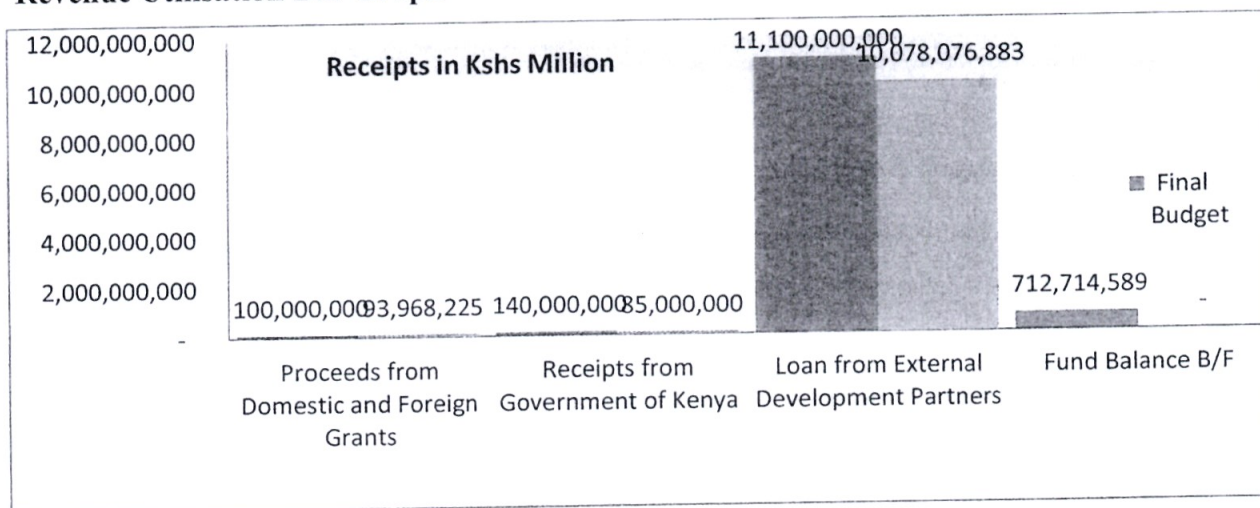
**2.8 Summary of Overall Project Performance:**

i) *Budget performance against actual amounts for the current year and for cumulative to-date,*

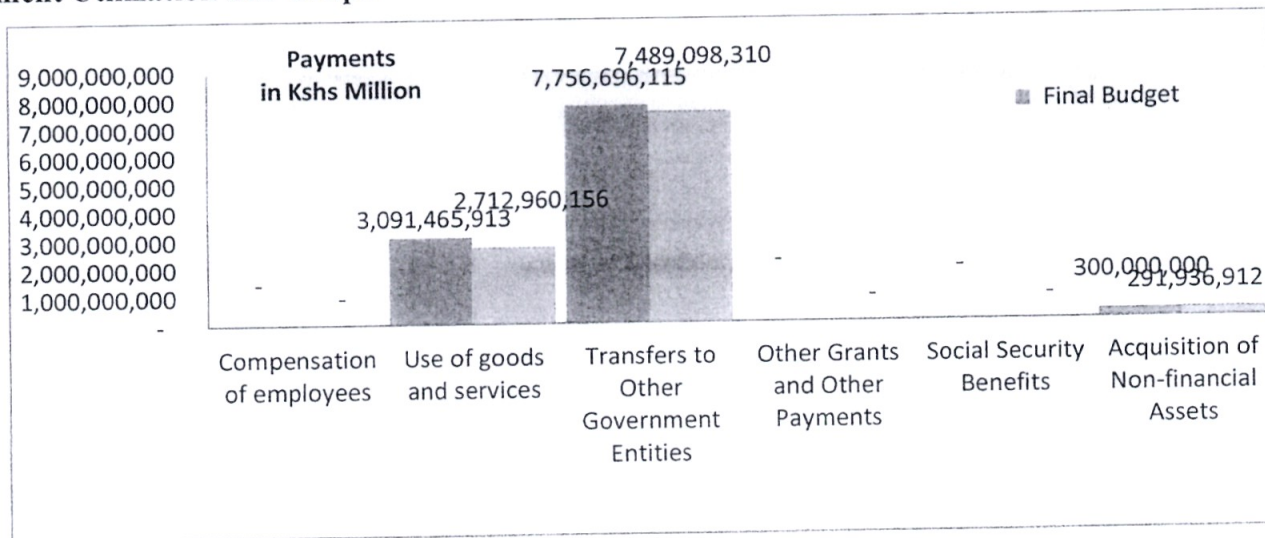
During the year under review, the Project received Kshs 10,257,045,108 and incurred expenditure of Kshs 10,493,995,378. The cumulative receipts and expenditures are Kshs. 19,007,307,777 and Kshs. 18,531,538,994 respectively.

**Receipts & Payments Utilization**

**Revenue Utilisation Bar Graph**



**Payment Utilization Bar Graph**



*ii) Physical progress based on outputs and outcomes since project commencement*

During the reporting period, KISIP 2 made significant milestones in implementation of project activities. Under the component 1.1 Land Tenure Regularization, the key achievements during the year under review include; finalization of ground survey and beaconing and published the Notices for completion for Local Physical & Land Use Development Plans for all settlements under the initial four contracts; Participated in various stakeholders' engagement workshops for the presentation of the Draft Local Physical & Land Use Development Plans & final lists of beneficiaries in Tana River, Kilifi, Taita Taveta, Kiambu, Makueni, Machakos, Homa Bay, Trans Nzoia, Bungoma, West Pokot, and Tharaka Nithi counties; Participated in the presentations of the socio-economic survey findings to the counties and communities; Obtained approval of 30No. Local Physical & Land Use Development Plans. In addition, (13No.) settlements survey plans for in West Pokot, Homa Bay, Machakos, Makueni, Tharaka Nithi and Taita Taveta were submitted to the Director of Survey; A Land Information System (LIS) was also formed for all these settlements. As part of next steps, the project carried out Assessment and verification of the next batch of settlements (Phase IIB & IIC respectively) in Kwale, Tana River, Nakuru, Marsabit, Laikipia, Wajir, Kisii, Uasin Gishu, Turkana, Baringo, Machakos, Embu, Nyeri, Kirinyaga counties;

Under component 1.2 Infrastructure Upgrading, preparation of Infrastructure Upgrading Plans, Detailed Engineering Designs and Procurement Documents of Infrastructure Improvement Works in all selected Informal Settlements was completed; the designs led to procurement by county governments of upgrading works valued at combined cost of Kshs 15 Billion across all the 23 implementing counties. The contracts are at various stages of implementation. In addition, implementation of City-Wide Inclusive Sanitation (CWIS) in Malindi - Several consultative meetings between the County, NPCT, MAWASCO, WB and WASP were held to discuss the progress by MAWASCO and proposal on additional 100 toilets from an initial 100 toilets.

Under Component 2, Social Economic Inclusion, submission of Community Development Plans including sub-action namely Socio-Economic Inclusion Plans; Community Investment Plan; and Solid Waste Management for Nairobi and Nakuru Counties (8No. Settlements) and Kisumu and Kakamega Counties (11No. settlements) was done. These Community Development Plans will be

implemented in phases. Socio-economic surveys and analysis to identify community issues were undertaken in settlements benefiting from CDP. The target settlements are Majaoni, and Likoni 203 in Mombasa County; Fort Jesus, Kiang'ombe and Bosnia in Kiambu County; and Mwanzo and Kipkaren in Uasin Gishu. Subsequently, Community Development plans (CDPs) for the seven settlements were prepared and presented to the stakeholders for review and ownership. Prioritization and co-designing of community projects/ investments sub-projects for six informal settlements advanced in Kilifi, in readiness for implementation. Other conversation on skills enhancement of beneficiaries in collaboration with National Youth Opportunities Towards Advancement (NYOTA).

In Component 3, Institutional Capacity Development for Slum Upgrading, the final Slum Upgrading and Prevention Strategy was developed and approved by the Accounting Officer and adopted by the Cabinet Secretary. It is being disseminated in the county governments. 25 No. of county specific strategies are in the development process. Mapping of slums and informal settlements commenced in 33 counties.

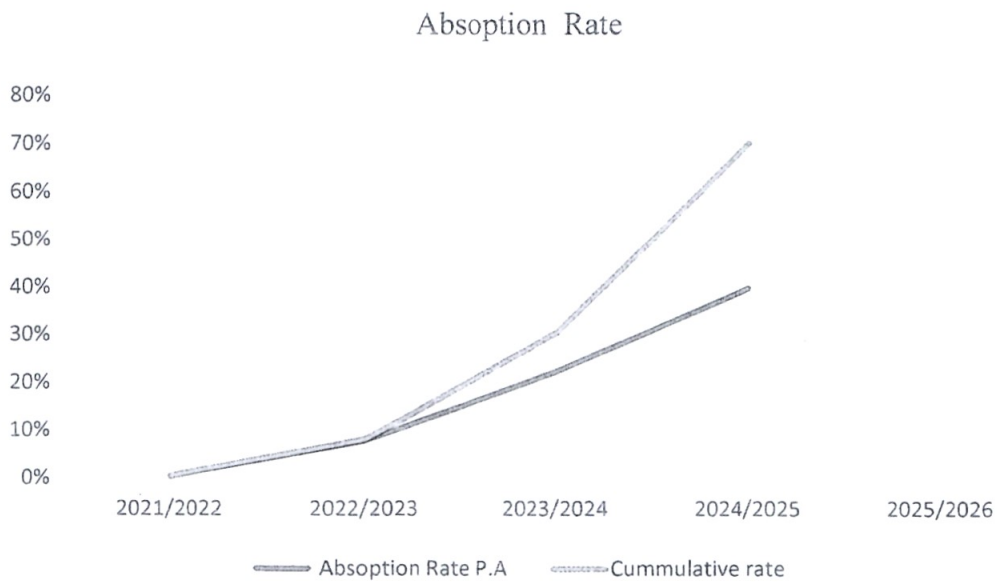
Under Component 4, Program Management, there was continuous support in key areas as environmental and social safeguards and monitoring and evaluation. NPCT continuously carried out consultative engagements with project stakeholders under various thematic areas. The key stakeholders engaged were County teams and the community through the Settlement Executive Committees (SEC) and Grievance Redress Committees (GRC).

*iii) Absorption rate for each year since the commencement of the project*

The project is on the fourth year of the implementation period; absorption rate has picked up in the FY 2024/2025 as the bulk of the civil works continue to be implemented and most procurements completed. The absorption has been hampered by constant delay in disbursement to implementing agencies due to in-country legal bottlenecks. The absorption rate per annum exhibits that of a normal construction project with a negative-skewed distribution picking to the maximum in the year under review as per the table and figure below.

*Second Kenya Informal Settlement Improvement Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

FY	Absorption Rate P.A	Cumulative rate
2021/2022	0.00	0%
2022/2023	0.08	8%
2023/2024	0.22	30%
2024/2025	0.40	70%
2025/2026		



iv) *Implementation challenges and the recommendations.*

<b>Challenges</b>	<b>Recommendations</b>
Slow statutory approval of LP&LUDPs by County Assemblies.  Inadequate County commitment to support Project activities delaying consultants' actions.	NPCT engaged the council of Governors on the need of fast-tracking approval as per the agreed timelines.  The Project has embarked on training of the various key staffs who provide technical support to the project in the counties.
Changes in CPCTs composition caused gaps and disruptions in flow of information thereby causing delays on feedback from CPCT to NPCT	<ul style="list-style-type: none"> <li>• Sensitize the counties on the need to maintain a dedicated project team throughout project implementation.</li> <li>• Continuous sensitization and training of CPCTs</li> </ul>
Delays in implementation of RAP	Avoid delays in preparation and approval of environmental and social safeguard requirements for commencement of Works. The counties must provide sufficient budget to cover the cost of RAP
Funds flow process delaying disburseable amounts to counties posing cash flow challenges for the works contract.	The County Government Additional Allocation bill needs to be assented to early enough in the financial year to avoid the counties facing cash crunch for most of the year.

**2.9 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 include the Environmental and Social Impact Assessment (ESIA) for which authority was issued for the implementation of the project. In cases of inconsistency between the GOK Regulations and those of the donors, the latter have been applied.

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

#### **Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government Project in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government Project's performance against predetermined objectives.

The key development objectives of the project are to:

1. To improve access to basic infrastructure services for residents in participating urban informal settlements
2. To improve tenure security of residents in participating urban informal
3. To strengthen institutional capacity for slum upgrading in Kenya.

#### **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.

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>
Infrastructure upgrading	To improve access to basic services	Improved access within urban areas to improved infrastructure services	People provided with improved urban living conditions under the project, by gender	An estimated 309,743 no of people benefiting upgraded infrastructure. 82/150 floodlights and 2,176/2000 street lights installed in 36/110km footpaths, 65/110kms of roads to bitumen, 74.3/110km of drainage, 496/31,300 water connections, and 326/358 vending platforms completed in 98 informal settlements across 23 counties.
Tenure security enhancement	To improve tenure security of residents in participating urban informal settlements	Enhanced ownership of land to pave way for infrastructure and housing development	People benefiting from enhanced security of tenure under the project, by gender	135,000 no of people from 152 settlements spread across 27 counties set to benefit from titles with an expected issuance of 30,000 titles. 80 out of 152 LP&LUDPs were approved and 37 RIMs amended
Develop National and County specific slum upgrading policies	To strengthen institutional capacity for slum upgrading in Kenya.	Improved access to drainage infrastructure within settlements	No. of counties where upcoming County Integrated Development Plans include slum upgrading strategies developed under the project Countrywide mapping of slums and informal settlements	The national slum upgrading strategy was approved and 20 across 20 counties no of county specific upgrading strategies have been developed and completed. National mapping of slums and informal settlements is currently ongoing at 60% to completion.

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

KISIP 2 exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on three pillars: putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar:

##### **1. Sustainability strategy and profile**

KISIP is being implemented in the fastest growing urban areas in Kenya which have witnessed increased number of people living and working in informal settlements. The five major urban areas per population and contribution to the GDP are: Nairobi, Mombasa, Kisumu, Eldoret and Nakuru. Mombasa works were completed and handed over by H.E President on 5th January 2017. Works in the Counties of Nairobi, Nakuru, Kericho, Kisumu, Machakos, Embu, Kitui have been completed. As a result of KISIP, 1,389,980 people are currently benefitting from KISIP interventions, of which 694,990 are females. The urban transition is well under way in Kenya and urbanization is projected to continue to grow at a rapid pace. Devolution will further speed up the rate of urbanization for the country. Due to the growth and entrenchment of devolution, the urban areas of Nakuru and Eldoret are currently being prepared to assume city status, which will increase Kenyan cities from three to five: Nairobi, Mombasa, Kisumu, Nakuru and Eldoret. KISIP has intervened in all the major five urban areas and hence supporting efforts aimed at sustainable urbanization. The urban transition in Kenya will play an important role in determining the country's growth prospects and social stability. KISIP was formulated to bridge and contribute to improving the living conditions of people living in informal settlements in Kenya and make urban areas more liveable.

##### **2. Environmental performance**

The project developed and implements an effective Environmental and Social Management Framework. This has facilitated resettlement of project affected persons including resettlement of structures and businesses. Compliance with the environmental policies and concerns are addressed through environmental impact assessments (EIAs), which further have the provisions for an effective Environmental Management Plans (EMP) to ensure sustainability of the KISIP projects. Additionally, under the Labour-Intensive Cash for Work activities, further safeguard protocols were developed for the implementation of the

LICW/DPW programme. These have continued to be used even under the GoK financing of the digital public works of the programme.

### **3. Employee welfare**

Projects implemented adhered to the provisions of the Occupational Safety and Health Act of 2007, (OSHA) and have enforced the same in construction and office environments in collaboration with the relevant agencies. Contractors are instructed to adhere to its provisions and also show evidence of compliance with the same.

The Public Service Commission (PSC) is in charge of hiring staff on behalf of MDA's. All staff are appraised on a yearly basis. Training is given especially for courses required for promotion or career progression.

The State Department conducted training projections at the beginning of every financial year to guide the Human resource department in nominating and selecting officers for training. Additionally, due to the dynamic nature of the economy the department undertook steps to proactively engage staff in training to ensure their skills conforms to the current needs. Staff performance appraisal is done annually to ensure that productivity meets the required standards upon which employee with exemplary performance are given priority for promotions.

### **4. Marketplace practices-**

The project's efforts in the to enhance progressive market practices are outlined below:

#### **a) Responsible Supply chain and supplier relations-**

The State Department proactively engaged stakeholders to ensure vital flow of information regarding payments. This ensures that accountability and transparency in procurement of goods and services is maintained between the involved parties. Upon completion of a project, the department ensures timely issuance of the completion certificate. The project strives to attain healthy cashflow to ensure prompt payment of suppliers.

**b) Responsible ethical practices**

The State department ensured fair competition among the bidders while issuing the tenders. The bidders are evaluated on set guidelines and given equal opportunity

The State Department for Housing and Urban Development has a Corruption Prevention Committee in place whose functions amongst others include:

- Setting priorities in the prevention of corruption within the State Department
- Planning and coordinating corruption prevention strategies
- Integrating all corruption prevention initiatives in the State Department
- Receiving and reviewing reports on corruption reports made by staff and other stakeholders. Evidence of concrete measures taken must be made available and referrals to other agencies well documented.
- Spearheading corruption prevention campaigns within the State Departments
- Monitoring and evaluating the impact of corruption prevention campaigns within the State Department

**c) Regulatory impact assessment**

The project has a robust safeguard mechanism to safeguard citizen and stakeholder's rights. A manual was developed in consultation with the participating county governments and the lenders. Dissemination of the manual has been done across participating counties for implementation.

**5. Community Engagements**

The project promoted the activities that enhance community engagement, collaboration and social inclusion as part of the KISIP 2 core activities. In the year, the project builds a school fence in Kasarani settlement in Naivasha to promote school land protection, child safety and school security also, in several settlements in Kisumu, Homa Bay, Nyamira among others, the project promoted HIV/AIDs and public health awareness. In Kilifi and Nairobi, the project also promoted SGBV sensitization and community awareness. the project will build on the latter especially in Kilifi and Mombasa to support community linkages with SGBV safe spaces.

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

The Principal Secretary for the State Department for Housing and Urban Development and the Project Coordinator for Second Informal Settlements Improvement 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 the financial period ended on June 30, 2025.

This responsibility includes (i) Maintaining adequate financial management arrangements 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, (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 and (v) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the State Department for Housing and Urban Development and the Project Coordinator for Second Informal Settlements Improvement Project accept responsibility for the Project's financial statements, which have been prepared on the accrual basis method of financial reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the State Department for Housing and Urban Development and the Project Coordinator for Second Informal Settlements Improvement Project are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2025, and of the Project's financial position as at that date. The Principal Secretary for the State Department for Housing and Urban Development and the Project Coordinator for Second Informal Settlements Improvement Project 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 and the adequacy of the systems of internal financial control.

The Principal Secretary for the State Department for Housing and Urban Development and the Project Coordinator 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 under audit were used for the eligible purposes for which they were intended and were properly accounted for.

*Second Kenya Informal Settlement Improvement Project  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

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**Approval of the Project Financial Statements**

The Project financial statements were approved by the Principal Secretary for the State Department for Housing and Urban Development and the Project Coordinator for Second Informal Settlement Improvement Project on 5<sup>th</sup> November, 2025 and signed by them.



.....  
**Name: Charles M. Hinga, CBS, CA(SA)**  
**Principal Secretary**



.....  
**Name: George Arwa**  
**Project Coordinator**

# REPUBLIC OF KENYA

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Email: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON SECOND KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT IDA CREDIT NO.6759 AND AFD CREDIT NO. CKE 118801S FOR THE YEAR ENDED 30 JUNE, 2025 - STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT**

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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.

An Unmodified Opinion is issued when the Auditor-General concludes that 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

### Opinion

I have audited the accompanying transitional IPSAS financial statements of Second Kenya Informal Settlement Improvement Project set out on pages 1 to 32, 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 [Insert as appropriate] 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, the transitional IPSAS financial statements present fairly, in all material respects, the financial position of Second Kenya Informal Settlement Improvement Project as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with Transitional International Public Sector Accounting Standards (Accrual Basis) including the transitional provisions permitted under IPSAS 33 and comply with the Financing Agreement No. 6759 and CKE 118801S between the Republic of Kenya and International Development Association (IDA) and African Development Fund (AFD) dated 17 August, 2020 and 15 December, 2022 respectively and the Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No.3 of 14 April, 2025.

In addition, the special accounts statements present fairly, transactions for the year, and the closing balance have been reconciled with the books of account.

### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Second Kenya Informal Settlement Improvement 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 opinion.

### Emphasis of Matter

#### Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue final budget and actual on comparable basis amount of Kshs.11,148,162,028 and Kshs.10,969,759,697 respectively resulting to budget funding of 98%. However, the

statement reflects use of goods and services final budget amount of Kshs.3,091,465,913 and actual on comparable basis of Kshs.2,712,960,156 resulting to budget under-utilization of Kshs.378,505,757 or 12% of the budgeted expenditure. The under-absorption was due to late procurement of consultancies under AFD loan and grant. The under-utilization may have negatively affected the Project's planned activities.

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

### **Other Matter**

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

In the prior year audit report, one issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. This includes failure to transfer funds to Project special purpose account. Review of the status during audit of the Project in 2024/2025 revealed that the matter remained unresolved.

### **Other Information**

The Management is responsible for the Other Information set out on page iii to xx 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 matter described in the Basis for Conclusion on

Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **Failure to Transfer Project Funds from County Revenue Fund to Projects Special Purpose Account**

The statement of financial performance reflects transfer to other Government Entities of Kshs.7,489,098,310. The funds were transferred and received in the respective County Governments County Revenue Fund (CRF) Accounts as disclosed on Note 11 to the financial statements. However, it was noted that three (3) County Governments namely Kiambu, Nairobi and Taita Taveta County Governments did not transfer funds of Kshs.264,543,092, Kshs.260,000,000 and Kshs.26,321,755, respectively all amounting to Kshs.550,864,847 to the Project's Special Purpose Accounts.

Management stated that this was occasioned by late signing of the County Government Additional Allocation Act, 2025 which was done on 13 May, 2025 and the subsequent assenting of the supporting Supplementary Budget No. 3 on 23 June, 2025, which was very close to the end of the year and some counties were locked out of Integrated Financial Management Information Systems (IFMIS) before the transfers could materialize.

In the circumstances, the Project may not achieve its goals since the funds were not used for the intended purpose. There was no value for money on the funds not transferred.

In the circumstances, Management was in breach of the Project Appraisal document Annex 5 on detailed financial Management arrangement number 8 of the Financing Agreement which requires every County to open a Project Specific Special Purpose Account (SPA) from which all Project payments will be made.

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 THE 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 Financing Agreement No. 6759 and CKE 118801S between the Republic of Kenya and International Development Association (IDA) and African Development Fund (AFD) dated 17 August, 2020 and 15 December, 2022 respectively, 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.

Those charged with governance are 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

26 November, 2025

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

	Notes	FY 2024/2025
		Kshs
<b>Revenue</b>		
Revenue Transfers	6	10,257,045,108
Miscellaneous Revenue	7	-
<b>Total revenue</b>		<b>10,257,045,108</b>
<b>Expenses</b>		
Employee costs	8	-
Use of goods and services	9	2,711,815,852
Depreciation and amortization expense	10	61,535,161
Transfer to other Government Entities	11	7,489,098,310
Other Transfers/Subsidies/Grants	12	-
Certified Works	13	-
<b>Total expenses</b>		<b>10,262,449,323</b>
<b>Other gains/(losses)</b>		
Gain/Loss on sale of assets	14	-
Gain/Loss on foreign exchange transactions	15	-
Impairment loss	16	-
<b>Surplus/ (deficit)</b>		<b>(5,404,215)</b>

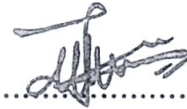
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



Name: Charles M. Hinga, CBS, CA(SA)  
Principal Secretary



Name: George Arwa  
Project Coordinator



Name: Wagura Theuri  
Project Accountant  
ICPAK Member No: 13047


(Paragraph 79 of IPSAS 33 allows for the election by an Project to present one statement of financial performance, one statement of cash flow, one statement of net assets and the statement of financial position, and an opening statement of financial position at the time of adoption of the accrual basis of accounting. In preparing this financial report, this election has been made: therefore, there are no comparatives in this first year of transition.)

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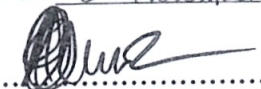
**8. Statement of Financial Position as at 30<sup>th</sup> June 2025**

	Note	FY 2024/2025	1 <sup>st</sup> July 2024
		Kshs	Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash equivalents	17	475,764,319	712,714,589
Receivables	18	-	-
Inventories	19	-	-
Prepayment	20	1,144,304	-
<b>Total Current Assets</b>		<b>476,908,622</b>	<b>712,714,589</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	21	351,288,490	120,886,739
Intangible Assets	22	-	-
<b>Total Non- Current Assets</b>		<b>351,288,490</b>	<b>120,886,739</b>
<b>Total Assets (a)</b>		<b>828,197,113</b>	<b>833,601,328</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables	23	-	-
Third Party Deposits	24	-	-
Deferred Income	25	-	-
<b>Total Current Liabilities</b>		<b>-</b>	<b>-</b>
<b>Total Liabilities (b)</b>		<b>-</b>	<b>-</b>
<b>Net Assets (a-b)</b>		<b>828,197,113</b>	<b>833,601,328</b>
<b>Represented By:</b>			
Accumulated Surplus		828,197,113	833,601,328
<b>Total Net Assets</b>		<b>828,197,113</b>	<b>833,601,328</b>

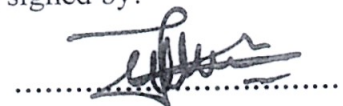
The financial statements were approved on 5<sup>th</sup> November, 2025 and signed by:



Name: Charles M. Hinga, CBS, CA(SA)  
Principal Secretary



Name: George Arwa  
Project Coordinator



Name: Wagura Theuri  
Project Accountant  
ICPAK Member No: 13047

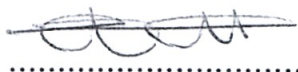
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**9. Statement of Changes in Net Assets**

<b>Description</b>	<b>Accumulated Surplus</b>
	<b>Kshs</b>
<b>As at 30<sup>th</sup> June 2024 (Cash Basis)</b>	<b>712,714,589</b>
Adjustments:	
Asset Recognition	120,886,739
Liabilities recognition	-
<b>As at 1<sup>st</sup> July 2024</b>	<b>833,601,328</b>
Surplus/(Deficit) for the year	(5,404,215)
<b>As at 30<sup>th</sup> June 2025</b>	<b>828,197,113</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 5<sup>th</sup> November, 2025 and signed by:



Name: Charles M. Hinga, CBS, CA(SA)  
Principal Secretary



Name: George Arwa  
Project Coordinator



Name: Wagura Theuri  
Project Accountant  
ICPAK Member No: 13047

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

Description	Note	FY 2024/2025
		Kshs
<b>Cashflow from operating activities</b>		
<b>Receipts</b>		
Revenue Transfers	6	10,257,045,108
Miscellaneous Revenue	7	-
<b>Total receipts</b>		<b>10,257,045,108</b>
<b>Payments</b>		
Employee costs	8	-
Use of goods and services	9	2,712,960,156
Transfer to other Government Entities	11	7,489,098,310
Other Transfers/Subsidies/Grants	12	-
Certified Works	13	-
<b>Total payments</b>		<b>10,202,058,466</b>
<b>Net cash flow from operating activities</b>	26	<b>54,986,642</b>
<b>Cashflow from investing activities</b>		
Acquisition of non-financial assets	21	(291,936,912)
Proceeds from sale of Assets	21	-
Acquisition of Intangible assets	22	-
<b>Net cash flows from investing activities</b>		<b>(291,936,912)</b>
<b>Cash flow from financing activities</b>		
		-
<b>Net cash flow from financing activities</b>		<b>-</b>
Net increase/Decrease in cash and cash equivalents		(236,950,270)
<b>Cash and cash equivalent at 1<sup>st</sup> July 2024</b>	17	<b>712,714,589</b>
<b>Cash and cash equivalent at end June 2025</b>	17	<b>475,764,319</b>

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**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	11,340,000,000	(191,837,972)	11,148,162,028	10,969,759,697	178,402,331	98%
Miscellaneous Revenue	-	-	-	-	-	-
<b>Total Revenue</b>	<b>11,340,000,000</b>	<b>(191,837,972)</b>	<b>11,148,162,028</b>	<b>10,969,759,697</b>	<b>178,402,331</b>	<b>98%</b>
<b>Payments</b>						
Employee costs	-	-	-	-	-	-
Use of goods and services	640,000,000	2,451,465,913	3,091,465,913	2,712,960,156	378,505,757	88%
Transfer to other Government Entities	10,400,000,000	(2,643,303,885)	7,756,696,115	7,489,098,310	267,597,805	97%
Other Transfers/Subsidies/Grants	-	-	-	-	-	-
Acquisition of PPE	300,000,000	-	300,000,000	291,936,912	8,063,088	97%
<b>Total Payments</b>	<b>11,340,000,000</b>	<b>(191,837,972)</b>	<b>11,148,162,028</b>	<b>10,493,995,378</b>	<b>(654,166,650)</b>	<b>94%</b>
<b>Surplus</b>	-	-	-	475,764,319	-	-

**Budget notes**

1. Commentary on significant underutilization (below 90% of utilization) and any overutilization (IPSAS 24.14)

The underutilization of use of goods and services was due to delayed procurement of planned consultancies under AFD loan and grant.

2. Changes between the original and final budget (IPSAS 24.29)

The changes in the original and final budget were due to adjustment of Kshs 712,714,589 being the opening balances and overall budget cuts of Kshs. 904,552,561 during supplementary 2 and 3.

**Budget Reconciliation**

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	475,764,319
1	Basis difference	-
2	Timing differences	-
3	Project differences	-
4	Classification differences	-
	Closing Cash and Cash Equivalent as per the statement of Cash flows	475,764,319

## 12. Notes to the Financial Statements

### 1. General Information

Second Kenya Informal Settlement Improvement Project is established by and derives its authority and accountability from PFM Act and Financing Agreement. The Project is wholly owned by the Government of Kenya and is domiciled in Kenya. The Project's principal activity is improving access to basic infrastructure services for residents in participating urban informal settlements and enhancing tenure security in informal settlements.

### 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).

#### Guiding note during the transition period:

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS), and the project has taken advantage of the transitional provisions under IPSAS 33, and therefore these 1<sup>st</sup>/ 2<sup>nd</sup>/ 3<sup>rd</sup>/year financial statements are transitional financial statements and the following elements of the financial statements have not been recognized as the Project has taken advantage of the transition provisions outlined in IPSAS 33.

- (i) *Comparative figures:* There are no comparative figures with the previous year as well as cumulative figures. The project expects to incorporate these during the second transitional year.
- (ii) *Depreciation:* the project has incorporated depreciation that would have accrued in the previous reporting period and reported the depreciation as "depreciation as at 1<sup>st</sup> July 2024. The depreciation is on reducing balance method.

These financial statements were authorized for issue by the accounting officer on 28<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	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>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 Project.</p>

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Standard	Effective date and impact:
	<p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><i>The project does not have existing leases.</i></p>
<p>IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations</p>	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>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.</p> <p><i>The project does not have Non- Current Assets Held for Sale and Discontinued Operations</i></p>
<p>IPSAS 45- Property Plant and Equipment</p>	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure 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.</p> <p><i>The project does not have these class of assets.</i></p>
<p>IPSAS 46 Measurement</p>	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> <li>i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.</li> <li>ii. Clarifying transaction costs guidance to enhance consistency across IPSAS;</li> <li>iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</li> </ul> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> <p><i>This has no impact on the project.</i></p>

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

<b>Standard</b>	<b>Effective date and impact:</b>
IPSAS 47- Revenue	<p><i>Applicable 1<sup>st</sup> January 2026</i></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 Project 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> <p><i>This has no impact on the project.</i></p>
IPSAS 48- Transfer Expenses	<p><i>Applicable 1<sup>st</sup> January 2026</i></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> <p><i>This has no impact on the project.</i></p>
IPSAS 49- Retirement Benefit Plans	<p><i>Applicable 1<sup>st</sup> January 2026</i></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> <p><i>This has no impact on the project.</i></p>
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<p><i>Applicable 1<sup>st</sup> January 2027</i></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:</p> <ol style="list-style-type: none"> <li>i. Limited improvements to existing accounting practices for exploration and evaluation expenditures.</li> <li>ii. 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.</li> <li>iii. Disclosures that identify and explain the amounts in the Project'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.</li> </ol> <p><i>This has no impact on the project.</i></p>

**iii) Early adoption of standards**

The project did not early adopt any new or amended standards in the financial year.

**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 Project 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 National Assembly. 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 Project upon receiving the respective approvals to conclude the final budget. Accordingly, the Project recorded reduced appropriations of 898,279,551 on the FY 2024/2025 budget following the National Assembly approval. The Project'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 6 under section 1 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 Project 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.

**Notes to the financial statements**

**d) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Project. 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 Project 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 Project 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 Project expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Project 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 Project does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements. A financial instrument is any contract that gives rise to a financial asset of one Project and a financial liability or equity instrument of another Project. At initial recognition, the Project 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 Project 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 Project'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 Project 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 Project 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.

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**Notes to the financial statements**

**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 Project 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 Project 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 Project 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 in Note 16.

*Financial liabilities*

*Classification*

The Project 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.

**Notes to the financial statements**

**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 project.

**i) Provisions**

Provisions are recognized when the Project 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 Project 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 Project 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 Project 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 Project 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 Project creates and maintains reserves in terms of specific requirements.

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

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

**Notes to the financial statements**

**l) Employee benefits**

**Retirement benefit plans**

The Project provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Project pays fixed contributions into a separate Project (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 Project regards a related party as a person or an Project with the ability to exert control individually or jointly or to exercise significant influence over the Project, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

**Notes to the financial statements**

**p) Service concession arrangements**

The Project 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 Project 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 Project 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.

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**Notes to the financial statements**

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

The preparation of the Project'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 Project 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 Project. 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 Project.
- 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.

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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Notes to the financial statements

6. Revenue Transfers

Description	FY2024/2025
	KShs
<b>Unconditional Transfers</b>	
GoK Counter Part funding	85,000,000
Transfers from Development partners	10,172,045,108
<b>Total Unconditional Transfers (a)</b>	<b>10,257,045,108</b>
<b>Conditional Transfers</b>	
Transfers from Development partners 1	-
Transfers from Development partner 2	-
<b>Total Conditional Transfers (b)</b>	<b>-</b>
<b>Total Transfers for the Year (a + b)</b>	<b>10,257,045,108</b>

*The funding is for implementation of the project.*

a) Details to Revenue Transfers

Name of The Project Transferring	Amount recognized to Statement of Financial performance	Amount deferred under deferred income.	Amount moved to Capital fund	Total transfers (FY2024/2025)
	Kshs	Kshs	Kshs	Kshs
GOK Funding	85,000,000	-	-	85,000,000
Euro Denominated Loan from IDA DA-A	2,495,555,352	-	-	2,495,555,352
Euro Denominated Loan from IDA DA-B	4,876,489,755			4,876,489,755
Euro Denominated Loan from IDA DA-C	-			-
Euro Denominated Loan from AFD DA-D	93,423,221			93,423,221
Euro Denominated Loan from AFD DA-E	2,612,608,555			2,612,608,555
Euro Denominated Grant from AFD/EU	93,968,225			93,968,225
<b>Subtotal</b>	<b>10,257,045,108</b>	<b>-</b>	<b>-</b>	<b>10,257,045,108</b>
Deferred Income realized	-			-
Transfers in Kind	-			-
<b>Total</b>	<b>10,257,045,108</b>	<b>-</b>	<b>-</b>	<b>10,257,045,108</b>

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Notes to the financial statements

7. Miscellaneous revenue

Description	FY 2024/25
	Kshs
Interest Income	-
<b>Total</b>	-

8. Employees Costs

Description	FY 2024/25
	Kshs
Basic salaries of permanent employees	
Basic wages of temporary employees	
Personal allowances paid as part of salary	
Personal allowances paid as reimbursements	
Personal allowances provided in kind	
Pension and other social security contributions	
Compulsory national social security schemes	
Compulsory national health insurance schemes	
<b>Total</b>	-

9. Use of Goods and Services

Description	FY 2024/25
	Kshs
Utilities, supplies and services	11,735,079
Bank charges	626,805
Communication, supplies and services	5,004,000
Domestic travel and subsistence	228,499,719
Foreign travel and subsistence	4,136,848
Fuel and lubricants	15,417,315
General office supplies	5,358,870
Stationery, Printing, advertising, and information supplies	11,389,515
Office rent	-
Training payments	26,018,291
Hospitality supplies and services	-
Insurance costs	2,158,192
Specialized materials and services	-
Other operating payments(specify)	-
Routine maintenance – vehicles and other transport equipment	3,346,179
Research, studies, project preparation, design & supervision	2,399,269,343
<b>Total</b>	<b>2,712,960,156</b>

Notes to the financial statements

**10. Depreciation and Amortization expense**

Description	FY 2024/25
	Kshs
Property, Plant and Equipment	61,535,161
Intangible Assets	-
<b>Total</b>	<b>61,535,161</b>

**11. Transfer to Other Government Entities**

Description	FY 2024/2025
	Kshs
Transfers to County Government of:	
Nairobi	260,000,000
Mombasa	695,000,000
Nakuru	128,000,000
Kisumu	735,000,000
Kilifi	517,190,432
Kakamega	108,661,317
Kiambu	264,543,092
Uasin Gishu	490,000,000
Trans-Nzoia	616,000,000
Wajir	420,000,000
Meru	175,000,000
Homabay	925,020,992
Taita Taveta	146,321,755
Lamu	223,397,882
Bungoma	292,128,530
Nyeri	300,603,076
Tharaka Nithi	167,000,000
Nyandarua	282,000,000
Elgeyo Marakwet	260,000,000
Nandi	202,151,790
Kwale	80,188,971
Nyamira	110,890,473
Kajiado	90,000,000
<b>Total</b>	<b>7,489,098,310</b>

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**12. Other Transfers/Subsidies/Grants**

<b>Description</b>	<b>FY 2024/2025</b>
	<b>Kshs</b>
Transfers to Non-Government Organizations	
Subsidies	
<b>Total</b>	-

**13. Certified Works**

<b>Description</b>	<b>FY 2024/2025</b>
	<b>Kshs</b>
Road Works	
Water Works	
Energy Infrastructure	
<b>Total</b>	-

Notes to the financial statements

**14. Gain/Loss on Sale of Assets**

Description	FY 2024/2025
	Kshs
Property, plant and equipment	
Intangible assets	
Other assets not capitalised	
<b>Total gain/loss on sale of assets</b>	

*There was no sale of fixed assets*

**15. Gain/Loss on foreign exchange transactions**

Description	FY 2024/2025
	Kshs
Gain on foreign exchange transactions	
Loss on foreign exchange transactions	
<b>Total Gain/Loss</b>	

**16. Impairment Loss**

Description	FY 2024/2025
	Kshs
Property, Plant and Equipment	
Intangible Assets	
<b>Total Impairment Loss</b>	

**17. Cash and Cash Equivalentents**

Description	FY 2024/2025	1 <sup>st</sup> July
	Kshs	Kshs
Cash in Bank	475,764,318	712,714,589
Cash on hand	-	-
<b>Total Cash and Cash Equivalentents</b>	<b>475,764,318</b>	<b>712,714,589</b>

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Notes to the financial statements

**Project Bank Accounts**

Details	FY 2024/2025	1 <sup>st</sup> July 2024
	Kshs	Kshs
<b>Local Currency Accounts</b>		
Development Accounts		
Co-operative Bank of Kenya [A/c No. 01141164136100]	25,373,483.92	138,127,902.37
Co-operative Bank of Kenya [A/c No. 01141164165900]	203,226,662.75	501,213,231.45
Co-operative Bank of Kenya [A/c No. 01141164165800]	66,261,175.05	67,623,455.05
Co-operative Bank (amount held by Bank as collateral)	3,200,000.00	5,750,000.00
Stanbic Bank [A/c No. 0100014352125]	83,739,236.50	-
Stanbic Bank [A/c No. 0100014352168]	93,963,759.85	
Total local currency balances	<u>475,764,318.07</u>	<u>712,714,588.87</u>
<b>Total bank account balances</b>	<b><u>475,764,318.07</u></b>	<b><u>712,714,588.87</u></b>

*\*The amount in collateral is money held in lien in regard to bank guarantee in favour TotalEnergies Marketing Kenya PLC for provision of fuel on post paid cards.*

Notes to the Financial Statements (Continued)

18. Receivables

Description	FY 2024/2025	1 <sup>st</sup> July 2024
	Kshs	Kshs
Counter Part Funding	-	-
Contractor's Advance payments	-	-
<b>Total Receivables</b>	-	-

*There were no receivables*

Ageing analysis for Receivables

Description	FY 2024/2025		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
	Current FY	% of the total	Comparative FY	% of the total
Less than 1 year	-	%	-	%
Between 1- 2 years	-	%	-	%
Between 2-3 years	-	%	-	%
Over 3 years	-	%	-	%
<b>Total (a+b)</b>	-	%	-	%

19. Inventories

Description	FY 2024/2025	1 <sup>st</sup> July 2024
	Kshs	Kshs
Consumable stores	-	-
Construction stores	-	-
Less: allowance for impairment	-	-
<b>Total inventories</b>	-	-

*There were no closing inventories*

20. Prepayments

Description	FY 2024/2025	1 <sup>st</sup> July 2024
	Kshs	Kshs
Insurance	782,953	-
Project manager software	361,351	-
<b>Total prepayments</b>	<b>1,144,304</b>	-

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Notes to the financial statements

**21. Property, Plant and Equipment**

Cost	Motor vehicles	Furniture and fittings	ICT Equipment	Other Assets	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Depreciation rate	12.5%	12.5%	30%	12.5%		
As At 1 <sup>st</sup> July 2024 (opening balances)	51,932,072	6,641,900	79,467,762	-	-	138,041,734
Additions	174,800,000	3,976,100	113,160,812	-	-	291,936,912
Disposals	-	-	-	-	-	-
Transfers/Adjustments	-	-	-	-	-	-
As at 30 <sup>th</sup> June 2025	226,732,072	10,618,000	192,628,574	-	-	429,978,646
<b>Depreciation And Impairment</b>						
As at 1 <sup>st</sup> July 2024	(8,680,933)	(1,058,493)	(7,415,569)	-	-	(17,154,995)
Depreciation charge for the year	(19,452,904)	(834,606)	(41,247,651)	-	-	(61,535,161)
Impairment loss	-	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-	-
As At 30 <sup>th</sup> June 2025	(28,133,837)	(1,893,099)	(48,663,220)	-	-	(78,690,156)
<b>Net Book Values</b>						
As at 1 <sup>st</sup> July 2024	43,251,139	5,583,407	72,052,193	-	-	120,886,739
As at 30 <sup>th</sup> June 2025	198,598,235	8,724,901	143,965,354	-	-	351,288,490

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Notes to the financial statements

**22. Intangible Assets**

Description	1 <sup>st</sup> July 2024
	Kshs
<b>Cost</b>	
As at 1 <sup>st</sup> July 2024	-
Additions	-
As At 30 <sup>th</sup> June 2025	-
<b>Amortization and impairment</b>	
As at 1 <sup>st</sup> July 2024	-
Amortization	-
Impairment loss	-
As At 30 <sup>th</sup> June 2025	-
NBV as at 1 <sup>st</sup> July 2024	-
NBV as at 30 <sup>th</sup> June 2025	-

**23. Trade and Other Payables**

Description	FY 2024/2025		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
Trade payables	-		-	
Employee payables	-		-	
<b>Total trade and other payables</b>	-		-	
<b>Ageing analysis: (Trade and other payables)</b>	<b>Current FY</b>	<b>% of the Total</b>	<b>Comparative FY</b>	<b>% of the Total</b>
Under one year	-	%	-	%
1-2 years	-	%	-	%
2-3 years	-	%	-	%
Over 3 years	-	%	-	%
<b>Total (tie to above total)</b>	-		-	

*There are no payables.*

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Notes to the financial statements

**24. Third-Party Deposits**

Description	FY 2024/2025		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
Contractor's Retention	-		-	
Gratuity	-		-	
<b>Total deposits</b>	-		-	
Ageing analysis: (Refundable deposits)	Current FY	% of the Total	Comparative FY	% of the Total
<b>Under one year</b>	-	%	-	%
1-2 years	-	%	-	%
2-3 years	-	%	-	%
Over 3 years	-	%	-	%
<b>Total</b>	-		-	

*The project does not have third party deposits.*

**25. Deferred Income**

Description	FY 2024/2025	1 <sup>st</sup> July 2024
	Kshs	Kshs
Development partner 1	-	-
Development partner 2	-	-
<b>Total Deferred Income</b>	-	-

*There is no deferred income*

**Deferred Income Movement Schedule**

	Development Partner 1	Development Partner 2	Others specify	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1 <sup>st</sup> July 2024	-	-	-	-
Additions	-	-	-	-
Transfers To Performance Statement as Revenue	-	-	-	-
Balance as at 30 <sup>th</sup> June 2025	-	-	-	-

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**26. Cash Generated from Operations**

Description	FY 2024/2025
	Kshs
Surplus/Deficit for the year	(5,404,214)
<b>Adjusted for:</b>	
Depreciation	61,535,161
Non-cash grants received	-
Impairment	-
Gains and losses on disposal of assets	-
<b>Working capital adjustments</b>	
Increase in inventory	(-)
Increase in receivables	(1,144,304)
Increase in deferred income	-
Increase in payables	-
Increase in payments received in advance	-
<b>Net cash flow from operating activities</b>	<b>54,986,642</b>

**27. 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.

Below is the Special Deposit Account (SDA) movement schedule, which shows the flow of funds voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

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**Special Deposit Accounts Movement Schedule**

	2024/2025	2023/2024
	KShs	KShs
<b>(i) Central Bank of Kenya [A/c No 1000487569] DA-A NG</b>		
Opening balance	1,217,234,061	268,011,395
Total amount deposited in the account	2,618,246,148	2,362,081,474
Total amount withdrawn (as per Statement of Receipts &	2,495,555,352	1,412,858,807
<b>Closing balance (as per SDA bank account reconciliation)</b>	<b><u>1,339,924,857</u></b>	<b><u>1,217,234,061</u></b>
<b>(ii) Central Bank of Kenya [A/c No 1000487698] DA-B CG</b>		
Opening balance (as per the SDA reconciliation)	431,811,752	106,824,288
Total amount deposited in the account	4,490,021,574	4,823,658,934
Total amount withdrawn (as per Statement of Receipts &	4,876,489,755	4,498,671,469
<b>Closing balance (as per SDA bank account reconciliation)</b>	<b><u>45,343,570</u></b>	<b><u>431,811,752</u></b>
<b>(iii) Central Bank of Kenya [A/c No 1000497203] DA-C LICW</b>		
Opening balance (as per the SDA reconciliation)	-	-
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts &	-	-
<b>Closing balance (as per SDA bank account reconciliation)</b>	<b>=</b>	<b>=</b>
<b>(iv) Central Bank of Kenya [A/c No 1000497203] AFD NG</b>		
Opening balance (as per the SDA reconciliation)	93,423,221	140,879,116
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts &	93,423,221	47,455,895
<b>Closing balance (as per SDA bank account reconciliation)</b>	<b>=</b>	<b><u>93,423,221</u></b>
<b>(v) Central Bank of Kenya [A/c No 1000497203] AFD CG</b>		
Opening balance (as per the SDA reconciliation)	293,680,800	293,680,800
Total amount deposited in the account	2,462,323,428	-
Total amount withdrawn (as per Statement of Receipts &	2,612,608,555	-
Withdrawn but in transit at exchequer	792,878	
<b>Closing balance (as per SDA bank account reconciliation)</b>	<b><u>142,602,795</u></b>	<b><u>293,680,800</u></b>
<b>(vi) Central Bank of Kenya [A/c No 1000497203] AFD Grant</b>		
Opening balance (as per the SDA reconciliation)	-	-
Total amount deposited in the account	144,566,500	-
Total amount withdrawn (as per Statement of Receipts &	93,968,225	-
<b>Closing balance (as per SDA bank account reconciliation)</b>	<b><u>50,598,275</u></b>	<b>=</b>

*(The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as Appendix iv support these closing balance.*

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**28.Related Party Disclosures**

**Nature of related party relationships**

Entities and other parties related to the Project 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.

**Government of Kenya**

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

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**Notes to the financial statements**

**Other related parties include:**

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

Description	FY 2024/2025
	Kshs
<b>Transactions with related parties</b>	
<b>a) Sales to related parties</b>	
Sales of electricity to govt agencies	-
Rent income from govt. Agencies	-
<b>Total</b>	-
<b>B) purchases from related parties</b>	
Purchases of electricity from KPLC	-
Purchase of water from govt service providers	-
Rent expenses paid to govt agencies	-
<b>Total</b>	-
<b>b) Grants /transfers from the government</b>	
Grants from national govt	-
Grants from county government	-
Donations in kind	-
<b>Total</b>	-
<b>c) Expenses incurred on behalf of related party</b>	
Payments of salaries and wages for employees	-
Payments for goods and services	-
<b>Total</b>	
<b>d) Key management compensation</b>	
Directors' emoluments	-
Compensation to key management	-
<b>Total</b>	-

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**Notes to the financial statements**

**29.Events after the Reporting Period**

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

**30.Ultimate And Holding Project**

The Project is a project under the Ministry of Lands Housing and Urban Development. Its ultimate parent is the Government of Kenya.

**31.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:
1061	Failure to transfer funds to Project Special Purpose Account: The statement of receipts and payments and Note 9 to the financial statements reflects a balance of Kshs 4,498,671,470 in respect to Transfers to other government entities. The funds were transferred to county governments and was confirmed to have been received in the county governments' revenue accounts. However, it was noted that five county governments did not transfer funds amounting to Kshs 427,373,055 to the county special purpose accounts	The management followed up with the 5 counties and the funds have since been transferred to the special purpose accounts.	Resolved	

  
.....  
Charles M. Hinga, CBS CA(SA)  
Principal Secretary

  
.....  
George Arwa  
Project Coordinator

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

<b>PROJECT NAME:</b>		<b>Second Kenya Informal Settlement Improvement Project</b>		
<b>Break down of Transfers from the State Department of Housing and Urban Development</b>				
a.	Government transfers			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>Financial Year</u></b>
		03/10/2024	827,281,840	2024/2025
		27/11/2024	10,000,000	2024/2025
		22/01/2025	584,553,387.50	2024/2025
		28/01/2025	30,000,000	2024/2025
		20/02/2025	20,000,000	2024/2025
		17/03/2025	25,000,000	2024/2025
		17/03/2025	93,423,220.50	2024/2025
		17/03/2025	134,421,900	2024/2025
		04/06/2025	93,968,225	2024/2025
		11/06/2025	692,534,134.60	2024/2025
		04/07/2025	2,496,286,800	2024/2025
		04/07/2025	3,054,280,320	2024/2025
		07/07/2025	1,415,978,437.50	2024/2025
		07/07/2025	406,230,997.90	2024/2025
		07/07/2025	256,764,090	2024/2025
		11/07/2025	116,321,755	2024/2025
		<b>Total</b>	<b>10,257,045,108</b>	
b.	Direct Payments			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>For 2024/2025</u></b>
			-	
		<b>Total</b>	-	
c.	Others			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>For 2024/2025</u></b>
			-	
		<b>Total</b>	-	
		<b>TOTAL(a+b+c)</b>	<b>10,257,045,108</b>	

The above amounts have been communicated to and reconciled with the Parent Ministry/ State Department

George Arwa  
Project Coordinator  
Second Kenya Informal Settlement Improvement Project

Sign -----

Nelson Osioru  
Head of Accounting Unit  
State Department of Housing and Urban Development

Sign -----

*Second Kenya Informal Settlement Improvement Project*  
**Annual Reports and Financial Statements for the year ended June 30, 2025**  
**Annex 3: Fixed Asset Register**

<b>Asset class</b>	<b>Historical Cost b/f (Kshs) Previous Year</b>	<b>Additions during the year (Kshs)</b>	<b>Disposals during the year (Kshs)</b>	<b>Transfers in/(out) during the year</b>	<b>Historical Cost c/f (Kshs) Current Year</b>
Land					
Buildings and structures					
Transport equipment	51,932,072	174,800,000			226,732,072
Office equipment, furniture and fittings	6,641,900	3,976,100			10,618,000
ICT Equipment	79,467,762	113,160,812			192,628,574
Machinery and Equipment					
Biological assets					
Infrastructure Assets- Roads, Rails					
Heritage and cultural assets					
Intangible assets					
Work in Progress					
<b>Total</b>	<b>138,041,734</b>	<b>291,936,912</b>			<b>429,978,646</b>

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**Annex 4: Other Support Documents**

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Bank Reconciliations statement as at 30<sup>th</sup> June 2025
- iii. Board of Survey Report
- iv. Special Deposit Account(s) reconciliation statement(s)