

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL  
*Enhancing Accountability*



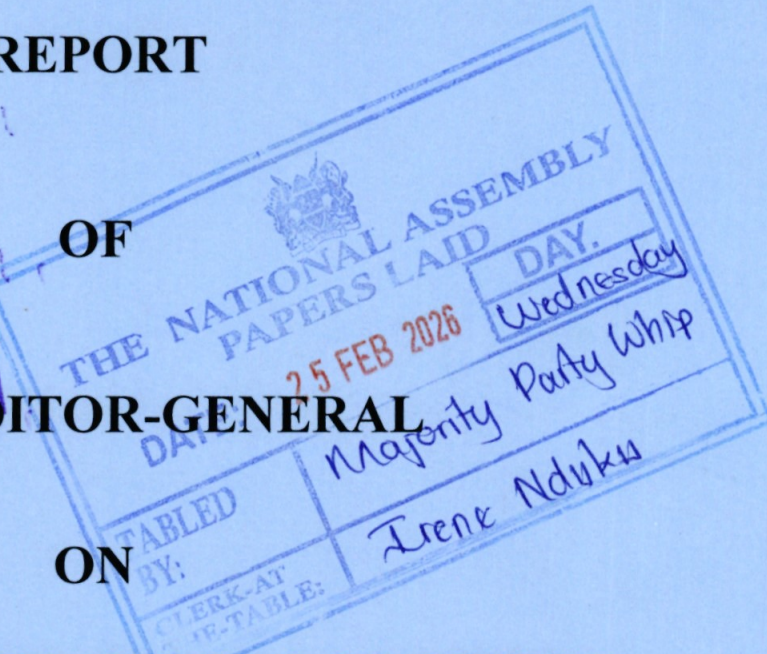
## REPORT

OF



**THE AUDITOR-GENERAL**

ON



**KENYA-SOUTH SUDAN ROAD CORRIDOR,  
LESSERU-KITALE AND MORPUS-LOKICHAR  
ROAD UPGRADING PROJECT – PHASE I-AFDB  
LOAN NO. 2000200005805 AND NO. 2100150043496  
– PROJECT ID NO. P-ZI-DBO-246**

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

**KENYA NATIONAL HIGHWAYS AUTHORITY**



**Kenya National Highways Authority**

Quality Highways, Better Connections

**PROJECT NAME: KENYA-SOUTH SUDAN ROAD CORRIDOR, LESSERU-KITALE AND  
MORPUS-LOKICHAR ROAD UPGRADING PROJECT-PHASE I**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

**PROJECT GRANT/CREDIT NUMBER:**

AFRICAN DEVELOPMENT BANK (ADB) LOAN NO 2000200005805

AFRICAN DEVELOPMENT FUND (ADF) LOAN NO 2100150043496

PROJECT NO P-ZI-DBO-246

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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)**

<b>Table Contents</b>	<b>Page</b>
1. Acronyms and Definition of Terms .....	iv
2. Project Information and Overall Performance .....	v
3. The project management aims to achieve the goals through the following means:.....	vi
4. Statement of Performance against Project's Predetermined Objectives .....	xii
5. Environmental and Sustainability Reporting.....	xiv
6. Statement of Project Management Responsibilities.....	xvii
7. Report of the Independent Auditor on Financial Statements for Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I.....	xviii
8. Statement of Financial Performance for the Year Ended 30th June 2025. ....	1
9. Statement of Financial Position as at 30 <sup>th</sup> June 2025.....	2
10. Statement of Changes in Net Assets.....	3
11. Statement of Cashflow for the year ended 30 <sup>th</sup> June 2025 .....	4
12. Statement of Comparison of Budget and Actual Amounts for the Year ended 30 <sup>th</sup> June 2025.....	5
13. Notes to the Financial Statements .....	7
13. Annexes.....	32

**Acronyms and Definition of Terms**

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
CT	County Treasury
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
UA	Unit of Account
Comparative FY	Financial year preceding the current financial year.

## **Project Information and Overall Performance**

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

#### **Name**

Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I

#### **Objective**

The Project Road, Lesseru - Kitale (55km) and Morpus – Road (142km) Lokichar sections form part of the Lesseru – Nadapal -Kapoeta – Juba (945km) (Kenya – South Sudan) corridor, a strategic regional route, interconnecting Kenya and South Sudan. It is located in the North-Western region of Kenya. The development objectives of the project are to improve transport connectivity between Kenya and South Sudan thereby deepening regional integration and trade and alleviating fragility. The specific objectives of the project are to improve road transport along the Lesseru – Nadapal – Juba corridor (Kenya/South Sudan) by reducing travel time and travel cost and to improve road traffic safety along the project road sections.

#### **Address**

Barabara Plaza,  
Jomo Kenyatta International Airport (JKIA)  
Off Mazao Road  
Nairobi Kenya

#### **Contacts:**

Director General  
Kenya National Highways Authority  
P. O. Box 49712-00100  
Nairobi  
Telephone: (254) 020 495000  
E-mail: [dg@Kenha.co.ke](mailto:dg@Kenha.co.ke)

Website: [www.kenha.co.ke](http://www.kenha.co.ke)

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

### **2.2 Project Information**

Project Start Date:	14 <sup>th</sup> November, 2024
Project End Date:	31 <sup>st</sup> January, 2028
Project Coordinator:	Eng. Antony Mutua
Project Development Partner:	<ol style="list-style-type: none"> <li>1. African Development Bank (AfDB)</li> <li>2. African Development Fund (ADF)</li> <li>3. Government of Kenya</li> </ol>

### **2.3 Project Overview**

Line Ministry or State departments/ County Department	The project is under the supervision of the State Department of Roads on behalf of the Ministry of Roads and Transport
Project number	PROJECT NO P-ZI-DBO-246
Strategic goals of the project	<p>The strategic goals of the project are as follows:</p> <ol style="list-style-type: none"> <li>(i) To improve transport connectivity between Kenya and South Sudan thereby deepening regional integration and trade and alleviating fragility</li> <li>(ii) To improve road transport along Lesseru – Nadapal – Juba corridor (Kenya/South Sudan) by reducing travel time and travel cost and to improve road traffic safety along the project road sections.</li> </ol>
Summary of Project Strategies for achievement of strategic goals	<p><b>The project management aims to achieve the goals through the following means:</b></p> <ol style="list-style-type: none"> <li>(i) Rehabilitation of the road corridor in order to reduce travel cost and travel time and to improve road traffic safety along the project road sections</li> <li>(ii) Facilitation of regional trade and transport through construction of socio-economic amenities/</li> </ol>

*Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

	<p>infrastructures for trade centers/ markets, education and water supply points within the project area</p> <p>(iii) Upgrading of Lesseru – Kitale (55km) and Morpus – Lokichar(142km) section of the corridor.</p>
Other important background information of the project	The project financing is through a loan financing at an amount that does not exceed EUR 120, 520,000.00 and UA 56,000,000 with a tenor of 25 years which includes a grace period of 8 years.
Areas that the project was formed to intervene	<p>The project was formed to intervene in the following problems/gaps:</p> <p>(i) To improve transport connectivity between Kenya and South Sudan thus deepening regional integration and trade and alleviating fragility</p> <p>(ii) To improve road transport along Lesseru – Nadapal – Juba corridor (Kenya/South Sudan) by reducing travel time and travel cost</p> <p>(iii) To improve road traffic safety along the project road sections.</p>
Project duration	3.2 Years

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

### **2.4 Bankers**

Cooperative Bank of Kenya Ltd  
Upper Hill Branch  
P.O. Box 48231 – 00100, Nairobi  
Account Number 01141160979900

### **2.5 Independent Auditor**

Auditor General  
Office of The Auditor General  
P.O Box 30084-0100  
Nairobi

### **2.6 Roles and Responsibilities**

List the different people who are working on the project.

<b>No</b>	<b>Names</b>	<b>Title designation</b>	<b>Key qualification</b>	<b>Responsibilities</b>
1	Eng. Henry Gakuru	Director-Development	Registered Civil Engineer	Project Team Leader
2	Eng. Antony Mutua	Deputy Director	Registered Civil Engineer	Project Team Coordinator & Construction Specialist
3	Mr. Walter Nyatwanga	Deputy Director	Registered NEMA Lead expert. Member EIK	Environment Social Safeguards Specialist
4	CPA Isaac Kimani Karumba	Ag.Deputy Director-Finance & Accounts	Certified Public Accountant (CPA)	Project Financial Specialist
5	Mr. Richard Kilel	Ag.Deputy Director-Supply Chain Management	Registered KISM	Project Procurement Specialist

## 2.7 Funding summary

The Project is for a duration of 3.2 years from 2024 to 2028 with an approved budget of EUR 120,520,000 and UA 56,000,000 equivalent to KSh 28,096,094,000 and an amount of KSh.3,984,930,000 by GOK as highlighted in the table below:

Below is the funding summary:

### A. Source of Funds

Source of funds	Currency	Development Partner Commitment		Amount received to date – (30 <sup>th</sup> June 2025)		Undrawn balance to date	
		Euros/UA	Kshs	Euros	Kshs	Euros/UA	Kshs
		(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
<b>(i) Loan</b>							
African Development Bank (ADB)	Euro	120, 520,000	18,276,858,000	-	-	120, 520,000	18,276,858,000
African Development Bank (ADF)	UA	56,000,000	9,819,236,000	-	-	56,000,000	9,819,236,000
<b>(ii) Counter part funds</b>							
Government of Kenya			3,984,930,000	-	-	-	3,984,930,000
<b>Total</b>		<b>176,520,000</b>	<b>32,081,024,000</b>	<b>-</b>	<b>-</b>	<b>176,520,000</b>	<b>32,081,024,000</b>

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

**B. Application of Funds**

Application of funds	Amount received to date – (30 <sup>th</sup> June 2025)		Cumulative amount paid to date – (30 <sup>th</sup> June 2025)		Unutilised balance to date (30th June 2025)	
	Euros	Kshs	Euros	Kshs	Euros	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Loan</b>						
African Development Bank (ADB)	-	-	-	-	-	-
African Development Fund (ADF)	-	-	-	-	-	-
<b>(i) Counterpart funds</b>						
Government of Kenya	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-

**2.8 Summary of Overall Project Performance:**

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

	2024/2025			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds-GOK	-	-	-	-	-	-
Loan from external Development Partners	-	-	-	-	-	-
<b>Total</b>						

- ii) Physical progress based on outputs and outcomes since project commencement,  
 There was no physical progress as at 30th June 2025 since the contractor is yet to be procured as at the close of the financial year 30th June 2025.
- iii) Absorption rate for each year since the commencement of the project.  
 The funds allocated to the project are yet to be drawn
- iv) List the implementation challenges and recommend the next steps.

**2.9 Summary of Project Compliance:**

i) There was no documented case of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants, which was reported during the year, therefore no consequences suffered on account of non-compliance or likely to be suffered and consequently no mitigation measures taken or planned to alleviate the adverse effects of actual or potential consequences of non-compliance.

### **3.0 Statement of Performance against Project's Predetermined Objectives**

#### **Introduction**

Section 81(2)(f) /Section 164 (2)(f) of the Public Finance Management Act, 2012, requires that the Accounting Officer include a statement of the national government entity's performance against predetermined objectives at the end of each financial year.

The project is a strategic regional route, interconnecting Kenya and South Sudan and is located in the Western region of Kenya. The project is geared towards improvement of transport connectivity between Kenya and South Sudan thus deepening regional integration and trade and alleviating fragility. The road corridor between Lesseru – Nadapal - Juba shall lead to reduction of travel time and transport cost and moreover improve traffic safety along the project road section.

The key development objectives of the project are to:

- a) Improve transport connectivity between Kenya and South Sudan
- b) Deepening regional integration and trade and alleviating fragility
- c) Improve road transport along Lesseru-Nadapal-Juba corridor by reducing travel time and travel cost
- d) Improve road traffic safety along the project road sections

#### **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>
Lesseru-Kitale- Morpus-Kainul- Lodwar	To improve transport connectivity between Kenya and South Sudan	Reduced travel time and vehicle operating costs	Travel time for heavy commercial trucks and PSVs between Lesseru and Lodwar	Project at procurement stage
Lesseru-Kitale- Morpus-Kainul- Lodwar	To improve road traffic safety along the road	Enhanced road safety and reduction of accidents	Reduced road traffic accidents/crashes and enhanced survival rate of accidents	Project at procurement stage
Lesseru-Kitale- Morpus-Kainul- Lodwar	To promote regional trade and integration	Increased regional trade	Kenya's average value of trade with South Sudan	Project at procurement stage

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

Lesseru-Kitale and Morpus-Lokichar Road has a main focus of improving transportation infrastructure to enhance connectivity and efficiency. In terms of environmental and sustainability reporting, the strategy involved rigorous assessment and mitigation of environmental impacts throughout the project lifecycle. Below is a brief highlight of the activities that drive towards sustainability.

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

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the people and their prosperity. Five out of the seventeen goals are pertinent to management of projects being undertaken by the Authority. These are being addressed through the following initiatives: -

- a) *Good health and well-being (SDG 3)*: The Authority strives to undertake Road Safety Audits to identify accident black spots, implement intervention measures and provide road safety education to reduce accidents;
- b) *Gender Equality (SDG 5)*: The Authority encourages mainstreaming of gender equality in project and programmes by incorporating compliance to one third gender rule in procurement and recruitment;
- c) *Industry, innovation and infrastructure (SDG 9)*: The Authority develops quality, reliable, sustainable and resilient infrastructure including regional and trans-border infrastructure to support economic development and human wellbeing with a focus on affordable and equitable access for all;
- d) *Sustainable cities and communities (SDG 11)*: The Authority endeavours to extend the paved road network to hitherto underserved areas in the region to improve nationwide access to high speed and all – weather connectivity; and
- e) *Climate action (SDG 13)*: The Authority endeavours to combat negative impacts of road development through environmental mitigation, climate change measures and compliance with National Environment Management Authority (NEMA) requirements in all development projects

## **2. Environmental performance**

The Authority is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact Assessment (EIA) Audits, carry out M&E on Environmental and Social Management Plans (ESMP's) as well as Environmental Social Impact Assessment (ESIA) on projects.

## **3. Employee welfare**

In all its staff appointments, the Authority takes deliberate actions to embrace Equal Employment Opportunity policies, gender mainstreaming, addresses concerns around Persons Living with Disabilities (PWDs) and takes affirmative action in line with prevailing Government Policy guidelines. The Authority complies with the policy on safety and is compliance with Occupational Safety and Health Act of 2007 (OSHA).

The Authority prioritizes training to develop technical capacity of staff in the fields of Value Engineering, Project Financing, Project, Contract Management, Performance Based Maintenance and Safety.

## **4. Marketplace practices-**

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

The Authority strives to ensure responsible competitive practices through open competitive bidding on procurement of its project contractors and consultants. Additionally, the Authority undertakes annual governance audits in projects, monitoring the implementation of policies and further promotes ethical conduct in projects. The Authority equally sensitizes staff on corruption and integrity.

### **b) Responsible ethical practices**

The Authority equally sensitizes staff on corruption and measures to maintaining integrity.

### **c) Regulatory impact assessment**

The Authority undertakes to be actively involved in the negotiations during budget sector hearings in order to increase budgetary allocations for projects thus honouring contracts by paying its liabilities on time.

Further, the Authority endeavours to honour its contractors and vendors payments through paying within the set payment timelines in the contracts and agreements

## **5. Community Engagements**

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff are also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

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

The Director General, KeNHA and the Project Coordinator 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 year 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 Director General, KeNHA and the Project Coordinator 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 Director General, KeNHA and the Project Coordinator 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 Director General, KeNHA and the Project Coordinator 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 Director General, KeNHA 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.

### **Approval of the Project Financial Statements**

The Project financial statements were approved by the Director General, KeNHA and the Project Coordinator on 27 AUG 2025 2025 and signed by:



.....  
**Eng. Luka Kimeli**  
**Ag. Director General**



.....  
**Eng. Henry Gakuru**  
**Project Coordinator**

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KENYA-SOUTH SUDAN ROAD CORRIDOR, LESSERU-KITALE AND MORPUS-LOKICHAR ROAD UPGRADING PROJECT - PHASE I-AfDB LOAN NO. 2000200005805 AND NO. 2100150043496 - PROJECT ID NO. P-ZI-DBO-246 FOR THE YEAR ENDED 30 JUNE, 2025 - KENYA NATIONAL HIGHWAYS AUTHORITY**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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.

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*Report of the Auditor-General on Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase 1 AfDB Loan No.2000200005805 and No.2100150043496 Project ID No:P-ZI-DBO-246 for the year ended 30 June, 2025 - Kenya National Highways Authority*

## REPORT ON THE FINANCIAL STATEMENTS

### **Opinion**

I have audited the accompanying transitional IPSAS financial statements of Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project - Phase I set out on pages 1 to 30, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the transitional IPSAS financial statements present fairly, in all material respects, the financial position of Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project - Phase I as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) including the transitional provisions permitted under IPSAS 33 and comply with the Financing Agreement No. 2000200005805 and 2100150043496 between the Republic of Kenya and African Development Bank (AfDB) dated 14 November, 2024 and the Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No. 3 of 14 April, 2025.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project - Phase I 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.

### **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 Information**

The Management is responsible for the Other Information set out on page iii to xv 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**

#### **Delayed Commencement of the Project**

The statement of source of funds in the other information in the financial statements indicates that the Project is for a duration of 3.2 years from 2024 to 2028 with an approved loan of EUR120,520,000 equivalent to Kshs.18,276,858,000 financed by African Development Bank, UA 56,000,000 equivalent to Kshs.9,819,236,000 financed by African Development Fund and Government of Kenya counterpart funds of Kshs.3,984,930,000 all totalling to Kshs.32,081,024,000.

Further, Section 7.01 of the Project Financing Agreement on procurement of all goods, works, non-consulting services and consulting services required for implementation of the Project and to be financed out of proceeds of the loan shall be procured in accordance with the provisions of the Procurement Framework and the Procurement Plan for the

Project set forth in Schedule III (Procurement Plan) of this agreement, which may be amended from time to time in accordance with Section 7.03 (Procurement Plan) of this Agreement.

Review of Schedule III of the Project Financing Agreement and the Revised Procurement Plan of the Project indicates that the initial stage of the procurement process for the project which is bid invitation for Lot 1 Lesseru -Kitale was to be done on 06 June, 2025. However, review of the updated Project status report on the scheduled activities revealed that the invitation for bid for Lot 1 was done on 05 August, 2025 which shows a delay of two (2) Months contrary to the updated Procurement Plan. Management attributed this to Donor consideration to incorporate the new design manuals which were launched in June, 2025.

In the circumstances, the value for money may not be achieved due to delayed commencement of the Project.

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. 2000200005805 and No.2100150043496 between the Republic of Kenya and African Development Bank (AfDB) dated 14 November, 2024, I report, based on my audit, that:

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*Report of the Auditor-General on Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase 1 AfDB Loan No.2000200005805 and No.2100150043496 Project ID No:P-ZI-DBO-246 for the year ended 30 June, 2025 - Kenya National Highways Authority*

- 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 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 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**

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

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

	Notes	FY 2024/2025
		Kshs
<b>Revenue</b>		
Revenue Transfers		-
Miscellaneous Revenue		-
<b>Total revenue</b>		-
<b>Expenses</b>		
Employee costs		-
Use of goods and services		-
Depreciation and amortization expense		-
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
<b>Total expenses</b>		-
<b>Other gains/(losses)</b>		
Gain/Loss on sale of assets		-
Gain/Loss on foreign exchange transactions		-
Impairment loss		-
<b>Surplus/ (deficit)</b>		-

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



.....  
Eng. Luka Kimeli  
Ag. Director General



.....  
Eng. Henry Gakuru  
Director - Development



.....  
CPA Isaac Kimani Karumba  
Ag. Deputy Director (F&A)  
ICPAK Member No.3321

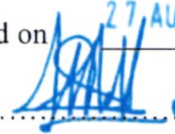
**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**9. 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		-	-
Receivables		-	-
Inventories		-	-
Prepayment		-	-
<b>Total Current Assets</b>		-	-
<b>Non-Current Assets</b>			
Property, Plant and Equipment		-	-
Intangible Assets		-	-
<b>Total Non- Current Assets</b>		-	-
<b>Total Assets (a)</b>		-	-
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables		-	-
Third Party Deposits		-	-
Deferred Income		-	-
<b>Total Current Liabilities</b>		-	-
<b>Total Liabilities (b)</b>		-	-
<b>Net Assets (a-b)</b>			
<b>Represented By:</b>			
Accumulated Surplus		-	-
<b>Total Net Assets</b>		-	-

The financial statements were approved on 27 AUG 2025 2025 and signed by:

  
 Eng. Luka Kimeli  
 Ag. Director General

  
 Eng. Henry Gakuru  
 Director - Development

  
 CPA Isaac Kimani Karumba  
 Ag. Deputy Director (F&A)  
 ICPAK Member No.3321

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I**

**Annual Report and Financial Statements for the financial year ended June 30, 2025**


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

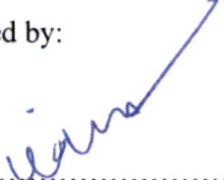
<b>Description</b>	<b>Accumulated Surplus</b>
	<b>Kshs</b>
<b>As at 30<sup>th</sup> June 2025 (Cash Basis)</b>	-
Adjustments:	
Asset Recognition	-
Liabilities recognition	-
<b>As at 1<sup>st</sup> July 2024</b>	-
Surplus/(Deficit) for the year	-
<b>As at 30<sup>th</sup> June 2025</b>	-

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

The financial statements were approved on 27 AUG 2025 2025 and signed by:

  
.....  
**Eng. Luka Kimeli**  
**Ag. Director General**

  
.....  
**Eng. Henry Gakuru**  
**Director - Development**

  
.....  
**CPA Isaac Kimani Karumba**  
**Ag. Deputy Director (F&A)**  
**ICPAK Member No.3321**

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

<b>Description</b>	<b>Note</b>	<b>FY 2024/2025</b>
		<b>Kshs</b>
<b>Cashflow from operating activities</b>		
<b>Receipts</b>		
Revenue Transfers		-
Miscellaneous Revenue		-
<b>Total receipts</b>		-
<b>Payments</b>		
Employee costs		-
Use of goods and services		-
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
<b>Total payments</b>		-
<b>Net cash flow from operating activities</b>		-
<b>Cashflow from investing activities</b>		
Acquisition of non-financial assets		-
Proceeds from sale of Assets		-
Acquisition of Intangible assets		-
<b>Net cash flows from investing activities</b>		-
<b>Cash flow from financing activities</b>		
<i>Specify the activity</i>		-
<b>Net cash flow from financing activities</b>		-
Net increase/Decrease in cash and cash equivalents		-
<b>Cash and cash equivalent at 1<sup>st</sup> July 2024</b>		-
<b>Cash and cash equivalent at end June 2025</b>		-

*Kenya-South Sudan Road Corridor, Lesseru-ile and Morpus-Lokichar Road Upgrading Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

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

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

**Budget Reconciliation**

	<b>Description of Particulars</b>	<b>Amount in Kshs</b>
	Actual Surplus Amounts as per the statement of Budget	-
1	Reason for differences	-
2	Reason for differences	-
3	Reason for differences	-
4	Reason for differences	-
	Closing Cash and Cash Equivalent as per the statement of Cash flows	-

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

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**13. Notes to the Financial Statements**

**1. General Information**

KeNHA is established by and derives its authority and accountability from the Roads Act 2007. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is development, rehabilitation, management and maintenance of all National Trunk Roads comprising of Class S, A, and B roads.

**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 KeNHA has taken advantage of the transitional provisions under IPSAS 33,

These financial statements were authorized by the accounting officer on ..... **27 AUG 2025** .....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><b><i>Applicable 1<sup>st</sup> January 2025</i></b></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 Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting</p>
IPSAS 44: Non- Current Assets Held for Sale and	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></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:</p>

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

Standard	Effective date and impact:
Discontinued Operations	<p>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>The project does not anticipate that the standard will have any impact on its operations and reporting</p>
IPSAS 45- Property Plant and Equipment	<p><b>Applicable 1<sup>st</sup> January 2025</b></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>The project does not anticipate that the standard will have any impact on its operations and reporting</p>
IPSAS 46 Measurement	<p><b>Applicable 1<sup>st</sup> January 2025</b></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>The project does not anticipate that the standard will have any impact on its operations and reporting</p>

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**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><b>Applicable 1<sup>st</sup> January 2026</b></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting</p>
IPSAS 48- Transfer Expenses	<p><b>Applicable 1<sup>st</sup> January 2026</b></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting</p>
IPSAS 49- Retirement Benefit Plans	<p><b>Applicable 1<sup>st</sup> January 2026</b></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting</p>
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<p><b>Applicable 1<sup>st</sup> January 2027</b></p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:</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> </ol>

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

Standard	Effective date and impact:
	<p>iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting</p>

**iii) Early adoption of standards**

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

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I**

**Annual Report and Financial Statements for the financial year ended June 30, 2025**

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**4. Summary of Significant Accounting Policies**

**a) Revenue recognition**

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

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

**ii) Revenue from exchange transactions**

**Interest income**

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

**b) Budget information**

The project did not have a budgetary allocation in the FY 2024/2025. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements are recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page xx under section - of these financial statements.

**c) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the item of property appropriately according to the acronyms you use in your financial statements plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus, or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

**d) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the 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

***Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

**e) Intangible assets**

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

**f) Research and development costs**

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

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

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

**Notes to the financial statements**

**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 entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Financial assets**

**Classification**

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

**Subsequent measurement**

Based on the business model and the cash flow characteristics, the 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.

## **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 entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

### **Trade and other receivables**

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

### **Impairment**

The 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. There were no credit losses during the reporting period and prior years.

### **Financial liabilities**

#### **Classification**

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

#### **h) Inventories**

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

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

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

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

***Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**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 does not create or maintains reserves in terms of specific requirements.

**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**

**k) Employee benefits**

**Retirement benefit plans**

The Project does not employ project specific employees hence does not maintain Retirement benefit plans.

**l) 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.

**m) 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.

**n) Related parties**

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

***Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I***

***Annual Report and Financial Statements for the financial year ended June 30, 2025***

---

**Notes to the financial statements**

**o) 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.

**p) 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.

**q) 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.

**Notes to the financial statements**

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

The preparation of the Project 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 Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

**Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts employed by the 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**

There were no provisions raised in the financial year.

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.

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I**

**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**6. Revenue Transfers**

Description	FY 2024/2025
	KShs
<b>Unconditional Transfers</b>	
GoK Counter Part funding	-
Transfers from Development partners	-
<i>Other unconditional transfers (Specify)</i>	-
<b>Total Unconditional Transfers (a)</b>	-
<b>Conditional Transfers</b>	
Transfers from Development partners 1	-
Transfers from Development partner 2	-
<i>Other conditional transfers (specify)</i>	-
<b>Total Conditional Transfers (b)</b>	-
<b>Total Transfers for the Year (a + b)</b>	-

*(Explain the purpose of funding)*

**a) Details to Revenue Transfers**

Name of The Entity Transferring	Amount recognized to Statement of Financial performance	Amount deferred under deferred income.	Amount moved to Capital fund	Total transfers (Current FY)
	Kshs	Kshs	Kshs	Kshs
GOK Funding	-	-	-	-
Development Partner 1	-	-	-	-
Development Partner 2	-	-	-	-
<b>Subtotal</b>	-	-	-	-
Deferred Income realized	-		-	-
Transfers in Kind	-			-
<b>Total</b>	-	-	-	-

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**7. Miscellaneous revenue**

Description	FY 2024/25
	<b>KSh.</b>
Interest Income	-
<i>Others (specify)</i>	-
<b>Total</b>	-

**8. Employees Costs**

Description	FY 2024/25
	<b><u>KSh.</u></b>
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	-
Other specify*	-
<b>Total</b>	-

**9. Use of Goods and Services**

Description	FY 2024/25
	<b><u>Kshs</u></b>
Utilities, supplies and services	-
Bank charges	-
Communication, supplies and services	-
Domestic travel and subsistence	-
Foreign travel and subsistence	-
Stationery, Printing, advertising, and information supplies	-
Office rent	-
Training payments	-
Hospitality supplies and services	-
Insurance costs	-
Specialized materials and services	-
Other operating payments(specify)	-
Routine maintenance – vehicles and other transport equipment	-
Routine maintenance- other assets	-

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I**

**Annual Report and Financial Statements for the financial year ended June 30, 2025**

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

**Notes to the financial statements**

**10. Depreciation and Amortization expense**

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

**11. Transfer to Other Government Entities**

Description	FY 2024/2025
	<b>Kshs</b>
Ministry ABC	-
Project XYZ	-
Department -	-
County -	-
<b>Total</b>	-

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

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

**13. Certified Works**

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

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**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>	<b>-</b>

*Provide brief explanation on gains on 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>	<b>-</b>

**16. Impairment Loss**

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

**17. Cash and Cash Equivalentents**

Description	FY 2024/2025	1 <sup>st</sup> July
	Kshs	Kshs
Cash in Bank	-	-
Cash on hand	-	-
<i>Others (Specify)</i>	-	-
<b>Total Cash and Cash Equivalentents</b>	<b>-</b>	<b>-</b>

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I**

**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**Project Bank Accounts**

<b>Details</b>	<b>FY 2024/2025</b>	<b>1<sup>st</sup> July 2024</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Foreign Currency Accounts</b>		
Central Bank of Kenya [A/c No.....]	-	-
Kenya Commercial Bank [A/c No.....]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others ( <i>specify</i> )	-	-
Total Foreign Currency balances	=	=
<b>Local Currency Accounts</b>		
Central Bank of Kenya [A/c No.....]	-	-
Kenya Commercial Bank [A/c No.....]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others ( <i>specify</i> )	-	-
Total local currency balances	=	=
<b>Total bank account balances</b>	<b>=</b>	<b>=</b>

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**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	-	-
<i>Other Receivables (specify)</i>	-	-
<b>Total Receivables</b>	-	-

*(Provide brief explanation on current 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	-	-
<i>Others consumables (specify)</i>	-	-
Less: allowance for impairment	-	-
<b>Total inventories</b>	-	-

*(Provide brief explanation on inventories)*

**20. Prepayments**

Description	FY 2024/2025	1 <sup>st</sup> July 2024
	Kshs	Kshs
Insurance	-	-
Rent	-	-
<i>Others specify</i>	-	-
<b>Total inventories</b>	-	-

*Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

Notes to the financial statements

**21. Property, Plant and Equipment**

Cost	Motor vehicles	Furniture and fittings	ICT Equipment	Other Assets (specify)	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Depreciation rate</b>	X%	X%	X%	X%		
<b>As At 1 July 2024 (opening balances)</b>	-	-	-	-	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	--	--
Transfers/Adjustments	-	-	-	-	-	--
<b>As at 30<sup>th</sup> June 2025</b>	-	-	-	-	-	-
<b>Depreciation And Impairment</b>						
<b>As at 1 July 2024</b>	-	--	--	-		--
Depreciation charge for the year	-	-	-	-		--
Impairment loss	-	-	-	-		--
Transfers/ Adjustments	-	-	-	-		--
<b>As At 30<sup>th</sup> June 2025</b>	-	-	-	--		-
<b>Net Book Values</b>						
<b>As at 1<sup>st</sup> July 2024</b>	-	-	-	-	-	-
<b>As at 30<sup>th</sup> June 2025</b>	-	-	-	-	-	-

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**22. Intangible Assets**

Description	1 <sup>st</sup> July 2024
	KSh
<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	-		-	
<i>Other payables (specify)</i>	-		-	
<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>	-		-	

*(Provide brief explanation)*

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I**

**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**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	-		-	
Other deposits (specify)	-		-	
<b>Total deposits</b>	-		-	
Ageing analysis: (Refundable deposits)	Current FY	% of the Total	Comparative FY	% of the Total
Under one year	-	%	-	%
1-2 years	-	%	-	%
2-3 years	-	%	-	%
Over 3 years	-	%	-	%
<b>Total</b>	-		-	

(Provide brief explanation)

**25. Deferred Income**

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

(Provide brief explanation)

**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	-	-	-	-

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**26. Cash Generated from Operations**

Description	FY 2024/2025
	Kshs
<b>Surplus/Deficit for the year</b>	-
<b>Adjusted for:</b>	
Depreciation	-
Non-cash grants received	--
Impairment	-
Gains and losses on disposal of assets	---
<b>Working capital adjustments</b>	
Increase in inventory	--
Increase in receivables	--
Increase in deferred income	-
Increase in payables	-
Increase in payments received in advance	-
<b>Net cash flow from operating activities</b>	-

*(The total of this statement should tie to the cash flow section on net cash flows from/ used in operations)*

**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.

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**Special Deposit Accounts Movement Schedule**

<b>Description</b>	<b>FY 2024/2025</b>	<b>1<sup>st</sup> July 2024</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>(i) A/C Name [A/c No.....]</b>		
Opening balance	-	-
Total amount deposited in the account	-	-
Total amount withdrawn	-	-
<b>Closing balance (as per SDA bank account reconciliation attached)</b>	<b>≡</b>	<b>≡</b>
<b>(ii) A/c Name [A/c No.....]</b>		
Opening balance (as per the SDA reconciliation)	-	-
Total amount deposited in the account	-	-
Total amount withdrawn	-	-
<b>Closing balance (as per SDA bank account reconciliation attached)</b>	<b>≡</b>	<b>≡</b>

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

**28.Related Party Disclosures**

**Nature of related party relationships**

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

**Government of Kenya**

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

**Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

**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	-
Others (specify) e.g. interest and bank charges	-
<b>Total</b>	<b>-</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	-
Others (specify)	-
<b>Total</b>	<b>-</b>
<b>b) Grants /transfers from the government</b>	
Grants from national govt	-
Grants from county government	-
Donations in kind	-
<b>Total</b>	<b>-</b>
<b>c) Expenses incurred on behalf of related party</b>	
Payments of salaries and wages for - employees	-
Payments for goods and services for -	-
<b>Total</b>	<b>-</b>
<b>d) Key management compensation</b>	
Directors' emoluments	-
Compensation to key management	-
<b>Total</b>	<b>-</b>

***Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading  
Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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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 Entity**

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

**31.Currency**

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

**14. Annexes**

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

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>

**Guidance Notes:**

1. Use the same reference numbers as contained in the external audit report;
2. Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
3. Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
4. Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

.....  
**Eng.Luka Kimeli**  
**Ag. Director General**

.....  
**Eng. Henry Gakuru**  
**Director - Development**

*Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I  
Annual Report and Financial Statements for the financial year ended June 30, 2025*

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

<b>Project Name:</b>				
<b>Break down of transfers from the State Department of Roads</b>				
<b>a. Government Counterpart funding</b>				
	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate	
		-		
		-		
	<b>Total</b>	-		
<b>B. Direct payments</b>				
	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate	
		-		
	<b>Total</b>	-		
<b>C. Others</b>				
	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate	
		-		
		-		
	<b>Total</b>	-		
	<b>Total (A+B+C)</b>	-		

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



Eng Luka Kimeli  
Ag. Director General



Eng. Henry Gakuru  
Director Development

*Kenya-South Sudan Road Corridor, Lesseru-Kitale and Morpus-Lokichar Road Upgrading Project-Phase I  
Annual Report and Financial Statements for the financial 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					
Office equipment, furniture and fittings					
ICT Equipment					
Machinery and Equipment					
Biological assets					
Infrastructure Assets- Roads, Rails					
Heritage and cultural assets					
Intangible assets					
Work in Progress					
<b>Total</b>					