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Enhancing Accountability

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REPORT OF THE AUDITOR-GENERAL ON KENYA RURAL ROADS AUTHORITY 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 Rural Roads Authority set out on pages 1 to 37 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 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Rural Roads Authority 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 Act, 2007 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Receivables

The statement of financial position and as disclosed in Note 20 to the financial statement reflects receivables from non-exchange transaction balance of Kshs.1,332,102,000. The amount includes other receivables balance of Kshs.1,217,247,000. However, review of receivables records revealed a credit balance of Kshs.13,543,727 which has the effect of reducing the amount receivable. The setting-off creditors against receivable is contrary to provisions of IAS 1 Paragraph 32 that prohibit set-off.

In the circumstance, the accuracy and completeness of other receivables balance of Kshs.1,217,247,000 could not be confirmed.

2. Variances in Inter-Agencies Balances on Fuel Securitization

The statement of financial performance reflects Road Maintenance Levy Fund balance of Kshs.21,174,904 which, as disclosed in Note 6 to the financial statements is net of an amount of Kshs.27,004,508,000 in respect of receipts from proceeds of the securitization facility by the Kenya Roads Board (KRB). However, corroboration of the recorded balance maintained in the KRB financial statements reflects disbursement to the Authority of Kshs.27,527,809,000 resulting to an unexplained variance of Kshs.523,301,000.

Further, details of the pending bills that were earmarked for settlement through the proceeds from the securitization fund were not provided for audit and hence it was not possible to establish the extent of settlement of the pending bills with the proceeds from the securitization funding model.

In addition, there was no documentation to show the total admitted pending bills for the Authority as at 31 December, 2024(cut off the month) for settlement using the proceed from securitization and the balance to be settled when full disbursement of the securitization proceeds is received.

In the circumstances, the accuracy and completeness of the funds from 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 Rural Roads Authority 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.

Emphasis of Matter

1. Long Outstanding Payables from Exchange Transactions

The statement of financial position and as disclosed in Note 25 to the financial statements reflects payables balance of Kshs.60,581,133,000 which comprised of current and non-current payables amounts of Kshs.52,722,263,000 and Kshs.7,858,869,000 respectively. However, review of the liabilities' records revealed that the payables decreased by Kshs.16,998,674,000 or 22% of total outstanding amount from the balance Kshs.77,579,807 reported in the previous year. Failure to settle payable when due distorts budget for the succeeding year as they form first charge.

2. Long Outstanding Receivable

The statement of financial position and as disclosed in note 20 to the financial statements reflects a balance of Kshs.19,604,744,000 in respect receivables from exchange transactions balance which has been outstanding for more than three (3) year. However, Management had not developed a credit policy to guide on treatment of long outstanding receivable. The recoverability of the receivable balance of Kshs.19,604,774,000 could not be confirmed.

My opinion is not modified in respect of these matters

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 are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior year audit report, several issues were raised under the Basis for Qualified Opinion, Emphasis of matter and Report on Lawfulness and Effectiveness in the Use of Public Resources. Review of the status during audit of the Authority in 2024/2025 revealed that the following five (5) issues remained unresolved:

NO.	Financial Year	Audit Issue
1	2023/2024	Inaccuracy in property, plant and equipment
2	2023/2024	Long Outstanding Payables from Exchange Transaction
3	2023/2024	Under-Utilization of ERP System in Operation
4	2023/2024	Delayed Road works
5	2023/2024	Non-compliance with Third Basic Salary Rule

Other Information

Management is responsible for the Other Information set out on page v to li which comprise of Key Authority's 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 and 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 Fund's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the 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. Delayed Completion of Road Works

Review of project records revealed that the Authority has one hundred and thirty-six (136) ongoing projects. However, the latest progress report showed two projects, Kadel - Kanyadhiang' Centre - Kilosi - Opanga - Ramba, Kadongo - Got Rateng' - Kawuor Market - Linda Roads-Phase 2 the (RWC 656) and Kakamega- Navakholo-Musikoma(C41/C777) Road (RWC 661) which appears not to have started. Management did not provide an explanation for this unsatisfactory situation. Further, the report revealed that forty-three (43) projects with a total contract sum of Kshs.69,406,339,571 and with commencement dates ranged between April, 2020 and October, 2022 with certified works amount of Kshs.1,163,643,188 were behind scheduled time. Management explained that out of certified amount, an amount of Kshs.469,721,270 had been paid leaving balance Kshs.693,921,918 unpaid, resulting to slow progress of work.

In addition, forty-seven (47) projects under performance based routine maintenance were at 100% completion with contract sum of Kshs.95,721,133,880. The progress report showed that certified payments totaled Kshs.83,300,158,832 with Kshs.68,884,853,066.56 having been paid as at June, 2025 leaving a balance of Kshs.13,188,431,927 unpaid despite works having been completed. Further, delayed settlement of pending bills may attract avoidable interest penalties.

In the circumstances, value for money already incurred on incomplete projects could not be confirmed.

2. Non-Compliance with Third Basic Salary Rule

The statement of financial performance and as disclosed in Note 14 to the financial statements reflects an amount of Kshs.2,836,247,000 in respect of employee costs. Review of the Authority's monthly payrolls revealed that various staff members earned basic salaries below a third of their basic salary as analyzed below:

Months	Basic Salaries Kshs.	Net Salaries Kshs.	1/3 Basic Salaries Kshs.	Variance Kshs.
July 2024	8,741,600.00	2,467,145.75	2,913,866.67	(446,720.92)
August 2024	6,302,900.00	1,746,735.98	2,100,966.67	(354,230.69)
September 2024	6,928,700.00	1,946,209.34	2,309,566.67	(363,357.33)
October 2024	16,901,900.00	4,997,475.22	5,633,966.67	(636,491.45)
November 2024	15,407,900.00	4,531,708.54	5,135,966.67	(604,258.13)
December 2024	16,569,700.00	4,922,745.49	5,523,233.33	(600,487.84)
January 2025	7,482,000.00	2,084,017.80	2,494,000.00	(409,982.20)
February 2025	12,282,900.00	3,632,391.54	4,094,300.00	(461,908.46)
March 2025	10,978,700.00	3,239,300.42	3,659,566.67	(420,266.25)
April 2025	10,637,000.00	3,158,795.92	3,545,666.67	(386,870.75)
May 2025	10,688,700.00	3,195,141.42	3,562,900.00	(367,758.58)

This was contrary to Part III Section C.1 (3) of the PSC Human resource policies and procedures manual (2016).

In the circumstances, Management was in breach of Public Service Human resource policy.

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 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

Understaffing of the Staff Establishments

Review of human resource records revealed that the Authority has an approved staff establishment of one thousand two hundred and nine (1209) members of staff. However, the Authority had only five hundred and nineteen (519) in- post at 30 June, 2025 resulting to staff shortfall of six hundred ninety (690) or 57% of the establishment. The understaffing may affect service delivery as result of worked overload to existing staff members.

In the circumstances, effectiveness of the overloaded work force 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 Directors

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 Authority'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 Directors is responsible for overseeing the Authority'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