

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON KENYA INSTITUTE OF HIGHWAYS AND BUILDING TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2025 – STATE DEPARTMENT FOR ROADS**

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### **PREAMBLE**

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

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying transitional IPSAS financial statements of Kenya Institute of Highways and Building Technology set out on pages 1 to 22, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows

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*Report of the Auditor-General on Kenya Institute of Highways and Building Technology for the year ended 30 June, 2025 - State Department for Roads*

and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the transitional IPSAS financial statements present fairly, in all material respects, the financial position of Kenya Institute of Highways and Building Technology at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards Accrual Basis (including the transitional provisions permitted under IPSAS 33) and comply with Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No.3 of 14 April, 2025.

### **Basis for Qualified Opinion**

#### **1. Unsupported Trade and Other Payables from Exchange Transactions**

The statement of financial position and as disclosed in Note 15 to the financial statements reflects trade and other payables balance of Kshs.31,035,818. However, the balance was not supported by customer account statements detailing all the invoiced amounts, payments received and the account balance as at 30 June, 2025. Further, payables ageing analysis was not provided for audit review.

In addition, Management had not developed and implemented creditors' policy giving direction on how to handle different categories of trade creditors.

In the circumstances, the accuracy and completeness of trade and other payables from exchange transactions balance of Kshs.31,035,818 could not be confirmed.

#### **2. Non-Compliance with the Public Sector Accounting Standards Board (PSASB) Financial Statement Template**

Review of the financial statements revealed that receivables from exchange transactions -student debtors balance of Kshs.36,502,646 as disclosed in Note 13 to the financial statements is not supported by age analysis.

Further, the statements of financial position did not disclose stock (inventory). Although Management indicated that there were no stocks in the year under review, no Board of Survey report was provided in support to this position.

In the circumstances, Management was not in compliance with the PSASB presentation template.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Institute of Highways and Building Technology Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of

financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Information**

The Management is responsible for the Other Information set out on page iii to xxvi which comprise of Key Institute's Information and Management, The Board of Management, Management Team, Chairperson's Statement, Report of the Director, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Report of Project Implemented and Inter-Entity Transfers, Report of the Board, Statement of Board Members' Responsibilities, Environmental and Sustainability Reporting. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Institute's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing 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**

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

# REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effect of the matters 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

### 1. Inactive Oversight Committees of the Board of Management

Review of the Institute's Board records revealed that, the institution has five oversight committees namely; Finance and Human Resource Committee, Audit and Risk Committee, Education, Training and Research Committee, Full Board of Management and Academic Board. However, Committee minutes showing committees' activities were not provided for audit. Further, the Institute, operated without an Audit Committee during the year under review.

Further, review of Board records/ meeting minutes revealed that only one board meeting was held during the year under review, contrary to the requirement Mwongozo code governance of at least four meetings in a year.

In the circumstances, the effectiveness of internal controls on oversighting of the Institute's operations could not be confirmed.

### 2. Lack of Key Management Policies and Staff Establishment

The Institute did not prepare and implement an ICT policy to guide digital technology. An ICT policy would give guidance on how to ensure confidentiality, integrity and availability of the entity's data. The Institute did not have a Risk Management Policy, contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 that provides that the Accounting Officer shall ensure that the National Government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

Further, review of Human Resource records revealed that the Institute did not have an authorized staff establishment as required under Section B5 (2) of the PSC HR Manual.

In the circumstances, the existence of an effective mechanism of risk assessment and mitigation, ICT guidelines and management of staff 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.

### **Responsibilities of the Management and the Board of Management**

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 Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Management is responsible for overseeing the Institute'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

19 December, 2025