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REPORT OF THE AUDITOR-GENERAL ON KENYA ROADS BOARD FOR THE YEAR ENDED 30 JUNE, 2025

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 financial statements of Kenya Roads Board set out on pages 3 to 40, which comprise of the statement of financial position as at 30 June, 2025 and the statement of statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial position of Kenya Roads Board 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 comply with the Kenya Roads Board Act, 1999 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variances in Inter-Agencies Balances on Fuel Levy

The statement of financial performance and Note 8 to the financial statements reflects levies, fines and penalties balance of Kshs.104,839,534,000 which includes fuel levy balance of Kshs.114,599,231,000, transit tolls of Kshs.1,913,155,000 and is net of Kshs.11,672,802,000 paid towards settlement of securitized fuel levy to the buyer. However, review of the Kenya Revenue Authority (KRA) records revealed that the Authority reported fuel levy balance of Kshs.114,377,788,119 resulting to unexplained and unreconciled variance of Kshs.221,442,881. The two balances were not reconciled.

In the circumstances, the accuracy and completeness of the fuel levy balance could not be confirmed.

2. Variances in Inter-Agencies Balances on Fuel Securitization

On 25 February, 2025, the Board signed a Tripartite Receivables, Sale and Purchase Agreement with a Private Entity (as a buyer) and a Bank (as a facility agent and security trustee) for sale of Kshs.7 (approximately 28%) of fuel levy the duration of the agreement was for ten (10) years for a consideration of Kshs.174,406,737,662, as detailed in Schedule 2 of the agreement. The proceeds from the sale of the Kshs.7 portion of fuel levy were to be applied to settle pending bills at the Roads Agencies.

As at 30 June, 2025, the Buyer had only remitted an amount of Kshs.69,419,244,441 instead of the full contract amount of Kshs.174,406,737,662 as required by the agreement. As at 30 June, 2025, the pending bills in the Roads Agencies were yet to be settled as follows:

Road Agency	Pending Bills (Kshs.)	Amount Disbursed by KRB (Kshs.)	Amount Cleared (Kshs.)	Outstanding Balance As per the Financial Statements (Kshs.)
Kenya National Highways Authority (KeNHA)	89,948,141,000	31,585,994,000	Not Available	82,366,719,000
Kenya Rural Roads Authority (KeRRA)	69,147,794,000	27,527,809,000	Not Available	60,406,894,000

Road Agency	Pending Bills (Kshs.)	Amount Disbursed by KRB (Kshs.)	Amount Cleared (Kshs.)	Outstanding Balance As per the Financial Statements (Kshs.)
Kenya Urban Roads Authority (KURA)	13,773,111,000	5,023,552,000	4,673,120,000	11,366,784,000
TOTAL	**172,869,046,000**	**64,137,355,000**	**4,673,120,000**	**154,140,397,000**

The statement of financial performance and Note 9 to the financial statements reflects securitization proceeds balance of Kshs.174,406,738,000. Review of records revealed securitization disbursements balance of Kshs.64,137,356,000 which includes disbursements to Kenya National Highways Authority (KeNHA), Kenya Urban Roads Authority (KURA) and Kenya Rural Roads Authority (KeRRA) balances of Kshs.31,585,994,307, Kshs.5,023,551,870 and Kshs.27,527,809,477, respectively. However, corroboration of the respective Roads Agencies' records revealed that KeNHA, KURA and KeRRA each received disbursement of Kshs.29,000,000,000, Kshs.4,673,119,662 and Kshs.27,004,508,000 respectively, all totalling Kshs.60,577,627,662, resulting to an unexplained variance of Kshs.2,585,994,307, Kshs.350,432,208 and Kshs.523,301,477 respectively, all totalling Kshs.3,459,727,992. Except for KURA, which has reconciled their accounts with the KRB, Management of KeNHA and KeRRA had not reconciled the two sets of accounts.

It is noted that the entities continued to accumulate additional pending bills subsequent to the securitization of the fuel levy. The change in the funding model was aimed at ensuring that the pending bills were fully cleared. However, full details of the realization of the reduction of the new funding model were not provided by the date of completion of the audit. A special audit will be conducted to determine the arrangements in discharging the pending bills, including funding, compliance with laws and regulations and value for money in achievement of the intended purpose.

In the circumstances, the accuracy and completeness of the inter-agencies' securitization balances could not be confirmed.

3. Unaccounted for Proceeds from Securitization

The statement of financial performance and Note 9 to the financial statements reflects securitization proceeds balance of Kshs.174,406,738,000 which includes actual received securitization proceeds amount of Kshs.69,409,975,000. However, review of records revealed that securitization disbursements of Kshs.64,137,356,000 were transferred to various road agencies resulting to undisbursed securitization proceeds of Kshs.5,272,619,000. Management stated that the undisbursed securitization proceeds balance was as a result of the road agencies not making the cash requisitions for disbursements. However, no records were provided to support the cash disbursements made to the road agencies.

Further, the pending bills which were to be paid from the securitization proceeds, the amount paid on the pending bills, the outstanding pending bills and the returns from the road agencies on the pending bills were not provided for audit.

In the circumstances, the accuracy and completeness of the inter-agencies' securitization balances could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Roads Board 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 effect of the matters 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 Matter

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Board's in 2024/2025 revealed that the following six (6) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Avoidable Cost on Performance of Technical, Financial and Performance Audits.
2	2023/2024	Unapproved Allocation of Funds Under the 10% Road Maintenance Levy Fund
3	2023/2024	Unapproved Road Sector Investment Programme
4	2023/2024	Non-Implementation of all Enterprise Resource Planning System Modules
5	2023/2024	Inadequate Staff Establishment
6	2023/2024	Establishment of Regional Offices

Review, of issues during the 2024/2025 audit revealed that the issues remained unresolved.

Other Information

Management is responsible for the Other Information set out on page iv to Lv which comprise of Key Board Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Director General, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Disbursement of Funds to the Road Agencies Through the State Department for Roads

The statement of financial performance reflects transfers to other Government entities amounting to Kshs.145,617,211,000 which, as disclosed in Note 11 to the financial statements was allocated to various Road Agencies, County Governments, Ministry/State Department for Roads and the Road Annuity Programme. However, it could not be confirmed whether the allocations were derived from the Five-Year Road Investment Programme approved by the Minister responsible for roads and the Minister for Finance.

Further, review of the bank statements revealed that the funds were transferred to the State Department for Roads for onward transfer to the various Roads' Agencies and Institutions. Management did not provide explanation for the failure to transfer the funds directly to the respective Agencies, which in turn should have made acknowledgements directly to the Kenya Roads Board. Further, it was noted that release of funds through the State Department for Roads delays receipt by the Road Agencies in the implementation of roadworks.

In the circumstances, value for the delay in disbursement of funds could adversely affect the effectiveness and efficiency in delivery of service to the public.

2. Non-Compliance with Persons with Disability Act, 2003

Review of the Board's staffing revealed that out of one hundred and seventy-six (176) employees, only two (2) are persons with disabilities. This representation falls significantly short of the 5% quota mandated by the Persons with Disabilities Act, 2003, which requires that at least 5% of the workforce comprise qualified individuals with disabilities. This raises serious concerns regarding the Board's commitment to inclusivity and its compliance with legal requirements, undermining efforts to promote diversity and equal opportunity in employment practices. This was contrary to Section 13 of the Persons with Disabilities Act, 2003 states that employers are required to reserve at least 5% of all jobs in both the public and private sectors for persons with disabilities.

In the circumstances, Management was in breach of the law.

3. Failure to Prepare and Submit the Fund's Financial Statements

Review of documents revealed that since financial year 2021/2022, Management has been preparing and submitting combined financial statements of the Fund and Board to the Auditor-General. The financial statements submitted reflected revenue from levies, fines and penalties, the disbursements to the road agencies and the Boards expenditure, assets and liabilities. However, it was noted that the Board did not actually prepare and submit the financial statements of the Kenya Roads Board Fund consolidating all the returns from the respective implementing road agencies. In addition, there were no returns from the respective implementing road agencies. This was contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements should be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

In the circumstances, Management was in breach of the law.

4. Failure to Prepare and Submit Financial Statements for Staff Car Loan and Mortgage Scheme

The statement of financial position, statement of changes in net assets and Note 25 to the financial statements reflects KRB Staff Funds balance of Kshs.424,649,000 in respect of KRB staff car loan and KRB mortgage scheme staff fund balances of Kshs.58,736,000 and Kshs.365,913,000 respectively.

However, separate financial statement had not been prepared and submitted for audit. This is contrary to the Salaries and Remuneration Commission Circular REF.SRC/ADM/CIR/1/13 Vol. III dated 17 December, 2014 on car loan and mortgage schemes for State Officers and other Public Officers of Government of Kenya and section 47(1) of the Public Audit Act, 2015.

In the circumstances, Management was in breach of the law.

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 and based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on the 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

Inadequate Staffing

During the year under review, the Board had one hundred and seventy-six (176) in post employees against a staff establishment of two hundred and twenty-two (222) resulting to understaffing by forty-six (46).

In the circumstances, the understaffing may significantly undermine the Board's ability to fulfill its mandate effectively and efficiently.

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 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 Board'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 Director's is responsible for overseeing the Board's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 December, 2025