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REPORT

OF

THE AUDITOR-GENERAL

ON

**GREEN ZONES DEVELOPMENT SUPPORT
PROJECT - PHASE II
(CREDIT NO. P-KE-AAD-005)**

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

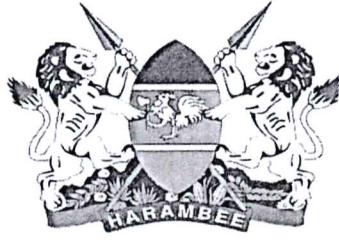
KENYA FOREST SERVICE

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PROJECT NAME: GREEN ZONES DEVELOPMENT SUPPORT PROJECT - PHASE II

IMPLEMENTING ENTITY: KENYA FOREST SERVICE

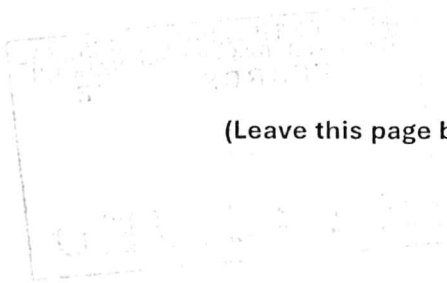
PROJECT GRANT/CREDIT NUMBER: P-KE-AAD-005

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 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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Green Zones Development Support Project - Phase II
Annual Report and Financial Statements for the financial year ended June 30, 2025

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1. Acronyms and Definition of Terms

ADB	African Development Bank
ADF	African Development Fund
AIA	Appropriations in Aid
CBK	Central Bank of Kenya
CCF	Chief Conservator of Forests
CFA	Community Forest Association
CSR	Corporate Social Responsibility
ESIA	Environmental & Social Impact Assessment
ESMP	Environmental and Social Management Plans
FCMA	Forest Conservation and Management Act, 2016
GOK	Government of Kenya
GZDSP	Green Zones Development Support Project
ICPAK	Institute of Certified Public Accountants of Kenya
IGA	Income Generating Activities
IPSAS	International Public Sector Accounting Standards
KFC	Kenya Forestry College
KFS	Kenya Forest Service
MDAs	Ministries, Departments, Agencies
NEMA	National Environmental Management Authority
NT	National Treasury
OAG	Office of the Auditor General
PFM	Public Finance Management
PFMP	Participatory Forest Management Plans
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
PSC	Project Steering Committee
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
SDA	Special Deposit Account
UA	Unit of Account
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 Green Zones Development Support Project Phase II

Project No: P-KE-AAD-005

Loan No's: A) 2100150040546

B) 2000200003402

Objective

The key objective of the project is to improve forest conservation and community livelihood for sustainable forest management in Kenya.

Address

The project headquarters offices are Nairobi County, Kenya.

The address of its registered office is:

Green Zones Development Support Project – Phase II

Kenya Forest Service

P.O. Box 30513 – 00100,

Karura Forest, off Kiambu Road,

Nairobi - Kenya.

Contacts:

The following are the project contacts

Telephone: (254) 020 2014663 / 020 2589055

E-mail: info@kenyaforestservice.org, director@kenyaforestservice.org

Website: www.kenyaforestservice.org

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	17-Jun-2019
Project End Date:	30-Jun-2026
Project Coordinator:	Mr. Jerome Mwanzia 'ndc'K – retired on 21-May-2025 Mr. Alfred Kurgat – took over on 22-May-2025
Project Development Partner:	African Development Bank Government of Kenya

2.3 Project Overview

Line Ministry or State departments	Ministry of Environment, Climate Change and Forestry – State Department of Forestry
Project number	P-KE-AAD-005
Strategic goals of the project	The strategic goals of the project are as follows: (i) To enhance forest conservation and livelihood support for climate change resilience (ii) To develop timber, horticulture and maize value chains for improved household incomes.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Forest conservation – rehabilitation of 328,750 Ha of degraded forest plantation establishment, bamboo, community farmlands and other landscapes. (ii) Community Livelihood support- this will be achieved through support to Income Generation Activities, and introduction of value chains for timber and food products
Other important background information of the project	The project is a follow-up to Green Zones Development Support Project (2006-2014) and is executed jointly with stakeholders and beneficiaries. It covers 15 counties around three forest ecosystems of Mau, Mt Kenya and Aberdare's.

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Areas that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Improve forest cover (ii) Improve livelihood for communities living adjacent to the forest area.
Project duration	The project started on 17 July 2019 and is expected to run until 30 June 2026

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

- (i) Project Account**
Co-operative Bank
Ridgeways Branch
- (ii) Special Account**
CBK/GOK Green Zone Development Support Project
Standard Chartered Bank
London

2.5 Independent Auditor

The project is audited by:
Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 – 00100 GPO
Nairobi, Kenya

2.6 Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
Mr. J.M. Mwanzia 'ndc'K* 0722 369 426 jmwanzia@kenyaforestservice.org	Program Manager	Master of Arts in International Studies (UoN,2016) Msc in soil mgt and conservation (University of Adelaide, Australia, 2001)	Overall coordination and management of the Program
Mr. Alfred Kurgat* 0722 241 911	Deputy Project Manager	BSc in Forestry	Coordination of all field activities

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Names	Title designation	Key qualification	Responsibilities
Mr. N.M Mwatika 0721 357 392 nmwatika@kenyaforestservice.org	Monitoring & Evaluation Officer	MSC in project Management	Monitoring of the physical progress, evaluation and recommendations on activity implementation
Mr John Mburu 0721 775523 mburujm@kenyaforestservice.org	Principal Procurement Officer	MBA (Procurement & Logistics) Member of Kenya Institute of Supplies Management (KISM).	Responsible for the management of the procurement process of goods and services and safety of assets
Ms Eunice Ondari 0724200942 eondari@kenyaforestservice.org	Project Accountant	CPA (K), Bachelor of Commerce (Finance)	Implementation of Finance and Accounts functions of the program

**Mr. Jerome Mwanzia retired in May 2025 and was replaced by Mr. Alfred Kurgat.*

2.7 Funding summary

The Project is for duration of 6 years from 2019 to 2024, extended to 30-Jun-2026 with an approved budget of UA 29,690,000 and EUR 5,204,000 from African Development Bank and GoK counterpart funds of Kshs 498,508,000, bringing the total to equivalent to Kshs 5,498,250,000 as highlighted in the table below:

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 Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment		Amount received to date – (30th 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) Loan						
Africa Development Bank (EURO)	€ 5,204,000	646,594,200	€ 4,675,055	4,331,819,588	€ 528,945	667,922,412
Africa Development Fund (UA)	UA 29,690,000	4,353,147,800	UA 22,292,842		UA 7,397,158	
		4,999,742,000		4,331,819,588		667,922,412
(ii) Counterpart funds						
Government of Kenya	-	498,508,000		453,916,870		44,591,130
Total	-	498,508,000		453,916,870		44,591,130

Note: The undrawn balance is subject to foreign exchange fluctuations, therefore using the respective exchange rates for UA - 175.3435 and Euro - 151.6500 for June 2025 the undrawn balance in the Kenya shillings (Kshs) translates to Kshs.1,377,258,092.07.

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Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 June 2025)		Cumulative Amount paid to date – (30 June 2025)	Unutilised balance to date 30 Jun 2025	
	<i>Development Partner currency</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Development Partner currency</i>	<i>Kshs</i>
	(A)	(A')	(B')	(A)-(B)	(A')-(B')
(i) Loan					
Africa Development Bank (EURO)	€ 4,675,055	4,331,819,588	4,298,868,335		32,951,253
Africa Development Fund (UA)	UA 22,292,842				
(ii) Counterpart funds					
Government of Kenya		453,916,870	453,741,029		175,841
Total		4,785,736,458	4,752,609,364	-	33,127,095

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

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

The project utilized the available resources against the approved workplan and printed/revised estimates satisfactorily.

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

This is as shown in the table below

No.	Activity	Unit of measure	Project target	Project achievement	% achievement	Remarks
Component 1: Component 1. Forest conservation and livelihood support for climate change						
1.	Tree seedlings production	No	150,000,000	116,649,607	78%	On track
2.	Rehabilitation of degraded natural forest	Ha	11,900	11,805	99%	On track
3.	Protection for natural regeneration through community scout patrols and construction of temporary fences	Ha	302,100	303,093	100%	On track
4.	Restoration of community and county hilltops	Ha	300	311	104%	Completed
5.	Construction of model tree nurseries	No	5	1	20%	4 more nurseries are under construction and are 60% complete
6.	Drilling and equipping nursery boreholes	No	20	0	0	12 boreholes are at different stages of completion
7.	Construction of forest rangers camps	No	8	2	25%	2 more camps are under construction at 70% complete and 1 has been initiated

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No.	Activity	Unit of measure	Project target	Project achievement	% achievement	Remarks
8.	Construction of forest rangers outposts	No	10	3	30%	5 more have been initiated
9.	Improvement of forest roads	Km	330	361	109%	Completed and doing routine maintenance
10	Construction of forest bridges	No	6	6	100%	Completed
11	Construction of electric perimeter fence along forest boundaries	Km	300	81	27%	On progress at Menengai, Chepalungu and Mukutani forest
12	Promotion of renewable energy technologies for institutions and communities	No	25	24	96%	On track
13	Support community Income Generating activities	No	45	37	82%	On track
14	Establishment Forestry Farmer Field School (FFFS)	No	60	48	80%	On track
15	Development and review of Participatory Forestry Management Plans	No	30	30	100%	Completed
Component 2 sustainable and inclusive value chain development						
16	Establishment of forest plantations	Ha	10,000	8,135	81%	On track
17	Establishment of on-farm woodlots	Ha	5,000	4,667	93%	On track
18	Establishment of agroforestry	Ha	5,000	5,437	109%	On track
19	Establishment of fruit orchards	Ha	500	432	86%	On track
20	Formation and Support of community timber, bamboo and potato produce and marketing associations	No	6	6	100%	On track

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No.	Activity	Unit of measure	Project target	Project achievement	% achievement	Remarks
21	Construction of Community Resource Centres	No	5	5	100%	Completed
22	Construction and equipping of community-based timber processing and marketing center	No	1	0	0	Construction is 70% complete
23	Support for food security: Support farmers produce potatoes	Tons of potatoes produced	300,000	281,234	94%	On track
	Support farmers produce maize	Tons of maize produced	58,480	49,292	84%	On track
	Support farmers produce beans	Tons of beans produced	20,160	27,565	137%	On track
	Support farmers produce fruits	Tons of fruits produced	6,119	3,454	56%	On track
Component 3 Project management and coordination						
24	Support staff training (short courses)	No	100	68	68%	On track
25	Conduct baseline surveys	No	5	6	120	Completed
26	Development of M&E system	No	1	1	100%	Completed awaiting rollout
27	Conduct Project Mid-Term Review	No	1	1	100%	Completed
28	Conduct end of project evaluation studies	No	5	0	0	Initiated

Project progress outcomes is as shown in the table below

Outcome Indicators	End Target	Cumulative values	Progress (% realized)	Remarks
Outcome 1: Increased forest cover				
Increase in forest cover (ha)	359,885	340,695	94%	On track
Outcome 2: Improved household incomes				
Increase in average annual household income (KES)	150,000	282,725	188%	Baseline survey report March 2022

iii) List the implementation challenges and recommend the next steps.

No.	Issue	Mitigation actions
i.	Low budgetary ceiling by treasury	Engage the Ministry of Environment, Climate Change & Forestry and The National Treasury to upscale the budget ceiling for the project
ii.	Budget cuts	Engage National Treasury to stop subjecting the project from budget cuts
iii.	The project did not receive the GoK counterpart funds for the last two years	<ul style="list-style-type: none"> • To make a follow-up with the Ministry and The National treasury • To request ADB to allow payment items which were being paid through GoK counterpart funds
iv.	Changing weather patterns as a result of climate change impacted on weather-dependent project activities like tree planting.	Use of appropriate early warning systems and appropriate technologies.

2.9 Summary of Project Compliance:

The Program has ensured that all its activities carried out are within the laws of the Republic of Kenya, and under terms of the project agreement between the GoK and African Development Bank. It also ensured that all regulations and procedures of Kenya Forest Service have been followed. In cases of inconsistency between the GOK regulations and those of the donors, the latter regulations have been applied

3. Statement of Performance against Project's Predetermined Objectives

Introduction

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

The key development objectives of the *project's agreement/* plan are to:

- a) To enhance forest conservation and livelihood support for climate change resilience
- b) To develop timber, horticulture and maize value chains for improved household incomes

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.

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

Project	Objectives	Outcome	Indicator	Performance
Green Zones Development Support Project Phase II	To enhance forest conservation and livelihood support for climate change resilience	Increase in tree/forest cover for climate change mitigation and livelihood support	To produce 70,000,000 tree seedlings	In the FY 2024/2025 57,591,547 were produced which is 82% achievement
			To rehabilitate 38,000 ha of degraded natural forest	In the FY 2024/2025 3,690 ha were rehabilitated which is 97% achievement
			To protect 86,538 ha of degraded natural forest for natural regeneration	In the FY 2024/2025 83,131 ha were protected using community scouts, electric and temporary fencing which 97% achievement
			Construct 81 KM of perimeter electric fence along forest boundaries	In the FY 2024/2025 45km of electric fence was constructed in Menegai and Mukutani forest stations which is 56% achievement
			To rehabilitate 30km & maintain 50km of forest road and construct 1 bridge	In the FY 2024/2025 24 km were rehabilitated, 118 km maintained and 1 bridge constructed which is 80% , 235 % and 100% respectively
			To construct 2 forest rangers camps	In the FY 2024/2025 (1) one forest rangers camp was constructed which 39% achievement
			To support 13 institutions and 8 communities with renewable energy technologies	In the FY 2024/2025 8 institutions and 3 community groups with renewable energy technologies which is 62% and 38% achievement respectively

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Project	Objectives	Outcome	Indicator	Performance
			Establish 3,000 ha of forest plantations	In the FY 2024/2025 we established 2,527ha of forest plantations which is 84% achievement
	To develop timber, horticulture and maize value chains for improved household incomes	Improved household incomes	Support 13 community income generating activities (IGAs)	In the FY 2024/2025 Three (3) 0 IGAs were supported which is 23% achievement
			Establish 1,000 ha of on-farm woodlots	In the FY 2024/2025 1,259 ha of woodlots were established which is 126% achievement
			Establish 2,500 ha of on-farm agroforestry	In the FY 2024/2025 1,675 ha of agroforestry were established which is 67% achievement
			Established 192 ha of fruit orchards	In the FY 2024/2025 102 ha of fruit orchards were established which is 53% achievement
			Support 7 community timber, bamboo and potato associations	In the FY 2024/2025 7 associations were supported which is 100% achievement
			To support farmers with inputs and technical advice to produce <ul style="list-style-type: none"> • 60,000 tons of potato • 11,700 tons of maize • 4,000 tons of beans • 1,000 tons of fruits 	In the FY 2024/2025 agroforestry farmers supported to produce <ul style="list-style-type: none"> • 229,717 tons of potato, • 27,180 tons of maize, • 14,864 tons of beans and • 1,945 tons of fruits Which is 383%, 232% 372% and 194% achievement respectively

4. Environmental and Sustainability Reporting

Introduction

Green Zones Development Support Project Phase II (GZDSP II) goal is 'to improve forest conservation and livelihoods for sustainable forest management in 15 counties in Kenya'. The counties are Embu, Meru, Machakos, Tharaka Nithi, Nyeri, Murang'a, Kirinyaga, Nyandarua, Nakuru, Baringo, Kericho, Bomet, Nyamira, Kiambu and Kisii. The project is implemented by Kenya Forest Service (KFS) in the Ministry of Environment, Climate Change & Forestry in collaboration with other stakeholders. A key undertaking of the project is afforestation and reforestation within the Mt. Kenya, Aberdares and Mau Forest Ecosystems for provision of ecological, environmental and economic goods and services to the country. The Project also supports infrastructure development, which includes forest roads improvement, forest bridges, community resource centres, forest rangers camp and outposts and community-based timber and potato processing centres construction for which site specific ESMPs will be prepared once the sites have been identified.

The project has 3 components namely:

- i. Forest Conservation and Livelihood Support for Climate Change Resilience
- ii. Sustainable and Inclusive Value Chain Development
- iii. Project management and coordination

The project is financed by The African Development Bank (AfDB) and is classified as a Category 2 project, implying that it does not have serious irreversible environmental effects. The ESMP Summary was disclosed and posted on the Bank website on 6th of April 2018. The Project mitigates the impacts of climate change through increased forest/tree cover and consequently increased greenhouse gas sinks by source. The Project contributes to carbon sequestration; contributes to climate change resilience through alternative livelihoods, income-generating activities, and improved agricultural production; and subsequently improves farmer income and reduce poverty.

The project triggers four of the operational safeguards namely: -

- i. **Operation Safeguard 1 (OS1)**- Governs the process of determining a project's environmental and social category and the resulting assessment requirements
- ii. **Operation Safeguard 3 (OS3)** - Relates to conservation of biological diversity and promote the sustainable use of natural resources. It also translates the commitments in the Bank's policy on integrated water resources management into operational requirements
- iii. **Operation Safeguard 4 (OS4)**- Covers the range of key impacts of pollution, waste, and hazardous materials
- iv. **Operation safeguard 5 (OS5)** - Concerns workers' conditions, rights and protection from abuse or exploitation.

1. Sustainability strategy and profile

The sustainability of the project is due to a combination of a number of factors, most importantly the participatory approach. The participatory demand-driven approach is discussed between the beneficiary communities involved during implementation of the project in order to promote a sense of ownership among the beneficiaries. The other key issue to the project sustainability is the flow of additional resources and incomes to the resource poor communities, most of which are located in the project area. One objective of the project is to improve access to food through improved production of high value crops. The project has been able to generate **Kshs. 16,480,635,122** through community led initiatives.

For the sustainability of all project forest conserved areas and infrastructure constructed, 30 Participatory Forest Management Plans (PFMPs) have been developed and agreed upon with the benefitting communities. Using these plans, the communities will be trained in the operation and maintenance of conserved areas. This will be one of the parameters that would be covered by the monitoring and evaluation of the project to ensure that the CFAs are well groomed to take over completely as the project phases out.

Mainstreaming the participation and capacity building of the communities IGAs/CFAs members and all the other actors of the value chains will bolster ownership, and their management capabilities to continue project activities even after completion. Establishing and strengthening IGAs/CFAs, 9 agribusiness and market linkages with the private sector, have offered opportunities for increased income thereby contributing to the improvement of the beneficiaries' livelihood and expansion of their activities.

Involving beneficiary communities in project design and implementation as well as monitoring progress ensures ownership which further guarantees the sustainability of the project. The beneficiaries are required to develop and implement their respective PFMPs with funding from contributions by CFA members.

2. Environmental Performance

The project is implemented in accordance with the financing agreement, article IV which enumerates Conditions and Undertakings of the parties, Section 4.04 part i (v) and (v) mandates the Executing Agency to fully implement the Environmental and Social Management Plans (ESMP) and comprehensively report on the implementation of ESMP on an annual basis.

Under Legal Notice No. 150 of the Environmental Management and Coordination Act 1999, (Cap 387) amended 2019, the Project on Afforestation and Reforestation falls under the second schedule for projects that require an Environmental & Social Impact Assessment (ESIA) before commencement. The ESIA for Green Zones Development Support Project Phase II was done and the Environmental and Social Management Plan (ESMP) that will guide the management of environmental and social impacts caused by the project was prepared. The National Environmental Management Authority (NEMA) thereafter issued the prerequisite certificates covering the three ecosystems within the project area. The implementation of ESMP should be monitored periodically.

Compliance with safeguards requires good practices that will incorporate all involved stakeholders in the design and implementation of project activities.

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The following actions have been documented to address the concerns:

- Grievances redress mechanisms
- Health and safety management plans
- Waste management plan
- Water management plan
- Solid waste inventory/ hazardous waste inventory
- Pest Management plan
- Stakeholder engagement plan
- Gender mainstreaming plan
- Environmental Impact Assessment/Summary Project Report
- Environmental and Social Management Plan
- Emergency Response Plan
- Project Implementation Manual

Project is also in compliant with AfDB covenants as indicated in the table below

Obligation	Compliance indicator	Status
Carry out the project in accordance with the recommendations, requirements and procedures set forth in ESMP	100% of the measures have been implemented	Complied
Submit to the Bank quarterly report in form and substance acceptable to the bank including implementation of the project	100% Quarterly IPR and E&S reports are prepared and submitted to the bank	Complied
Conduct annual Environmental and Social Audit	3 rd audit ongoing	Compliance certificate issued

All the sub projects under GZDSP II are screened for compliance to Environmental and Social Safeguards (ESS) and the corresponding Environmental and Social

Management Plans(ESMPs) developed to assist the Project staff and beneficiaries to monitor and mitigate any adverse effects to the environment and community

3. Employee welfare

KFS is an equal opportunity employer and when recruiting does not discriminate on the basis of gender, age, race, and ethnicity or entertain any form of discrimination.

The project provides a safe working environment through provision of well-ventilated offices with safe drinking and well-maintained sanitation facilities.

All staff working under the project are recruited through KFS HR policy and they must adhere to rules and regulations of the Service. The Service has provided WIBA for all workers and GPA.

4. Marketplace practices-

a) Responsible Supply chain and supplier relations-

The procurement activities are conducted in an open environment and the suppliers or their representatives are witnessed to witness the opening of the bids.

The project ensures that there is fair competition while undertaking procurement activities through competitive bidding and requests for quotation. The unsuccessful competitors are notified with reasons

b) Responsible ethical practice

We are apolitical. Corruption free policy, comply with the provisions of the Constitution of Kenya, 2010.

The Project implements its procurement activities in conformity with the AfDB Procurement Guidelines. The Project strives to ensure that the suppliers' contracts are honored and respective payments made with the stipulated timelines.

c) Regulatory impact assessment

The Project conducts Regulatory Impact Assessment (RIA) for any Proposed Regulations. The aim of the RIA is to analyze the potential social, economic, and environmental impacts of the regulations and offer the best solutions for the lacuna. The RIA defines and analyzes the key problems under the subject of the regulations; evaluates the baseline situation; identifies costs and benefits associated with the proposed regulations; perform a cost-benefit analysis to identify the most efficient regulatory options and engage with stakeholders through consultations to validate the regulatory options.

This provides an in-depth engagement with the stakeholders incorporating their views and opinions.

5. Community Engagements

The Project engages communities in implementing its activities throughout the project phase as indicated in the table below

Category	Role	Specific functions
Forest communities	Implementers and beneficiaries	Participate in all phases of project cycle and adoption of technologies
Community Forest Associations (CFA) & user groups	Partners in Forest conservation and management through PFMPs as platforms to disseminate information.	Implement Participatory Forest Management plans
Local leadership (ward administrators, MCA, Area chief opinion leaders	As platforms to disseminate Information	Support community mobilization, conflict management and generate good will
Vulnerable groups (youths, disabled, elderly, orphans, women and minority communities	Implementers and beneficiaries	To sustain project benefits
Local NGOs	Community capacity building	Training of community groups
Religious and public based institutions (churches, mosque, schools, chiefs camp)	Meeting venues and avenues for notifying communities of planned activities	Good will

5. Statement of Project Management Responsibilities

The Chief Conservator of Forests of Kenya Forest Service and the Project Manager for Green Zones Development Support Project Phase II 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 period ended on June 30, 2024. This responsibility includes:

- (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project;
- (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;
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Chief Conservator of Forests of Kenya Forest Service and the Project Manager of Green Zones Development Support Project Phase II 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 Chief Conservator of Forests of Kenya Forest Service and the Project Manager of Green Zones Development Support Project Phase II 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 period ended June 30, 2025, and of the Project's financial position as at that date. The Chief Conservator of Forests of Kenya Forest Service and the Project Manager of Green Zones Development Support Project Phase II 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 Chief Conservator of Forests of Kenya Forest Service and the Project Manager of Green Zones Development Support Project Phase II 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 Chief Conservator of Forests of Kenya Forest Service and the Project Manager Green Zones Development Support Project on 18 August 2025 and signed by them.


.....
A. L. Lemarkoko EBS, 'ndc' (K)
Chief Conservator of Forests


.....
Alfred Kurgat
Project Manager

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON GREEN ZONES DEVELOPMENT SUPPORT PROJECT - PHASE II (CREDIT NO. P-KE-AAD-005) FOR THE YEAR ENDED 30 JUNE, 2025 - KENYA FOREST SERVICE

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 does not necessarily mean that an entity has complied with all relevant laws and regulations, is effective in the use of resources, or that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Green Zones Development Support Project Phase II set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2025, and the statement of financial performance,

Report of the Auditor-General on Green Zones Development Support Project - Phase II (Credit No. P-KE-AAD-005) for the year ended 30 June, 2025 - Kenya Forest Service

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 financial statements present fairly, in all material respects, the financial position of Green Zones Development Support Project Phase II as at 30 June, 2025, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), and the Public Finance Management Act, 2012 and comply with Loan Agreements No.2100150040546 and No.2000200003402 dated 23 April, 2019 between the African Development Bank and African Development Fund and the Government of the Republic of Kenya.

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

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Green Zones Development Support Project Phase II Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,476,000,000 against actual receipts of Kshs.1,453,686,258 resulting to an under-funding of Kshs.22,313,742 or 2% of the budget.

The under-funding affected the planned activities and may have impacted negatively on delivery of service to the public.

2.0 Undisclosed Special Deposit Account Balance

The Project's special deposit account maintained at the Central bank of Kenya reflects a closing account balance of Kshs.109,590,388 (EUR 722,653.07). However, the Project did not disclose this balance in the financial statements as at 30 June, 2025 contrary to the requirement of International Public Sector Accounting Standard (IPSAS) No.23 – revenue from non-exchange transactions.

In addition, amount withdrawn and expenditure not claimed totaled EUR 4,820,200.09 (Kshs.730,983,344) as at 30 June, 2025.

My opinion is, however, unmodified in respect of these matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, one issue was raised under Emphasis of Matter and three (3) issues under Report on Lawfulness and Effectiveness in the Use of Public Resources. However, Management has not resolved the issues or provided reasons for the delay in resolving the outstanding issues as required by the Public Sector Accounting Standards Board Reporting template.

Other Information

The Management is responsible for the other information set out on page i to xxiv which comprise of Project Information and Overall Performance, Statement of Performance Against Predetermined Objectives for the year, 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, if 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 and based on the audit procedures performed, except for the matters described on the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Slow Release of Government of Kenya Counterpart Funding

The Government signed an agreement for a loan from Africa Development Bank and Africa Development Fund for combined amount of Kshs.4,999,742,000 and counterpart funds of Kshs.498,508,000 from the Government of Kenya out of which only Kshs.453,916,870 had been received as at 30 June, 2025 resulting to undrawn balance of Kshs.44,591,130 leading to slow disbursement of funds and the Project is expected to be completed by 30 June, 2026.

In the circumstances, slow release of counterpart funding may affect the implementation of all the planned activities and compromise Project's objectives.

2.0 Slow Implementation of Projects

2.1 Delay in Construction of an Electric Perimeter Fence

A Contract was awarded on 23 January, 2024 at a contract sum of Kshs.104,446,109 for Construction of an electric perimeter fence in Menengai Forest in Nakuru County for a period of twelve months (12) months with an expected completion date as 5 February, 2025. Physical inspection in the month of June, 2025, revealed that forty-six (46) kilometres of the fence was installed but not powered. An additional nine (9) kilometres was still under construction. The installed fence had been vandalized in some sections, allowing the community access to the forest. Payments totalling Kshs.86,603,613 had been made up to certificate no. 4 and was at 83% completed while the completion period had already elapsed by more than five (5) months.

Further, the summary of overall project performance on page x indicates that only 81km of electric fence was installed out of the overall target of 300km which is at 27% performance level.

2.2 Delay in Construction of a Model Tree Nursery in Dundori

A Contract for Construction of Model Tree Nursery at Dundori in Nakuru County was awarded at a contract sum of Kshs.35,539,440 for twelve (12) months with expected completion date of February 2025. However, the project had not been completed by 30 June, 2025.

Further, the ablution block was in use before formal handover and was constructed contrary to the Bill of Quantity (BoQ), with a partially constructed roof and water retention on the floor was visible.

In addition, the seedbeds were not of standard sizes and were covered in cement, making them unfit for seedling propagation.

2.3 Delay in Construction of a Timber Processing Value Addition Centre at Kenya Forestry College

A contract for Construction of Timber Processing (Value Addition Centre at Kenya Forestry College) at Londiani was awarded on 23 January, 2024 at a contract sum of

Kshs.106,823,816 for a period of twelve (12) months with expected completion date of 6 February, 2025. As of 30 June, 2025, the project was at 74% completion stage, four (4) months after the contract period had lapsed while payments of Kshs.27,252,421 had been made up to certificate No. 3.

2.4 Delay in Construction of a Model Tree Nursery in Londiani

A Contract was awarded on 23 January, 2024 at a contract sum of Kshs.36,878,654 for twelve (12) months with expected completion month of February 2025. Payments totalling Kshs.27,252,421 for three (3) certificates had been made as at 30 June, 2025. However, the project period lapsed in February, 2025, four (4) months after contract period elapsed and the project as per engineer certificates was at 74% completion stage. Physical inspection of the project in June, 2025 revealed that the construction was ongoing.

2.5 Delay in Construction of Five Forest Ranger House and a Camp in Mukutani Forest Station

A contract was awarded on 23 January, 2024 at a contract sum of Kshs.42,599,900 for a period of 12 months ending February, 2025. No specific progress or completion status was provided for audit, despite the project completion period lapsing in February 2025.

2.6 Delay in Construction of a Model Tree Nursery in County Forest Conservator Office

The contract was awarded at a contract sum of Kshs.38,380,851 for a contract period of twelve (12) months commencing on 6 February, 2024 with a completion date of 6 February, 2025. On 28 February, 2025 the Chief Engineer wrote to the Chief Conservator of Forest concerning the value of proposed additional works amounting to Kshs.5,754,295.34. Despite the variation proposal being submitted, there was no evidence of approved variation orders. As at the time of audit in June, 2025, the contractor was not on site after receiving Kshs.7,313,186 or 19% of the contract sum as per Certificate No. 2. However, Management had not taken any legal or contractual steps against abandonment and explore recovery of amount paid.

2.7 Delay in Construction of an Electric Perimeter Fence at Chepalungu Forest

A contract was awarded on 23 January, 2024 at a contract sum of Kshs.40,905,829.65 for a period of twelve (12) months with expected completion date of 5 February, 2025. Physical inspection of the project in June 2025 revealed that, the project was at 92% completion stage despite the contract period lapsing in February 2025 while total payments of Kshs.37,687,933 or 92% of the contract sum had been made as at 30 June, 2025.

2.8 Delay in Construction of a Model Tree Nursery at South Kinangop County Forest Conservator Office

The contract was awarded at a contract sum of Kshs.37,491,986 for a contract period of twelve (12) months commencing on 6 February, 2024 and a completion date of 6 February, 2025. As at time of physical inspection in June, 2025, the contractor was not

on site, with presence of rusted steel structures and no evidence of site clearance while progress of works was estimated at 75%.

2.9 Delay in Construction of a Rangers Camp at Mugumoini Malagat Forest Station

A contract was awarded on 8 May, 2024 at a contract sum of Kshs.49,366,317 for twelve (12) months with expected completion date of May 2025. However, at the time of physical inspection, in June, 2025 the project was 75% complete and therefore behind schedule though work was ongoing.

In the circumstances, delayed projects completion may result in cost overruns and value for money on the amounts paid could not be confirmed.

3.0 Poor Implementation of Plantation Establishment and Livelihood Improvement Scheme and Tree Establishment and Livelihood Improvement Scheme

Activity 3.6.4 of the Project Implementation Manual, plantation establishment through Plantation Establishment and Livelihood Improvement Scheme (PELIS) was introduced to enhance forest plantation establishment while providing livelihood opportunities to adjacent communities through agroforestry, reforestation and income-generating activities. During physical inspection in Kirinyaga County, the natural forest covers an area of 29,362.92 hectares, and rehabilitation activities involving indigenous species had been undertaken for 180.2 hectares. However, the rehabilitated area exhibited poor maintenance practices, such as a lack of spot weeding. The planted trees were not adequately weeded or watered, resulting in a low survival rate estimated at approximately 40%. Low tree survival rates undermine reforestation targets and may necessitate repeat interventions, increasing project costs.

In the circumstances, poor maintenance and failure of the forest restoration initiative may lead to failure to achieve intended environmental and conservation outcomes.

4.0 Slow Project Overall Performance

Review of the summary of overall project performance based on outputs and outcomes since the project commencement revealed that some implementation components lagged below 70% completion despite the project's expected completion date of 30 June, 2026 as follows:

No.	Activity	Unit of Measure	Project Target	Project Achievement	% Achievement	Remarks
Component 1: Forest Conservation and Livelihood Support for Climate Change						
	Construction of model tree nurseries	No	5	1	20%	4 more nurseries are under construction and are 60% complete
	Drilling and equipping	No	20	0	0	12 boreholes are at different

No.	Activity	Unit of Measure	Project Target	Project Achievement	% Achievement	Remarks
	nursery boreholes					stages of completion
	Construction of forest ranger's camps	No	8	2	25%	2 more camps are under construction at 70% complete and 1 has been initiated
	Construction of forest ranger's outposts	No	10	3	30%	5 more have been initiated
	Construction of electric perimeter fence along forest boundaries	Km	300	81	27%	On progress at Menengai, Chepalungu and Mukutani forest
Component 2: Sustainable and Inclusive Value Chain Development						
	Construction and equipping of community-based timber processing and marketing centre	No	1	0	0	Construction is 70% complete
	Support farmers produce fruits	Tons of fruits produced	6,119	3,454	56%	On track
Component 3 Project Management and Coordination						
	Support staff training (short courses)	No	100	68	68%	On track

In the circumstances, the project's ability to meet its objectives of improving forest cover and improving livelihood for communities living adjacent to the forest area could not be confirmed.

The audit was conducted in accordance with the ISSAI 3000 and 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Weakness in Record Keeping

Physical inspections carried out in various Kenya Forest Service (KFS) stations in Kirinyaga, Nakuru, Nyandarua, Bomet and Kericho Counties revealed that the Project's accounting records, including cashbooks, bank reconciliations, and ledgers, were maintained manually. The stations lacked computerized accounting systems, and no electronic backups were in place for the manual records. Manual records are highly vulnerable to physical damage like fire, water, pests, theft, or misplacement, which may result in permanent loss of financial data. The lack of system-based accounting increases the risk of human error, fraud, and inefficiencies in records retrieval and financial reporting.

In the circumstances, the project's ability to recover critical financial information in the event of a disaster could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by African Development Bank Financing Agreement Credit No. P-KE-AAD-005 dated 17 July, 2019 between African Development Bank and the Republic of Kenya, 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. In my opinion, adequate accounting records have been kept by the Project, so far as it appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's, ability to continue to sustain its services, disclosing, as applicable, matters related to the sustainability of services and using the applicable 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.

Management is 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


08 October, 2025

Green Zones Development Support Project - Phase II
Annual Report and Financial Statements for the financial year ended June 30, 2025

8. Statement of Financial Position as at 30th June 2025

	Note	2024-2025	1st July 2024
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	12	33,127,095	1,706,177
Prepayment	13	1,059,347	14,711,246
Total Current Assets		34,186,442	16,417,423
Non-Current Assets			
Property, Plant and Equipment	14	820,027,335	532,247,387
Total Non- Current Assets		820,027,335	532,247,387
Total Assets (a)		854,213,777	548,664,810
Liabilities			
Current Liabilities			
Trade and Other Payables	15	6,013,703	13,130,000
Third Party Deposits	16	45,252,392	3,574,125
Deferred Income	17	32,881,809	-
Total Current Liabilities		84,147,904	16,704,125
Total Liabilities (b)		84,147,904	16,704,125
Net Assets (a-b)		770,065,873	531,960,685
Represented By:			
Accumulated Surplus		770,065,873	531,960,685
Total Net Assets		770,065,873	531,960,685


The financial statements were approved on 18/08/2025 2025 and signed by:



 A. L. Lemarkoko EBS, 'ndc' (K)
 Chief Conservator of Forests



 Alfred Kurgat
 Project Manager



 CPA Eunice Ondari
 Project Accountant
 ICPAK Member No: 29336

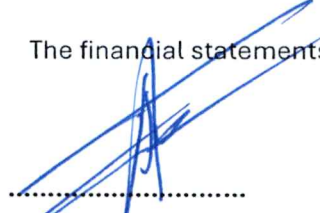
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9. Statement of Changes in Net Assets

Description	Accumulated Surplus
	Kshs
As at 30th June 2024 (Cash Basis)	(286,702)
Adjustments:	
Asset Recognition	532,247,387
Liabilities recognition	-
As at 1st July 2024	531,960,685
Surplus/(Deficit) for the year	238,105,188
As at 30th June 2025	770,065,873

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

The financial statements were approved on 18/8/25 2025 and signed by:


.....
A. L. Lemarkoko EBS, 'ndc' (K)
Chief Conservator of Forests


.....
Alfred Kurgat
Project Manager


.....
CPA Eunice Ondari
Project Accountant
ICPAK Member No: 29336

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

Description	Note	2024-2025
		Kshs
Cashflow from operating activities		
Receipts		
Revenue Transfers		1,453,139,280
Miscellaneous Revenue		553,659
Total receipts		1,453,692,939
Payments		
Employee costs		238,231,027
Use of goods and services		808,672,301
Other Transfers/Subsidies/Grants		6,972,210
Total payments		1,053,875,539
Net cash flow from operating activities	18	399,817,400
Cashflow from investing activities		
Acquisition of non-financial assets		(368,396,483)
Proceeds from sale of Assets		-
Acquisition of Intangible assets		-
Net cash flows from investing activities		(368,396,483)
Cash flow from financing activities		
-		-
Net cash flow from financing activities		-
Net increase/Decrease in cash and cash equivalents		31,420,917
Cash and cash equivalent at 1st July 2024	12	1,706,177
Cash and cash equivalent at end June 2025	12	33,127,094

*Green Zones Development Support Project - Phase II
Annual Report and Financial Statements for the financial year ended June 30, 2025*

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	1,476,000,000	-	1,476,000,000	1,453,139,280	(22,860,721)	98%
Miscellaneous Revenue	-	-	-	553,659	553,659	0%
Total Revenue	1,476,000,000	-	1,476,000,000	1,453,692,939	(22,307,062)	98%
Payments						
Employee costs	240,000,000	-	240,000,000	238,231,027	(1,768,973)	99%
Use of goods and services	859,000,000		859,000,000	856,886,170	(2,113,830)	100%
Other Transfers/Subsidies/Grants	7,000,000		7,000,000	6,972,210	(27,790)	100%
Acquisition of Fixed Assets	370,000,000		370,000,000	368,396,483	(1,603,517)	100%
Total Payments	1,476,000,000	-	1,476,000,000	1,470,485,890	(5,514,110)	100%
Surplus	-	-	-	(16,792,951)	(16,792,952)	

Budget notes

1. There was no significant underutilization (below 90% of utilization) and any overutilization (IPSAS 24.14)

Green Zones Development Support Project - Phase II
Annual Report and Financial Statements for the financial year ended June 30, 2025

Budget Reconciliation

Description of Particulars	Amount in Kshs
Actual Surplus Amounts as per the statement of Budget	(16,792,951)
Opening cash balances	1,706,177
Trade and other payables	(7,116,297)
Retention	41,678,266
Prepayments	13,651,899
Closing Cash and Cash Equivalent as per the statement of Cash flows	33,127,094

12. Notes to the Financial Statements

1. General Information

The Green Zones Development Support Project – Phase II is a Project of the National Government of Kenya implemented by the Kenya Forest Service. Kenya Forest Service is established by and derives its authority and accountability from the Forest Conservation and Management Act, 2016. The Service is wholly owned by the Government of Kenya and is domiciled in Kenya. The Service’s principal activity is conservation and management of state forests.

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 Project has taken advantage of the transitional provisions under IPSAS 33, and therefore these 1st/ 2nd/ 3rd/year financial statements are transitional financial statements and the following elements of the financial statements have not been recognized as the Project has taken advantage of the transition provisions outlined in IPSAS 33

- i. Inventory

These financial statements were authorized for issue by the accounting officer on 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	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p>

Green Zones Development Support Project - Phase II
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 measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <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>
IPSAS 45- Property Plant and Equipment	<p>Applicable 1st January 2025</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>Applicable 1st January 2025</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>

*Green Zones Development Support Project - Phase II
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

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 understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

iii) Early adoption of standards

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

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

b) Budget information

The original budget for FY 2024/2025 was approved by the Project Steering Committee (PSC) in **August 2024**. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Project upon receiving the respective approvals to conclude the final budget. Accordingly, the Project recorded no additional appropriations on the FY 2024/2025 budget following the PSC's approval. The Project's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page **5** under section **11** of these financial statements.

Notes to the financial statements

c) Property, plant and equipment

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

d) Leases

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

e) Intangible assets

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

Notes to the financial statements

f) Research and development costs

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

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

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

g) Financial instruments

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

Financial assets

Classification

The 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.

Notes to the financial statements

Subsequent measurement

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

Amortized cost

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

Fair value through net assets/ equity

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

Fair value through surplus or deficit

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

Trade and other receivables

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

Impairment

The 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 entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in Note 5.

Notes to the financial statements

Financial liabilities

Classification

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

h) Inventories

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

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

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

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

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.

Notes to the financial statements

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 *Entity* in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Project creates and maintains reserves in terms of specific requirements.

k) Changes in accounting policies and estimates

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

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.

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 *Entity* recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the *Entity* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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

Estimates and assumptions.

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available.

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

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Notes to the financial statements

6. Revenue Transfers

Description	2024-2025
	KShs
Unconditional Transfers	
GoK Counter Part funding	-
Total Unconditional Transfers (a)	-
Conditional Transfers	
African Development Bank/Fund Loan	966,674,260
ADB Direct Payments	453,583,211
Total Conditional Transfers (b)	1,420,257,471
Total Transfers for the Year (a + b)	1,420,257,471

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 (2024-2025)
	Kshs	Kshs	Kshs	Kshs
GOK Funding	-	-	-	-
African Development Bank/Fund Loan	966,674,260	32,228,357	-	998,902,617
ADB Direct Payments	453,583,211	-	-	453,583,211
Subtotal	1,420,257,471	32,228,357	-	1,452,485,828
Deferred Income realized	-		-	-
Transfers in Kind	-			-
Total	1,420,257,471	32,228,357	-	1,452,485,828

7. Miscellaneous revenue

Description	FY 2024/25
	Kshs
Interest Income	553,659
Total	553,659

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Notes to the financial statements

8. Employees Costs

Description	FY 2024/25
	Kshs
Casual Labour	238,231,027
Total	238,231,027

9. Use of Goods and Services

Description	FY 2024/25
	Kshs
Electricity	2,255,412
Water and Sewerage Charges	1,065,664
Telephone Expenses	1,286,780
Courier and Postal Services	18,900
Supplies of Accessories for Computers & Printers	4,866,942
Travel Costs	170,000
Daily Subsistence Allowance	168,366,056
Travel Cost-International(Overseas)	42,900
Media, Newspapers, Magazines and Periodicals	25,140
Advertising, Awareness and Publicity Campaigns	5,026,124
Training	75,438,697
General Office Supplies	5,380,245
Cleaning Materials, Supplies and Services	10,000
Catering services	2,029,874
Refined Fuels and Lubricants for Transport	49,538,960
Bank Service Commission and Charges	258,556
Contracted Professional Services	14,975,529
Contracted Technical Services	41,632,407
Food and Rations	2,286,177
Events and Celebrations	18,914,314
Tree seeds and seedlings.	45,337,946
Supplies for production	244,379,898
Seminars and Conferences	6,239,392
Tree Planting	25,200
Levies: Land, CFA Registration, NEMA etc	920,732
Maintenance of Motor Vehicles	42,231,024
Maintenance of Office Furniture and Equipment	98,725
Maintenance of Buildings - Residential	100,000
Maintenance of Buildings and Stations --Non-Residential	1,874,077
Maintenance of Civil Works	110,505,495
Maintenance of Roads	11,505,006
Maintenance of Computers, Software, Networks and Communications Equipment	80,000
Total	856,886,170

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Notes to the financial statements

10. Depreciation and Amortization expense

Description	FY 2024/25
	Kshs
Property, Plant and Equipment	80,616,535
Intangible Assets	0
Total	80,616,535

11. Other Transfers/Subsidies/Grants

Description	FY 2024/25
	Kshs
Subsidies	6,972,210
Total	6,972,210

12. Cash and Cash Equivalents

Description	FY 2024/25	1st July 2024
	Kshs	Kshs
Cash in Bank	33,127,095	1,706,177
Total Cash and Cash Equivalents	33,127,095	1,706,177

Project Bank Accounts

Details	FY 2024/25	1st July 2024
	Kshs	Kshs
Local Currency Accounts		
Co-operative Bank of Kenya – GOK Account [A/c No. 01141532868705]	175,841	1,052,725
Co-operative Bank of Kenya – Donor Account [A/c No. 011417563225800]	32,881,809	653,452
KFS CFC Murang'a GZDSP Donor A/C	69,444	-
Total bank account balances	33,127,095	1,706,177

13. Prepayments

Description	FY 2024/25	1st July 2024
	Kshs	Kshs
Fuel	150,000	2,820,000
Training	909,347	1,507,155
Other prepayments		10,384,091
Total prepayments	1,059,347	14,711,246

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Notes to the financial statements

14. Property, Plant and Equipment

Cost	Buildings and structures	Motor vehicles	Office Furniture and Equipment	ICT Equipment	Other Machinery and Equipment	Perimeter Fences	Capital works in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Depreciation rate	5%	25%	20%	33.33%	10%	12.50%		
As At 1 July 2024 (opening balances)	108,641,946	363,511,718	14,534,861	19,254,051	66,450,000	2,662,500	206,005,336	781,060,4
Additions	-	14,004,311	2,017,274	814,655	-	-	351,560,243	368,396,4
Disposals	-	-	-	-	-	-	-	-
Transfers/Adjustments	80,450,155	-	-	-	-	-	(80,450,155)	-
As at 30th June 2025	189,092,102	377,516,029	16,552,135	20,068,706	66,450,000	2,662,500	477,115,423	1,149,456,8
Depreciation And Impairment								
As at 1 July 2025	4,197,184	211,353,232	5,758,394	9,157,338	18,332,918	13,960	-	248,813,6
Depreciation charge for the year	5,386,301	62,335,904	2,756,816	3,508,592	6,312,750	316,172	-	80,616,6
Impairment loss		-	-	-	-	-	-	-
Transfers/Adjustments		-	-	-	-	-	-	-
As At 30th June 2025	9,583,485	273,689,136	8,515,210	12,665,930	24,645,668	330,131	-	329,429,6
Net Book Values								
As at 1st July 2024	104,444,762	152,158,486	8,776,467	10,096,713	48,117,082	2,648,540	206,005,336	532,247,;
As at 30th June 2025	179,508,617	103,826,893	8,036,925	7,402,777	41,804,332	2,332,369	477,115,423	820,027,;

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Notes to the financial statements

15. Trade and Other Payables

Description	FY 2024/25	1st July 2024
	Kshs	Kshs
Trade payables	290,700	-
Employee payables	5,723,003	-
Other payables		13,130,000
Total trade and other payables	6,013,703	13,130,000

Ageing analysis: (Trade and other payables)	Current FY	% of the Total	Comparative	% of the
			FY	Total
Under one year	6,013,703	100%	13,130,000	100%
1-2 years	-	0%	-	0%
2-3 years	-	0%	-	0%
Over 3 years	-	0%	-	0%
Total	6,013,703		13,130,000	

16. Third-Party Deposits

Description	FY 2024/25	1st July 2024
	Kshs	Kshs
Contractor's Retention	45,252,392	3,574,125
Total deposits	45,252,392	3,574,125

Ageing analysis: (Third party deposits)	Current FY	% of the Total	Comparative	% of the
			FY	Total
Under one year	43,869,712	97%	3,574,125	100%
1-2 years	1,382,680	3%	-	0%
2-3 years	-	0%	-	0%
Over 3 years	-	0%	-	0%
Total	45,252,392		3,574,125	

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Notes to the financial statements

17. Deferred Income

Description	FY 2024/25	1st July 2024
	Kshs	Kshs
African Development Bank/Fund Loan	32,881,809	-
Total Deferred Income	32,881,809	-

The Project recognises deferred income on revenue to the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. The Project therefore defers any amounts unspent in the Project main bank account.

Deferred Income Movement Schedule

	ADB	Total
	Kshs	Kshs
Balance as at 1st July 2024	653,452	653,452
Additions	32,228,357	32,228,357
Transfers To Performance Statement as Revenue	-	-
Balance as at 30th June 2025	32,881,809	32,881,809

18. Cash Generated from Operations

Description	FY 2024/25
	Kshs
Surplus/Deficit for the year	238,105,188
Adjusted for:	
Depreciation	80,616,535
Non-cash grants received	
Impairment	-
Gains and losses on disposal of assets	-
Working capital adjustments	
Increase in prepayments	13,651,899
Increase in deferred income	32,881,809
Decrease in payables	(7,116,297)
Increase in third party deposits	41,678,267
Net cash flow from operating activities	399,817,401

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Notes to the financial statements

19. Special Deposit Accounts

The balances in the Project's Special Deposit Account 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.

Special Deposit Accounts Movement Schedule

Description	FY 2024/25	1st July 2024
	EUR	EUR
(i) Green Zones Development Support Project [A/c No. 1000416017		
Opening balance	242,065	242,065
Total amount deposited in the account	7,506,356	-
Total amount withdrawn	(7,025,768)	-
Closing balance (as per SDA bank account reconciliation attached)	722,653	242,065

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Notes to the financial statements

20. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

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

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 2024/25
	Kshs
A) Transactions with related parties	
a) purchases from related parties	
Purchases of electricity from Kenya Power	2,255,412
Purchase of water from govt service providers	1,065,664
Training expenses from government institutions	1,731,836
Total	5,052,912

21. Events after the Reporting Period

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

22. Ultimate And Holding Entity

The Project is implemented by the Kenya Forest Service which is a State Corporation/ or a Semi-Autonomous Government Agency under the Ministry of Environment, Climate Change and Forestry. Its ultimate parent is the Government of Kenya.

23. Currency

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

*Green Zones Development Support Project - Phase II
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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:
Report on Lawfulness and Effectiveness in use of Public Resources				
1	<p>Failure to Achieve Project Performance Objectives</p> <p>During the year under review, the project was supposed to achieve set objectives as per the approved work plan. Other than the raising of the indigenous tree seedlings which surpassed the set target, many of the objective achievements were at 79% and 56%. This performance objective rates indicates an under absorption of project funds in line with the project lifeline which comes to an end in June, 2026.</p> <p>As per the GZDSP II project funding summary for the years 2019/2020 to 2023/2024, the project cycle estimates were Kshs.4,590,000,000 against the printed estimates of Kshs.3,863,000,000 resulting to budget under-funding of Kshs.727,000,000. Further, for the same period, the donor has disbursed an</p>	<p>Management concurs with the observation that the project has not been able access funds from the African Development Bank component commensurate with projections provided in the project appraisal document leading to under-absorption of the Project funds. The main reason for this is the restrictive annual budget ceilings in the previous printed estimates, which is much less than the project funding cycle as contained in the Project Appraisal Document and Detail Cost Table.</p> <p>This has since been remedied as below;</p> <ul style="list-style-type: none"> - Conducted a mid-term review that evaluated, aligned and consolidated activities with a view to fast-tracking project 	Resolved	June 2025

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe:
	<p>amount of Kshs.2,981,235,482 against receipts/disbursement to the project amount of Kshs.2,878,680,309 resulting to withheld funding by the Central Bank of Kenya of Kshs. 102,555,173. Out of the funds withheld, an amount of Kshs.33,614,513 is for the year under review. These funds have not been disbursed or accounted for.</p> <p>In the circumstances, failure to disburse the project funds already disbursed by the donor, is a breach of the financing agreement and is an impediment to the project achieving its objectives.</p>	<p>implementation in the remaining period.</p> <ul style="list-style-type: none"> - Sought and was granted a no-cost extension to 30th June 2026 to enable completion of the project activities. <p>Management further clarifies that the only amount that had been released by the Donor but was remaining in the Central Bank of Kenya Special Deposit Account as at 30 June 2024 is EUR 242,064.56 (Kshs. 34,450,676.55) as indicated in Note 7 of the financial statements (Special Deposits Accounts). These funds were availed for the Project's utilization in the subsequent financial year 2024-2025</p>		
2	<p>Failure by the Project Steering Committee (PSC) to meet its Obligatory Responsibility</p> <p>Annex B.3 Implementation Arrangements of the Kenya Green Zones-2 project-PAR Technical Annexes dated April, 2018 states that; at the National level, a Project Steering Committee (PSC) would be established to oversee project implementation. The main task would be to</p>	<p>The project steering committee convenes to approve the project annual workplan and budget as well as conduct a field visit to review the projects achievements. The steering committee recommended that it conducts these two action points concurrently whereby they conduct the field visit during which they also hold a</p>	Resolved	June 2025

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe:
	review and approve the project's annual work plans and related budget to ensure adherence to project development objectives. It further states that the PSC will also monitor performance of the project and advise it on policy issues to ensure adherence to project development objectives and also provide guidance to project management and resolve problems that might arise during project implementation. The minutes provided for audit indicated that, the Project Steering Committee last met on 09 June, 2023. However, in the year under review, the committee did not meet as mandated and therefore, it was not possible to ascertain how project work plans and related budgets were reviewed and how monitoring and implementation of project objectives were done. In the circumstances, Management was in breach of the law.	meeting approving the workplan and budget. Therefore, the project steering committee conducted a field verification visit in June 2023 and approved the financial year 2023/2024 project workplan and budget. The meeting to approve the financial year 2024/2025 which ought to have been held in June 2024 was however held in August 2024. This was mainly caused by the withdrawal of the Kenya Finance Bill 2024 in late June which had the effect of delaying the budget process across government.		
3	Low Absorption of Funds and Undrawn Balances The Government signed an agreement for a loan from Africa Development Bank and Africa Development Fund for combined amount of	We concur that the project has not been able access funds from the African Development Bank component commensurate with projections provided in the project appraisal document leading	Resolved	June 2025

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe:
	<p>Kshs.4,999,742,000 and counterpart funds of Kshs.498,508,000 from the Government of Kenya out of which only Kshs.3,332,597,179 had been received as at 30 June, 2024 resulting to undrawn balance of Kshs.2,165,652,821 leading to low absorption of funds. However, the project is expected to be completed by 30 June, 2025.</p> <p>In the circumstances, there is risk of lack of absorption, posing risks that the project's timelines would end without implementing all the planned activities and therefore not meeting all the projects' objectives.</p>	<p>to under-absorption of the Project funds. The main reason for this is the restrictive annual budget ceilings in the previous printed estimates, which is much less than the project funding cycle as contained in the Project Appraisal Document.</p> <p>To address this, 'no-cost extension' in order to mitigate on the previous restrictive budget ceilings. This will provide ample time for execution of remaining project activities.</p>		

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A. L. Lemarkoko EBS, 'ndc' (K)
Chief Conservator of Forests

.....
Alfred Kurgat
Project Manager

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Annex 2: Reconciliation of inter-entity transfers

PROJECT NAME: GREEN ZONES DEVELOPMENT SUPPORT PROJECT – PHASE II				
Break down of Transfers from the State Department Forestry				
	Description	Bank Statement Date	Amount (KShs)	FY
a.	Government Counterpart Funding			
			-	
	Total		-	
b.	Donor Funding			
	State Department of Forestry - ADB	02-Sep-24	34,450,676	2024/2025
	State Department of Forestry - ADB	05-Nov-24	465,549,323	2024/2025
	State Department of Forestry - ADB	24-Dec-24	29,806,323	2024/2025
	State Department of Forestry - ADB	01-Apr-25	268,501,726	2024/2025
	State Department of Forestry - ADB	19-Jun-25	200,594,569	2024/2025
	Total Transfers		998,902,617	
	Less: Amount deferred under deferred income.		(32,228,357)	
	Total Amount recognized to Statement of Financial performance		966,674,260	
c.	Direct Payments			
	Oshkosh Consulting Limited		3,743,400	2024/2025
	Tyrell Agencies		2,429,400	2024/2025
	Oshkosh Consulting Limited		4,991,200	2024/2025
	Kiyai Investment Limited		3,423,198	2024/2025
	Three Eight Mining		6,974,608	2024/2025
	Noble Construction Limited		15,566,297	2024/2025
	Getrans Solutions Limited		11,521,683	2024/2025
	Flonic General Supplies and Contractors Limited		15,803,640	2024/2025
	Royal Business Empire Limited		13,162,397	2024/2025
	Kiyai Investment Limited		13,728,250	2024/2025
	Mount Royal		13,768,850	2024/2025
	Eddys Engineering Limited		12,726,385	2024/2025
	Getrans Solutions Limited		10,495,791	2024/2025
	Helios Construction Limited		4,821,595	2024/2025
	Isuzu East Africa Limited		14,004,311	2024/2025
	Geoscintex		4,440,745	2024/2025
	Seya Global		21,100,637	2024/2025
	Almadaar Trading Company		24,313,397	2024/2025
	Kilowatt Engineering Solution Limited		1,294,784	2024/2025

	Description	Bank Statement Date	Amount (KShs)	FY
	Belfast Engineering Works Limited		14,491,776	2024/2025
	Mount Royal Limited		21,980,732	2024/2025
	Getrans Solutions Limited		6,554,453	2024/2025
	Tyrell Agencies		3,239,200	2024/2025
	Royal Business Empire Limited		3,968,157	2024/2025
	Eddys Engineering Limited		3,337,244	2024/2025
	Almadaar Trading Company		18,663,589	2024/2025
	Teckmack Global Engineering		1,847,624	2024/2025
	Three Eighty Mining		15,693,054	2024/2025
	Texplast		48,000,000	2024/2025
	Texplast		45,000,000	2024/2025
	Texplast		45,000,000	2024/2025
	Trisol Engineering Limited		9,419,307	2024/2025
	Noble Construction Limited		18,077,507	2024/2025
		Total	453,583,211	
		TOTAL(a+b+c)	1,420,257,471	

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

Alfred Kurgat
Project Manager

Sign

CPA Anastasia Muasya
Manager, Finance and Accounting
Kenya Forest Service

Sign

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Annex 3: Fixed Asset Register

Asset class	Opening Cost	Donations in form of assets	*Purchases/ Additions in the Year	**Disposals in the Year	Transfers in/(out)	Closing Cost
	2024/2025	2024/2025	2024/2025	2024/2025	2024/2025	2024/2025
	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.
	(a)	(b)	(c)	(d)	(d)	(e)= (a)+ (b)+(c)- (d)+(-d)
Buildings and structures	108,641,946		-		80,450,155	189,092,102
Transport equipment	363,511,718		14,004,311			377,516,029
Office equipment, furniture and fittings	14,534,861		2,017,274			16,552,135
ICT Equipment,	19,254,051		814,655			20,068,706
Other Machinery and Equipment	66,450,000		-			66,450,000
Perimeter Fences	2,662,500		-			2,662,500
Work in Progress	206,005,336		351,560,243		(80,450,155)	477,115,423
Total	781,060,413	-	368,396,483	-	-	1,149,456,896



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