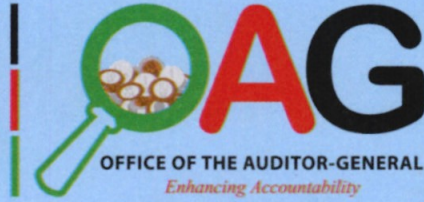


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DATE: 12 FEB 2025 Thursday

TABLED BY: Hon George Mungara
Kandla Tititi

THE AUDITOR-GENERAL

ON

**SUPPORT TO ROAD SECTOR POLICY: 10TH
EDF RURAL ROADS REHABILITATION
PROJECT IN KENYA CREDIT
NO.KE/FED/023-571**

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

KENYA RURAL ROADS AUTHORITY



**SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS
REHABILITATION PROJECT IN KENYA**

KENYA RURAL ROADS AUTHORITY

PROJECT GRANT/CREDIT No.: KE/FED/023-571



EUROPEAN UNION

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE, 2025**

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

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***Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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1. Acronyms and Definition of Terms

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

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is support for Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya.

Objective

The key objective of the project is to support the Kenya Government's efforts to improve rural transport infrastructure through the Roads 2000 Maintenance Strategy as a key component of the economic recovery effort described in the national policy "Vision 2030".

Address

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

The address of its registered office is:

Kenya Rural Roads Authority
Barabara Plaza, Block B,
Airport South Road
P.O. Box 48151 – 00100 Nairobi.

Contacts: The following are the project contacts

Telephone: +254 711 851103

E-mail: dg@kerra.go.ke

Website: www.kerra.go.ke

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	The project start date is 10th September 2012
Project End Date:	The project end date is 9th September 2025
Project Coordinator:	The project coordinator is Eng Julius K. Gakubia
Project Development Partner:	The project development partners are the government of Kenya (GOK) with a 31% contribution, and the European Commission, the Delegation of the European union in Kenya with a 69% contribution,

2.3 Project Overview

Line Ministry or State departments / County Department	The project is under supervision of the Kenya Rural Roads Authority which falls under the State Department for Roads and Infrastructure, Ministry of Roads and Transport.
Project number	KE/FED/023-571
Strategic goals of the project	<p>The overall objective of the project is to support the Kenya's Government's efforts to improve rural transport infrastructure through the Roads 2000 Maintenance Strategy as a key component of the economic recovery effort described in the national policy "Vision 2030"</p> <p>The project's specific purpose is as follows:</p> <ul style="list-style-type: none"> (i) To introduce low volume paved road construction using an optimum mix of labour-intensive methods and equipment to address the maintenance backlog on the rural road network, improve durability and create jobs (ii) To enhance skills and capacity of local contractors, increase knowledge and experience in the use of local materials in road construction works <p>The overall goals are:</p>

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

	<ul style="list-style-type: none"> (i) Upgrading of approximately 99Km of priority rural road links in 5 agricultural counties of the Eastern region of Kenya to durable low sealed pavement standard. (ii) Capacity building for the Authority staff and local contractors in labour intensive construction of roads using innovative techniques and locally available local materials. (iii) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations.
<p>Summary of Project Strategies for achievement of strategic goals</p>	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) Provide contract management to ensure upgrading of the link roads to low volume seal standard. (ii) Ensure locals population gain direct employment to uplift their economic wellbeing. (iii) Support capacity building for local contractor especially in Roads 2000 maintenance strategy.
<p>Other important background information of the project</p>	<p>The project Formulation Study was undertaken from November 2011 up to December 2012. It was executed on behalf of the KeRRA by COWI A/S Consultants of Denmark.</p> <p>The initial study centred on a total of 1463 Km across the 5 Regions, 654 Km of which were rehabilitated using EC Stabex Funds under Phase 2.</p> <p>The final listing following a detailed cost benefit assessment was whittled down to the final adopted listing of roads, as presented below. Tender Documents were prepared in July 2012, amended and reproduced in December 2012 by COWI A/S of Denmark.</p> <p>Following the preparation of Contract Documents in 2012 by COWI A/S, amendments were subsequently made (provision of Horizontal & Vertical alignment) to the documents by KeRRA prior to the Tender Launch.</p> <p>The roads comprise Class D and E type routes described in the Kenyan Road Design Manual part 1 as:</p> <p>Class D Roads that link locally important centres to either each other or to a centre of higher importance or to higher class road</p> <p>Class E Roads that link to minor centres</p> <p>The project intervention area is geographically spread across the upper and lower Eastern Region of Kenya across 5 Regions under 5 No project. Locations and noted in the following Table</p>

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

Lot No	Region/County	Road No	Km	Description
Lot 1	Embu	D470	10.5	Kyeni-Kathanjire-Karurumo Rd
Lot 2	Tharaka Nithi	D472	29.2	Chuka-Kaanwa-Kareni Rd
Lot 3	Meru	E773	5.5	Ndurumo-Kathirune-Giaki Rd
		R24	18.2	Giaki-Birikene Maiamponi Rd
Lot 4	Machakos	E480	5.8	Kivandini-Kango Rd
		E477	10.1	Kango-Kakalia-Kali Rd
Lot 5	Makueni	D515	20.5	Katuaa-Kee-Nunguni Rd

	Contract Sum	New Contracted
LOT 1	231,570,571.00	162,399,327.20
LOT 2	537,264,086.70	233,196,528.40
		221,386,000.00
		174,343,899.40
LOT 3	695,023,763.80	
LOT 4	377,939,319.85	
LOT 5	362,001,255.00	
TOTAL	Kshs 2,203,798,996	791,325,755

Total Length 99.0 Km

The works contracts commencement orders were issued in September 2015 and the contractors had previously confirmed a commencement date of 5th October 2015 across the five individual lots.

The Summary is noted below:

Lot 1	10.5 Km	Westbuild General Contractors Ltd (Terminated) Awarded to Markline Civil & Allied Works Ltd
Lot 2	29.2 Km	Westbuild General Contractors Ltd (terminated) Tender split to 3 Lots. Awarded to 1. Asset Construction Ltd (8.4Km) 2. Elikar Enterprises Ltd (9.2Km) 3. Nariana Enterprises Ltd (11.6Km)
Lot 4 & 5	36.4 Km	Coastal Kenya Enterprises Ltd Note: Lot 5 terminated in March 2024
Lots 1-5	99.0 Km	Total Length

Areas that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Upgrade rural link roads to low volume seal standard. (ii) Create local employment and increased household income (iii) Enhance skills and capacity of Local contractors
--	---

***Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025***

Project duration	The project started on 10th September 2012 and is expected to run until 9th September 2025
------------------	--

Challenges Encountered in executing the project:

- i) There were Financial constraints faced by Lot 5 contractors, who were not able to consistently mobilize sufficient manpower due to non-paid wages. The Contract was terminated in March 2024 due to contractor's non-performance.
- ii) The Contractor Lot 1 & Lot 2 abandoned sites before completions & instituted litigation & arbitration cases against the contracting Authority Culminating in eventual termination of works. The matter is awaiting the High court's Decision in regards to an arbitration Award.
- iii) The new Contracts faced initial -delay in release of advance payment from the European Union(EU)

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the current year:

- (i) KCB Kenya Ltd.
- (ii) NCBA Bank Kenya Ltd.

2.5 Independent Auditor

The project is audited by:

The Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100 Nairobi Kenya

2.6 Roles and Responsibilities

The table below indicates the roles and responsibility of personnel who are involved in the project implementation

**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025**

Names	Title Designation	Key Qualification	Responsibilities
Eng. J. K. Magondu dg@kerra.go.ke +254 0777851103, 0207807600	Ag. Director General	<i>BSc., MIEK, P.Eng, M(IBL), A(CLArb-UK)</i>	Accounting Officer
Eng. J. K. Magondu jackson.magondu@kerra.go.ke +2540777851103, 0207807600	Director (Planning, Design & Environment)	<i>BSc., MIEK, P.Eng, M(IBL), A(CLArb- UK)</i>	Supervisor
Eng. Julius K. Gakubia dpde@kerra.go.ke julius.gakubia@kerra.go.ke +2540777851103, 0207807602	Project Manager	<i>BSc MIEK, R. Eng.</i>	Coordinator of the Program Activities
CPA Jane K. Murage dcs@kerra.go.ke jane.murage@kerra.go.ke +254 777851103,0207807601	Project Accountant	<i>BBA(Acc), CPA(K),MBA (Acc.)</i>	Accountant, support the project team regarding compliance, payments and reports.

Project information and overall performance (continued)

2.7 Funding summary

The project is for duration of 12 years from 2012 to 2025 with an approved budget of Euro 20,000,000 equivalent to Kshs 2.161.800.000 as highlighted in the table below:

Below is the funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment		Amount received to date – (30 th June 2025)		Undrawn balance to date	
	Development Partner currency	Kshs	Development Partner currency	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
(i) Grant						
European Commission (EU)	14,850,000	1,605,136,500	20,622,917	2,229,131,140	- 6,087,943	- 658,045,754
Total	14,850,000	1,605,136,500	20,622,917	2,229,131,140	- 6,087,943	- 658,045,754
(iii) Counterpart funds						
Government of Kenya	5,150,000	556,663,500	8,294,745	896,578,969	(3,144,745)	(339,915,469)
Total	20,000,000	2,161,800,000	28,917,662	3,125,710,109	(9,232,688)	(997,961,223)

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2025)		Cumulative amount paid to date – (30 th June 2025)		Unutilised balance to date (30 th June 2025)	
	Development Partner currency	Kshs	Development Partner currency	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
European Commission (EU)	20,622,917	2,229,131,140	20,622,917	2,229,131,140		
Total	20,622,917	2,229,131,140	20,622,917	2,229,131,140		-
(ii) Counterpart funds						
Government of Kenya	8,294,745	896,578,969	7,931,454	857,310,940	360,754	39,268,029
Total	28,917,662	3,125,710,109	28,554,371	3,086,442,080	360,754	39,268,029

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

- i) During the financial year 2024/2025, the project utilised 50% of its allocated budget, the effect is only in the EU component.
- ii) Physical progress based on outputs, outcomes and impacts since project commencement,
- iii) Comment on value-for-money achievements,
- iv) The absorption rate for the project over the years has been:

Year	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Absorption Rate	52%	68%	41%	88%	54%	13%	75%	100%	77%

2.9 Summary of Project Compliance:

The Programme has ensured that all the activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed. The project has therefore fully complied with both the financing agreement and other statutory requirements

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 entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the National Government entity’s performance against predetermined objectives.

The key development objectives of the project’s agreement/ plan are:

- a) Upgrading of approximately 99Km of priority rural road links in 5 agricultural counties of the Eastern region of Kenya to durable low sealed pavement standard.
- b) Capacity building for the Authority staff and local contractors in labour intensive construction of roads using innovative techniques and locally available local materials.
- c) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations

Progress on attainment of Strategic development objectives

Project	Objective	Outcome	Indicator	Performance
Public Works, Roads & Transport	To develop and maintain roads and storm water drainage to global standards	Increased efficient transportation of people, goods and services	% of motorable and passable roads within the rural areas	In FY 22/23 we increased motorable and passable roads by 68%. 67Km of the 99Km has been upgraded to LVS

4. Environmental and Sustainability Reporting

The 10th EDF Rural Roads Rehabilitation Project in Kenya Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

The integration environmental and social concerns in the implementation strategy of the project will enhance environmental practices amongst all stakeholders. This will ultimately enhance sustainable development of the project. The proposed project will enhance the social-economic well-being of the local community as well as the whole country.

2. Environmental performance

The Authority's Board and Management recognize that there is no country that is not experiencing drastic effects of environmental degradation and climate change as a result of unsustainable development practices. Overall, The Authority recognizes the provisions in the Constitution, of the right to a clean and healthy environment to every person, and the right to have the environment protected for the benefit of present and future generations through legislative and other measures. The Authority therefore has committed to cooperate with various State organs and other persons to strive towards protecting and conserving the environment, and ensure ecologically sustainable development and use of natural resources. The Authority acknowledges that its various operations have potential impacts on the environment. It is therefore the Authority's commitment to conserve natural resources, maximize eco-efficiency, reduce waste and climate change impacts, and prevent pollution throughout its operations. The Authority has an Environmental and Social Sustainability Policy which was formulated to conform to the prevailing Government strategies as highlighted in the National Environment Policy. In accordance with the Policy, the Performance Contracting guidelines and the requirements of the Environmental Management and Coordination Act, the Authority has implemented various activities with an aim to mitigate against water, air, noise and other forms of pollution, promote environmental protection and conservation through stakeholder partnerships, and also contribute towards the Presidential directive on tree planting.

3. Employee welfare

The project employs both technical and non-technical staff from the project local area. It's only the technical staff where the expertise is not found in the community that the project employs externally. The employees are engaged through competitive public recruitment at the local county administrative centres. The employees are remunerated as guided by the most current gazetted wages in the Collative Bargaining Agreement.

The project has offered several internships and attachments to students who have completed their courses and those continuing with their studies respectively. The Authority has a Human Resource Manual which guides compliance with all labour laws and international treaties.

4. Market place practices-

a) Responsible Supply chain and supplier relations-

The project consultant and contractor were procured through open tender making the procurement competitive. The organisation has sustained payments of all obligations arising out of the two contracts. However, payments have faced some challenges due to lengthy disbursement and insufficient exchequer releases

b) Responsible ethical practices

The internal audit department has been organising trainings through Ethics and anticorruption commission (EACC) for the staff to create awareness among staff and stakeholders.

c) Regulatory impact assessment

The project is adhering to all statutory and regulatory requirements. This is through complying with all statutes and regulations and filing the required documents. Further, all grievances raised are addressed as promptly as possible.

5. Community Engagements

The project does not have a direct CSR component. However, the community benefits through outreach programme for HIV/AIDS and Road Safety from well researched experts.

5. Statement of Project Management Responsibilities

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project in Kenya are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2025.

This responsibility includes

- a) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period.
- b) Maintaining proper accounting records, which disclose with reasonable accuracy at any time.
- c) Financial position of the project.
- d) 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.
- e) Safeguarding the assets of the project.
- f) Selecting and applying appropriate accounting policies.
- g) Making accounting estimates that are reasonable in the circumstances.

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2025, and of the Project's financial position as at that date. They further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project confirm that the Project has complied fully with applicable Government Regulations

***Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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 The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project on 18th August 2025 and signed by them.



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



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



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

REPUBLIC OF KENYA

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HEADQUARTERS
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Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SUPPORT TO ROADS SECTOR POLICY: 10TH EDF RURAL ROADS REHAHABILITATION PROJECT IN KENYA CREDIT NO.KE/FED/023-571 FOR THE YEAR ENDED 30 JUNE, 2025 – KENYA RURAL ROADS AUTHORITY

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 Support to Roads Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya set out on pages 1 to 16, 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

Report of the Auditor-General on Support to Roads Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya, Credit No.KE/FED/023-571 for the year ended 30 June, 2025 – Kenya Rural Roads Authority

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 Support to Roads Sector Policy:10th EDF Rural Roads Rehabilitation Project in Kenya 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. KE/FED/023-571 between the Republic of Kenya and European Commission dated 10 September, 2012 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 Support to Roads Sector Policy:10th EDF Rural Roads Rehabilitation Project in Kenya 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 Matter

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following five (5) issues remained unresolved:

No.	Financial Year	Audit Issue
1.	2023/2024	Funding Summary
2.	2023/2024	Inaccuracies in the Statement of Cash Flows
3.	2023/2024	Unconfirmed Proceeds from Foreign Grants
4.	2023/2024	Presentation of the Financial Statements
5.	2023/2024	Delays in Project Implementation
5.1	2023/2024	Construction of Chuka-Kaanwa Road
5.2	2023/2024	Construction of Kaanwa – Wakathite Road

Other Information

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

Delay in Completion of Project

Paragraph 2.2 on Project Information indicates that the Project start date was 10 September, 2012 and the Project end date was 9 September, 2025 with an approved budget of Euro. 20,000,000 equivalent to Kshs.2,161,800,000. This consists of donor partner commitment of Euro.14,850,000 equivalent to Kshs.1,605,136,500 and Government of Kenya (GoK) counterpart funds of Euro. 5,150,000 equivalent to Kshs.556,663,500. The total amount received to date from the Donor is Kshs.2,229,131,140 and GoK counterpart funds of Kshs.896,578,969 resulting to undrawn donor balance of Kshs.658,045,754 and over drawn counterpart funds of Kshs.339,915,469.

Further, Paragraph 2.7 on Funding Summary and Clause 5.2 of Article 5 of the Financing Agreement indicates that the duration of the Project was twelve (12) years. However, as at October, 2025, the Project had not been completed.

In the circumstances, value for money on the Project could not be confirmed.

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. KE/FED/023-571 between the Republic of Kenya and European Commission dated 10 September, 2012, 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

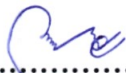
24 November, 2025

***Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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

	Notes	2024/25 Kshs
Revenue		
Revenue Transfers		166,225,730
Miscellaneous Revenue	6	259
Total revenue		166,225,989
Expenses		
Use of goods and services	7	13,676
Certified Works	8	128,711,458
Total expenses		128,725,134
		37,500,855

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



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



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




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


**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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8. Statement of Financial Position as at 30th June 2025

	Note	2024/25 Kshs	1 st July 2024 Kshs
Assets			
Current Assets			
Cash and Cash equivalents	10	39,268,029	1,767,174
Total Current Assets		39,268,029	1,767,174
Non-Current Assets			
Property, Plant and Equipment	12	3,167,879,538	3,039,154,404
Total Non- Current Assets		3,167,879,538	3,039,154,404
Total Assets (a)		3,207,147,567	3,040,921,578
Liabilities			
Current Liabilities			
Trade Payables	13	72,945,786	-
Total Liabilities (b)		72,945,786	-
Net Assets (a-b)		3,134,201,781	3,040,921,578
Represented By:			
Accumulated Surplus		3,134,201,781	3,040,921,578
Total Net Assets		3,134,201,781	3,040,921,578

The financial statements were approved on 18th August 2025 and signed by:


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


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


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

**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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9. Statement of Changes in Net Assets

Description	Accumulated Surplus Kshs
As at 30th June 2024 (Cash Basis)	1,767,174
Adjustments:	
Asset Recognition	3,039,154,404
Liabilities recognition	
As at 1st July 2024	3,040,921,578
Asset Recognition	128,725,134
Liabilities Recognition	(72,945,786)
Surplus/(Deficit) for the year	37,500,855
As at 30th June 2025	3,134,201,781

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

The financial statements were approved on 18th August 2025 and signed by:



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



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




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


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10. Statement of Cashflow for the year ended 30th June 2025


Description	Note	2024/25 Kshs
Cashflow from operating activities		
Receipts		
Revenue Transfers		166,225,730
Miscellaneous Revenue	6	259
Total receipts		166,225,989
Payments		
Use of goods and services	7	13,676
Certified Works	10	128,711,458
Total payments		128,725,134
Net cash flow from operating activities	14	37,500,855
Cash flow from financing activities		
<i>Proceeds from foreign borrowings</i>		(27,882,852)
Net cash flow from financing activities		(27,882,852)
Net increase/Decrease in cash and cash equivalents		37,500,855
Cash and cash equivalent at 1st July 2024	11	1,767,174
Cash and cash equivalent at end June 2025	11	39,268,029



Principal Accountant
 CPA William Abungu
 ICPAK Member No :4479



Project Coordinator
 Eng. Julius K. Gakubia



Ag. Director General
 Eng. J. K. Magondu

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11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30th 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	
Budget Carry Overs from previous periods						
Receipts						
Revenue Transfers	174,963,974	(8,738,244)	166,225,730	166,225,730	-	100%
Miscellaneous Revenue				259		
Total Revenue	174,963,974	(8,738,244)	166,225,730	166,225,989	-	
Payments						
Use of goods and services	15,000		15,000	13,676	1,324	91%
Certified Works	174,948,974	(8,738,244.00)	166,210,730	128,711,458	37,499,272	77%
Total Payments	174,963,974	(8,738,244.00)	166,225,730	128,725,134	37,500,596	77%
Surplus			-	37,500,855		

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Budget Reconciliation

Description of Particulars		Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	37,500,855
1	Opening cash and cash equivalent	1,767,174
Closing Cash and Cash Equivalent as per the statement of Cash flows		39,268,029

12. Notes to the Financial Statements

1. General Information

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

2. Statement of Compliance and Basis of Preparation

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

These financial statements were authorized for issue by the accounting officer on 18th 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 1st 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 Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st 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:</p>

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Standard	Effective date and impact:
	Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.
IPSAS 45- Property Plant and Equipment	<p><i>Applicable 1st 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>
IPSAS 46 Measurement	<p><i>Applicable 1st 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"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS; iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. <p>The standard also introduces a public sector specific measurement bases called the current operational value.</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

Standard	Effective date and impact:
IPSAS 47- Revenue	Applicable 1st January 2026 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.
IPSAS 48- Transfer Expenses	Applicable 1st January 2026 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.
IPSAS 49- Retirement Benefit Plans	Applicable 1st January 2026 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.
IPSAS 50: Exploration For & Evaluation of Mineral Resources	Applicable 1st January 2027 The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: <ul style="list-style-type: none"> i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. 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. 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

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Standard	Effective date and impact:
	understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

iii) Early adoption of standards

The Entity adopted the new and amended standards in the financial year 2024/2025

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

b) Budget information

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

c) Property, plant and equipment

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

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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) Related parties

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

e) 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.

f) 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

6. Revenue Transfers

Description	2024/25 KShs
Unconditional Transfers	
GoK Counter Part funding	138,342,878
Transfers from Development partners	27,882,852
Total Unconditional Transfers (a)	166,225,730
Total Transfers for the Year (a + b)	166,225,730

a) Details to Revenue Transfers

Name of The Entity Transferring	Amount recognized to Statement of Financial performance Kshs	Amount moved to Capital fund Kshs	Total transfers (Current FY) Kshs
GOK Funding	896,578,969	758,236,091.00	138,342,878
EU	2,229,131,140	2,201,248,288.00	27,882,852
Subtotal	3,125,710,109	2,959,484,379.00	166,225,730
Total	3,125,710,109	2,959,484,379.00	166,225,730

7. Miscellaneous revenue

Description	FY 2024/25 Kshs
Interest Income	259
Total	259

8. Use of Goods and Services

Description	FY 2024/25 Kshs
Bank charges	13,676
Total	13,676

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Notes to the financial statements

9. Certified Works

Description	FY 2024/25 Kshs
Road Works	128,711,458
Total	128,711,458

10. Cash and Cash Equivalents

Description	2024/25 Kshs	1st July Kshs
Cash in Bank	39,268,029	1,767,174
Total Cash and Cash Equivalents	39,268,029	1,767,174

11. Project Bank Accounts

	Kshs	Kshs
Local Currency Accounts		
KCB Bank Counterpart Ac No 1179736370	39,243,493	1,742,897
NCBA	24,536	24,277
Total local currency balances	39,268,029	1,767,174
Total bank account balances	39,268,029	1,767,174

12. Property, Plant and Equipment

Cost	Other Assets (Roads) Kshs	Total Kshs
Depreciation rate		
As At 1 July 2024 (opening balances)	3,039,154,404	3,039,154,404
Additions	128,725,134	128,725,134
As at 30th June 2025	3,167,879,538	3,167,879,538
Net Book Values		
As at 1 st July 2024	3,039,154,404	3,039,154,404
As at 30th June 2025	3,167,879,538	3,167,879,538

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Notes to the financial statements

13. Trade and Other Payables

Description	2024/25 Kshs	1 st July 2024 Kshs	
Trade payables	72,945,786		
Total trade and other payables	72,945,786	-	
<hr/>			
Ageing analysis: (Trade and other payables)	2024/25	2023/24 FY	% of the Total
Under one year	72,945,786		100.00%
1-2 years			0.00%
2-3 years			
Over 3 years			
Total (tie to above total)	72,945,786	-	

14. 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.

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Notes to the financial statements

15. 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.

Other related parties include:

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

16. Events after the Reporting Period

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

17. Ultimate And Holding Entity

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

18. Currency

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

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13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Basis for Qualified Opinion	<p>1. Funding Summary The statement of receipts and payments reflects cumulative receipts totalling Kshs 3,018,559,000 while the project information and overall performance under funding summary reflects total cumulative funding summary cumulative amount totalling Kshs 3,031,416,752 resulting in a variance of Kshs 12,857,752 which has not been explained or reconciled. In the circumstances, accuracy and completeness of the financial statements could not be confirmed.</p>	This is well noted and will be corrected in the FY24/25 financial reports	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>2. Inaccuracies in the statement of cashflows The statement of cashflows reflects cash and cash equivalents at the end of the year of Kshs 1,767,174 while the recalculated balance is a negative of Kshs (316,064,390) resulting to an unexplained variance of Kshs (317,831,564). In addition, the statement of cash flows reflects road works expenditure amount of Kshs 434,391,680 while Note 4 to the financial statements discloses roadworks expenditure amount of Kshs 434,368,844 leading to a variance of Kshs 22,836 which has not been explained or reconciled. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed</p>	<p>The -317,831,564 was the amount of money paid by the donor directly to the contractor. As for the 22,836, its relates to bank charges for the year.</p>	<p>Resolved</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>3 Unconfirmed Proceeds from foreign grants</p> <p>The statement of receipts and payments reflects proceeds from foreign grants amount of Kshs. 317,831,564 being grants of Euro 2,940,434.49 received from development partners - the European Union as disclosed in Note 2 to the financial statements. However management has not demonstrated how the individual transactions in Euros were converted into Kenya shillings in line with Article 7.4 of the financing agreement which states that transfers in Euro shall if necessary, be converted into the beneficiary's national currency as and when payments have to be made by the beneficiary, at the bank rate in force on the day of payment to the beneficiary. In the</p>	<p>The issue of conversion of foreign grants does not arise when it comes to the authority since money is received purely on Kenya Shillings and the contractors are also paid in Kenya shillings, there are no transactions in Euros</p>	<p>Resolved</p>	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	circumstances, the accuracy and completeness of the proceeds from foreign grants amount of Kshs 317,831.564 could not be confirmed			
Other Matter	<p>Unresolved Prior Year Matters In the audit report of the previous year, several issues were raised. However management has not indicated how each of the issues raised in the previous year Auditor General's report was resolved, including the information under the prescribed reporting format</p>	Previous year matters were resolved	Resolved	
Basis for Conclusion	<p>1 Presentation of the financial statements Review of the financial statements submitted for audit reveals that Bank Reconciliation statement as at 30 June 2024, Board of Survey Report and Special Deposit Account(s) reconciliation statements have not been attached</p>	The financial statements have been revised in line with the PSASB template	Resolved	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>as Annexures to the financial Statements. In addition, the statement of comparison of budget and actual amounts reflects a column titled 'actual received' which has not been explained. In addition, the budget utilization variance and budget utilization % columns reflect incorrect amounts. The statement further reflects material variances which have not been explained in footnotes as required by the financial reporting template issued by the Public Sector Accounting Standards Board. In the circumstances, the financial statements have not been presented in accordance with the financial reporting template issued by the Public Sector Accounting Standards Board and IPSAS.</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>2 Delays in project implementation 1.1 Construction of Chuka-Kaanwa Road</p> <p>Review of projects documents revealed that the Authority awarded a contract for construction of Chuka-Kaanwa Road to a contractor at a contract sum of Kshs 233,196,528. The project was for one (1) year beginning on 7 september 2022 and was expected to be completed by 7 september 2023. Physical inspection of the project on 7 October 2024, revealed that the contractor was on site and the work had not completed. In the circumstances, value for money to be realized from the expenditure totalling Kshs 233,196,528 incurred on the project could not be confirmed.</p>	<p>The delay in project implementation was mainly as a result of delayed remittance of Advance payment(pre-financing) by the European Union. There was a delay of nine months. In addition the project was adversely affected by the long rains October-December 2023. This impacted negatively to the earthworks and subbase works. There was also delayed payments due to exhaustion of the GOK portion.</p>	<p>Resolved</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>1.2 Delay in construction of Kaanwa-wakathite Road</p> <p>The contract for the construction of Kaanwa-Wakathite Road was awarded to a contractor at a contract sum of Kshs 221,386,000 on 7 September 2000 for a one (1) year period to be completed on 7 September 2023. Review of the project in October 2024 revealed that the project was complete, interim payment certificates totalling Kshs 190,927,618.45 had been certified while certificate Nos 7 and * for Kshs 30,819.251.25 and Kshs 27,794,638.83 respectively had not been paid. Further, Interim payment certificate No 6 for Kshs 33,234,587.54 was indicated to have been partially paid without indication of how much had not been paid. Further, request by the</p>	<p>The delay in project implementation was mainly as a result of delayed remittance of Advance payment(pre-financing) by the European Union. There was a delay of five months. In addition the project was adversely affected by the long rains October-December 2023. This impacted negatively to the earthworks and subbase works. There was also delayed payments due to exhaustion of the GOK portion.</p>	<p>Resolved</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	contractor for substantial inspection submitted by the contractor on 31 July 2024 has not been acted upon and no explanation provided for the delay. In the circumstances, value for money to be realized from the expenditure totalling Kshs. 221,386,000 incurred on the project could not be confirmed			



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Project Coordinator
 Eng Julius K. Gakubia



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Ag. Director General
 Eng. J.K Magondu

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Annex 2: Reconciliation of inter-entity transfers

Break down of transfers from the State Department of 2025			
a. Government Counterpart funding			
		Amount (Kshs)	Indicate the FY to which the amounts relate
	15/04/2025	21,912,450	FY 24/25
	24/02/2025	2,153,542	
	15/05/2025	77,767,334	
	26/05/2025	36,509,552	
	Total	138,342,878	
B. Direct payments			
		Amount (Kshs)	Indicate the FY to which the amounts relate
		27,882,852	FY 24/25
		27,882,852	
C. Others			
		Amount (Kshs)	Indicate the FY to which the amounts relate
			FY 24/25
		-	
		166,225,730	

Annex 3: Fixed Asset Register

Asset class	Historical Cost b/f (Kshs) Previous Year	Additions during the year (Kshs)	Disposals during the year (Kshs)	Transfers in/(out) during the year	Historical Cost e/f (Kshs) Current Year
Infrastructure Assets- Roads, Rails	3,039,154,404	128,725,134			3,167,879,538
Total	3,039,154,404	128,725,134			3,167,879,538

Annex 4: Other Support Documents

i. Bank Reconciliations statement as at 30th June 2025

