

REPUBLIC OF KENYA



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**OF**

**THE AUDITOR-GENERAL**

**ON**

**ROADS ANNUITY FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2023**

**STATE DEPARTMENT FOR ROADS**






## ROADS ANNUITY FUND

# ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE 2023

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

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## 1. Acronyms and Glossary of Terms

### Acronyms

ICPAK	Institute of Certified Public Accountants of Kenya
KeRRA	Kenya Rural Roads Authority
KRB	Kenya Roads Board
KURA	Kenya Urban Roads Authority
CBK	Central Bank of Kenya
IPSAS	International Public Sector Accounting Standards
FY	Financial Year
IEK	Institution of Engineers of Kenya
KBA	Kenya Bankers Association
KeNHA	Kenya National Highways Authority

### Glossary of Terms.

**Annuity** - The Roads Annuity Fund was established under the Public Finance Management (Roads Annuity Fund) Regulations, 2015 to provide capital to meet the national government's annuity payment obligations for the development and maintenance of roads under the programme.

## 2. Key Entity Information and Management

### Background information

The Roads Annuity Fund was incorporated/ established under the Public Finance Management Act 2012: (Roads Annuity Fund) Regulations, 2015 on 2<sup>nd</sup> April 2015.

### Principal Activities

The primary objective and purpose of the Fund is to provide funds to meet the National Government's Annuity payment obligations for the development and maintenance of roads under the Annuity programme.

### Key Management

The Fund's day-to-day management is under the following key organs:

- Officer Administering the Fund
- Oversight Committee

### Fiduciary Management

The key management personnel who held office during the Financial Year ended 30<sup>th</sup> June 2023 and who had direct fiduciary responsibility were:

No.	Designation	Name	Contact
1.	Chairman	Dr. Chris Kiptoo, CBS – PS Treasury	chriskiptoo@treasury.go.ke
2.	Fund Administrator	Eng Joseph M. Mbugua - PS Roads	ps@roads.go.ke/mbugua@gmail.com
3.	Member	James Muhati - PS Economic Planning	ps@planning.go.ke
4.	Member	F CPA. Evans Moturi - ICPAK Representative	moturievans@gmail.com
5.	Member	Lilian Abishai - OAG Representative	lilian.abishai@ag.go.ke
6.	Member	Eng. Viviane Nyamwalo - IEK Representative	og.viviane@gmail.com
7.	Member	CPA Kennedy Mutisya - KBA Representative	kmutisya@kba.co.ke

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## **Roads Annuity Fund**

### **Annual Reports & Financial Statements for the year ended June 30, 2023.**

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#### **Fiduciary Oversight Arrangements**

The Annuity Fund is managed by the Road Annuity Oversight Committee that approves the annual Annuity Budgets financed from the Annuity Fund. The Annuity Fund is financed from annual appropriations in the printed budget as approved by Parliament.

#### **Our Contacts**

Telephone: (254) 0202723232

E-mail: [ps@roads.go.ke](mailto:ps@roads.go.ke)

Website: [www.transport.go.ke](http://www.transport.go.ke)

#### **Our Bankers**

Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000

City Square 00200

Nairobi, Kenya

#### **Independent Auditors**

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

#### **Principal Legal Adviser**

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

### 3. Oversight Committee Profiles

**Dr. Chris Kiptoo Muia, CBS, PS Treasury**

**Chairman**



Dr. Chris Kiptoo is the Principal Secretary, National Treasury. Dr. Kiptoo is the immediate former Principal Secretary, Ministry of Environment and Forestry. Prior he served as the Principal Secretary at the State Department of Trade, Ministry of Industry, Trade & Cooperative Accounting.

Dr. Chris Kiptoo holds a Doctor of Philosophy Degree (PhD) in Finance (International Macroeconomics Finance specialization) from the University of Nairobi, as well as a Master of Science (Ag. Economics) and Bachelor of Science (Ag. Economics) degree from Egerton University. He is also an Accredited Fellow in Macroeconomic Management Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI)

Dr. Kiptoo has acquired a rich wealth of experience in economic policy analysis, mainly gained at the Central Bank of Kenya, Capital Market Authority and the International Monetary Fund, where he has served in various capacities. His expertise especially relates to the design and implementation of monetary policy; balance of payments and exchange rates; fiscal operations and policy; financial sector matters including capital markets; national accounts/real sector and macroeconomic accounting, and modelling and forecasting.

**Eng Joseph Mungai Mbugua**

**Fund Administrator**



Eng. Joseph Mbugua is the Principal Secretary State Department of Roads. Prior to his appointment He was the Kenya Rural Roads Authority (KeRRA) Regional Director in Kiambu. He served in the same capacity in various regions in Kenya and also worked in the Ministry of Roads in various stations. As the Principal Secretary in charge of Roads, he is responsible for facilitating the development of National Roads Development Policies, Development Standardization and Maintenance of roads in the country, Materials Testing and Advice on Usage and quality of road construction, protection of road reserves, maintenance of security of roads and registration of Road Contractors. Under his purview, he also superintends over the Kenya Roads Board (KRB), Kenya National



Roads Authority (KeRRA), Kenya Institute of Technology, Kenya Institute of Highways and Building Technology (KIHBT) and Engineers Board of Kenya (EBK) and the Motor vehicle Department. Eng. Mbugua is a registered professional Engineer with Engineers Board of Kenya (EBK) and a Corporate Member of the Institution of Engineers of Kenya (MIEK). He holds a BSC in Civil Engineering from University of Nairobi. He is a Strategic Manager who has successfully risen in ranks to be a highly capable change-agent consistently refining and revitalizing strategies, initiating changes and facilitating solutions driven by team collaboration within the Public Sector. He is extensively trained in Strategic Leadership Development, Senior Management, Highway Development Management, Contract Management, Labour Based Road Construction and Maintenance, Quality Management Systems and Master Certificate in Project Management. He has valuable experience in policy formulation, planning, design, construction and management of projects and programs gained from his working experience in Public Service for over 30 years. He is an Executive Member of the Board of Management for Thogoto Teachers College, Moi Girls Kamangu Secondary School and Kikuyu Township Primary School.

**Mr. James Muhati**  
**Member**



Mr James Muhati is a member of the Road Annuity Oversight Committee and is the Principal Secretary, the State Department for Economic Planning in the National Treasury and Economic Planning. Mr. Muhati has over 25 years of experience in the public and private sectors working with multinational organizations to design and implement strategic plans and policies to maximize the organizations' competitiveness and provide greater opportunities for people. He has worked in the government, insurance, oil, and airline industries at executive and senior Leadership levels.

Mr. Muhati has led cross-cultural teams to deliver results in strategic economic planning, resource mobilization, financial governance, and innovative investments, while ensuring efficient and effective utilization of resources. He has also successfully led change management and the execution of complex projects across different organizations using a customer-centric approach.

A digital transformational leader, Mr. Muhati has a reputation for fostering a culture of innovation, data-driven and evidence-based decision-making by assisting organizations adopt digital technologies and strategies into their operations.

**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

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Mr. Muhati holds a Bachelor of Science degree in Mathematics and Statistics from Kenyatta University, a Post Graduate Diploma in Computer Science, and a Master of Science degree in Information Systems from the University of Nairobi. He has also undergone the Executive Development Program (EDP) training from Gordon Institute of Business Studies (GIBBS), South Africa. Mr. Muhati is a member of the Information Systems Audit and Control Association and the Computer Society of Kenya.

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**Lilian Abishai**  
**Member**



Ms. Lilian Abishai is a member of the committee and currently serves as a Deputy Chief State Counsel in the Office of the Attorney General and in the Department of Justice, Government Transactions Division for a period of thirteen (13) years. She has previously worked in several Civil Society Organisations in various capacities for a period of five (5) years.

She has expertise in a number of areas which include Contract Law, Private Public Partnerships, Public Procurement, International Procurement, Energy Law, Public Finance, Public Policy, Urban Reengineering, Competition Law, Arbitrations both national and International.

She is proficient in public service having undertaken a Senior Management Course and Strategic Leadership Development Program at the Kenya School of Government.

She holds a Postgraduate diploma in Law (Advocates Training Program), Kenya School of Law, a Bachelor of Laws (LLB) from the University of Nairobi. She is currently undertaking a Master of Laws in International Trade and Commercial Law at the University of Essex, UK

**FCPA Evans Moturi**

**Member**



FCPA. Evans Moturi is a member of the committee representing the Institute of Certified Public Accountants Kenya (ICPAK) with effect from February, 2023. He is a fellow certified Public Accountant, A certified Public Secretary, a certified Investment and financial analysts, an accredited Governance Auditor, and a professional mediator accredited with the high court of Kenya. He holds

Masters of Business Administration (strategic Management) and BSc. degree in international Business Administration (Accounting and Finance). He is a member of the institute of certified Public Accountant of Kenya, Institute of Certified Secretaries (ICS) and the institute of investment and financial analysts (ICIFA) He is a highly experienced expert in corporate governance and public finance management with over 38 years in the Public Sector both at operational and strategic level having served as a Finance Manager at the National Social Security Fund. He has immense experience as a member of various Board, a facilitator and as a company Secretary in various companies. He has been a member of Finance and strategy committee both for ICPAK and for ICIFA. Currently he is a member of ICPAK Public policy and Governance committee. He has been an assessor of champions of Governance Award (COGA) institutions on behalf of ICS. He is a former Member of Finance, Insurance, Real Estate, legal Services and Allied Agencies (FIR) committee for the National industrial training institute (NITA).

He has an in-depth understanding in strengthening corporate governance structures, formulating and implementing policies to enhance efficient management of institutions.

**CPA Kennedy Mutisya**  
**Member**



CPA. Kennedy Mutisya is a member of the committee representing the Kenya Bankers Association. (KBA) Mr. Mutisya was appointed to the position of Chief Finance Officer in December 2012. He is a seasoned professional with 20 years of experience rotating through multiple roles within the finance function in East Africa company controlling, project finance, treasury, financial planning and analysis. In his career he has worked in various industries, including banking, telecommunication, fast-moving consumer goods (FMCG) and insurance. He has held various positions, most recently Finance Manager at the Monarch Group of companies. He earned a Bachelor of Arts degree in Economics and Business Studies from Kenyatta University, and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK)

**Eng. Viviane Nyamwalo**  
**Member**



Eng. Viviane Nyamwalo is a member of the committee representing the Institution of Engineers of Kenya (IEK). She is a Professional Civil Engineer registered with the Engineers Board of Kenya (EBK) and has previously served as a member of the Welfare, Diversity and Inclusivity Committee at IEK for the year 2020/2022.

Eng. Viviane holds a Bachelor of Science Degree in Civil Engineering from the University of Nairobi and is currently pursuing a Master of Science Degree in Civil Engineering.

Eng. Viviane has over 15 years' experience in the management and development of urban roads, highways and structures. She has significant expertise in Project Lifecycle Management for civil engineering works; the Management of Public Private Partnerships (PPP's) for infrastructure development; Road Safety Auditing and mainstreaming; Risk Management as well as Monitoring and Evaluation of road projects.

## **Roads Annuity Fund**

### **Annual Reports & Financial Statements for the year ended June 30, 2023.**

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#### **4. Chairman's Statement**

The Roads Annuity Fund is managed under the Annuity Fund Regulations 2015. The Fund is governed through an Oversight Committee chaired by the Principal Secretary, National Treasury. The Officer Administering the Fund is the Principal Secretary responsible for Roads.

The Roads Annuity Programme was rolled out in the Financial Year 2016/2017 after the enactment of the Annuity Fund Regulations in the year 2015. Collections into the Annuity Fund started in the Financial Year 2015/2016 under the Finance Act 2015. Funding to the Annuity Fund is from the Fuel Levy funds at three shillings (Kshs.3) per litre. The initial target Km under the first phase of the Annuity Programme amounted to 465Km for various roads.

The Roads Annuity Fund was created as an alternative financing mechanism to help relieve pressure on the net GOK exchequer. Since the Financial Year 2007/2008, the Roads Sector experienced a phenomenal growth in terms of upgrading of roads to bitumen standards. During the same period, there was an exponential increase in terms of contractor capacity due to an influx of foreign contractors. Overtime, the output exceeded the available budgets leading to an accumulation of pending bills and the resultant costs. Coupled with the foregoing scenario, the Government adopted a policy of increasing the paved road network by an additional 10,000 kilometres from 2016/2017 over a five-year period. It was observed that the budgetary allocations would not be able to meet the demands for the roads sector.

The State Department through Kenya Rural Roads Authority (KeRRA) has completed the construction of Lot 33 (Ngong – Kiserian - Isinya and Kajjado – Imaroro) with a length of 91 kilometres and through Kenya Urban Roads Authority has commenced the Construction of Lot 15 (Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia) with a length of 45kms and Lot 18 (Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia) with a length of 35Kms. The commencement for lot 3 (Modogashe-Habaswein-Samatar and Rhamu-Mandera Roads-143 Km) and Lot 32 (Illasit – Njukini – Taveta Road-67Km) as earmarked delayed due to Delay in conclusion of requirements demanded at tail end of financial close by the Multilateral Investment Guarantee Agency (MIGA).

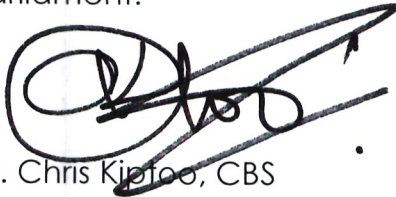
One of the responsibilities of the Roads Annuity Committee is to approve budgets for projects financed by the Annuity Fund. Inflows into the Fund are determined through the Annual National budget approved by Parliament.

**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

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Outflows from the Annuity Fund are approved by the Roads Annuity Oversight Committee. In the 2022/2023 Financial Year Parliament approved an inflow of **Kshs.1,590,000,000** under the 2<sup>nd</sup> Supplementary Budget. The Oversight Committee approved a budget outflow of **Kshs.7,681,000,000** from the Annuity Fund. The actual outflow from the fund over the Financial Year amounted to **Kshs.4,046,522,925** which was financed from accumulated collections from the fund. The reduced outflow was as a result of failure to commence implementation of Lot 32 (Illasit-Njukini) and Lot 3 (Modogashe-Habaswein-Samtar/Rhamu-Mandera Roads).

In the Financial Year 2022/2023 the Printed Annual Annuity Budget had a provision of **Kshs.10,990,000,000** which was reduced to **Kshs.1,590,000,000** in the Approved Supplementary Budget. The state Department Transferred to the Roads Annuity Fund Bank Account at the Central Bank of Kenya **Kshs.1,590,000,000** in the financial Year 2022/23 being the amount of the Annual Appropriated Budget by Parliament.



Dr. Chris Kiptoo, CBS

**Chairman Road Annuity Oversight Committee**  
**Principal Secretary/ National Treasury**

## **5. Report of the Fund Administrator**

The Roads Annuity Programme was rolled out in the Financial Year 2016/2017 after the enactment of the Annuity Fund Regulations in the year 2015. Collections into the Annuity Fund started in the Financial Year 2015/2016 under the Finance Act 2015. Funding to the Annuity Fund is from the Fuel Levy funds at three shillings (Kshs. 3) per litre. The initial target Km under the first phase of the Annuity Programme amounted to 465Km for various roads.

The State Department had earmarked the following roads for implementation under the Road Annuity Programme;

1. Lot 33: Ngong- Kiserian- Isinya- Kajjado- Imaroro
2. Lot 3: Modogashe-Habaswein-Samatar and Rhamu-Mandera Roads
3. Lot 32: Illasit – Njukini – Taveta Road
4. Lot 15: Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia
5. Lot 18: Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia

The State Department through Kenya Rural Roads Authority (KeRRA) has completed the construction of Lot 33 (Ngong – Kiserian - Isinya and Kajjado – Imaroro) with a length of 91 kilometres and the projects is now in the operational phase. Kenya Urban Roads Authority has commenced the Construction of Lot 15 (Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia) with a length of 45kms and Lot 18 (Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia) with a length of 35Kms. The commencement for lot 3 (Modogashe-Habaswein-Samatar and Rhamu-Mandera Roads-143 Km) and Lot 32 (Illasit – Njukini – Taveta Road-67Km) as earmarked delayed due to Delay in conclusion of requirements demanded at tail end of financial close by the Multilateral Investment Guarantee Agency (MIGA).

In the Financial Year 2022/2023 the Printed Annual Annuity Budget had a provision of Kshs.10,990,000,000 which was reduced to Ksh 1,590,000,000 in the Approved Supplementary Budget. The state Department Transferred to the Roads Annuity Fund Bank Account at the Central Bank of Kenya Ksh 1,590,000,000 been the financial Year 2022/23 appropriated budget by Parliament.

Over the 2022/2023 Financial Year the Annuity Fund had inflows and outflows as summarised below:

**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

<b>Description</b>		<b>Amount (Kshs.)</b>
	<b>Inflows</b>	
•	Opening Annuity Fund Bank Balance as at 1 <sup>st</sup> July 2022	20,134,400,186
•	Additions during the 2022/23	1,590,000,000
	<b>Total Fund Inflows</b>	<b>21,724,400,186</b>
	<b>Less Outflows</b>	
•	Remittances to National Treasury	(10,350,000,000)
•	Actual payments over the Financial Year 2022/2023	(4,046,522,925)
•	<b>Closing Annuity Bank balance as at 30<sup>th</sup> June 2023</b>	<b>7,327,877,261</b>

Eng. Joseph M Mbugua  
**Fund Administrator Road Annuity Oversight Committee**  
**Principal Secretary/ State Department of Roads**



## **6. Statement of Performance against Predetermined Objectives for 2022/2023**

Under the Kenya Vision 2030, Infrastructure is identified as one of the Key enablers (Foundations) under the Economic pillar. The Vision aspires to have a country firmly interconnected through a network of roads, railways, ports, airports, water and sanitation facilities and telecommunications.

The Ministry had five Key Result Areas (KRAs) within the 2018-2022 Strategic Plan themed seamless connectivity and Quality Built up Environment namely;

- Policy, Legal, Regulatory and Institutional Framework;
- Development of physical infrastructure and Facilities;
- Quality of Service, Safety and Security and Environmental Sustainability;
- Research and Innovation;
- Capacity Building in Institutional, Human, Technological and Financial

The strategic objective of the Development of Physical Infrastructure and Facilities pillar is to expand, modernize and maintain intergrated, efficient and sustainable transport systems with the key targets for the Road sector been expansion of the road network by construction/Rehabilitation of 10,000 Km of Roads.

The Road Annuity Programme was aimed at developing 10,000 km of new roads in order to increase the paved road network from the current 14,000 km to 24,000km. The roads identified for implementation through the Annuity Programme in various regions/ counties were packaged into lots for ease of tendering and contract administration.

The Cabinet at its Third Meeting held on March 2016 approved the implementation of five (5) Lots under the Road Annuity Programme with the approach intended to accelerate the development of the paved road network , lower project the life cycle costs and provide the Government with the opportunity to pay for the services over a period of time as well as spur socio-economic development through improved road transportation infrastructure, and enhance Kenya's economic growth and competitiveness in the region. The following are the status of the five (5) Lots under the Road Annuity Programme;

## Roads Annuity Fund

### Annual Reports & Financial Statements for the year ended June 30, 2023.

Programme	Lot	Description	Implementing Agency	Length (Km)	Status
Road Annuity Programme	33	Ngong- Kiserian- Isinya- Kajjado- Imaroro	KeRRA	91	Project 100% Complete and In Operations and Maintenance Phase
	15	Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia	KURA	45	Project at 69 % Complete
	18	Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia	KURA	35.3	Project at 80% Complete
	32	Illasit – Njukini – Taveta Road	KenHA	67	All conditions fulfilled. Awaiting commencement/restructuring
	3	Modogashe- Habaswein-Samatar and Rhamu-Mandera Roads	KenHA	143	Awaiting financial close
				<b>381.3</b>	

The Oversight Committee approved a budget outflow of **Kshs.7,681,000,000** from the Annuity Fund. The actual outflow from the fund over the Financial Year amounted to **Kshs.4,046,522,925** which was financed from accumulated collections from the fund. The reduced outflow was as a result of failure to commence implementation of Lot 32 (Illasit-Njukini) and Lot 3 (Modogashe-Habaswein-Samtar/Rhamu-Mandera Roads).

## Roads Annuity Fund

### Annual Reports & Financial Statements for the year ended June 30, 2023.

## 7. Corporate Governance Statement

The Road Annuity Oversight Committee was reconstituted following the transition from the Fourth Administration to the fifth Administration.

The Oversight Committee as currently constituted held one meeting on 20<sup>th</sup> April, 2023 at the National Treasury (14<sup>th</sup> Road Annuity Oversight Committee Meeting) as detailed below;

No.	Present	Organization/State Dept.	Position
1	Dr. Chris Kiptoo, CBS	PS/NT	Chairman
2	Eng Joseph M. Mbugua	PS/Roads	Secretary
3	James Muhati	PS/ Economic Planning	Member
4	FCPA. Evans Moturi	ICPAK Representative	Member
5	Lilian Abishai	OAG Representative	Member
6	CPA Kennedy Mutisya	KBA Representative	Member
	<b>Inattendance</b>		
1	Eng. Francis Gitau	RS/SDoR	
2	Eng. Philemon Kandie	DG/KeRRA	
3	Eng. Kungu Ndungu	DG/KeNHA	
4	Eng. Silas Kinoti	DG/KURA	
5	Martin Agumbi	KRB	
6	Eng. Peter Gichohi	KeRRA	
7	Philip Wachira	SCFO/SDoR	
8	Chris Kirigua	DG/PPP	
9	Joseph Muoka	FO/SDoR	
10	Amos Cheptoo	NT	
11	Dorcas Koome	NT/PPP	
12	Neala Wanjala	NT/PPP	
13	Sophie Mwangashi	DAG/SDoR	

### Functions of the Roads Annuity Fund Oversight Committee

The functions of the Roads Annuity Oversight Committee are captured under the Annuity Fund Regulations Section 13 as follows:

a) inform the Cabinet Secretary on the funding requirements of the Fund

b) adopt the estimates of annual revenue and expenditure of the Fund and recommend them to the Cabinet Secretary for Approval.

**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

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- c) Ensure that the annual estimates of revenue and expenditure for the Fund include cumulative Annuity Programme commitments for the financial year under review.
- (d) Ensure that only the projects included in the Annuity Programme are promoted for funding under these Regulations.
- (e) Inform the Cabinet Secretary on the amounts and timing for the fund transfers into the Fund.
- (f) Approve and review the investment of surplus funds into the Fund.
- (g) Advise the Cabinet Secretary on the sources of funds for the Fund.
- (h) Adopt the financial statements prepared by the Officer Administering the Fund before submission to the Auditor- General; and
- (i) Adopt the non-financial reports of the Fund and submit them to the Cabinet Secretary

## **8. Management Discussion and Analysis**

In the Financial Year 2022/2023, the Road Annuity fund had an opening bank balance of Kshs.20,134,400,186 as at 1<sup>st</sup> July 2022. During the Financial Year there was remission to National Treasury amounting to Kshs.10,350,000,000. Within the Financial Year, the annuity fund received Kshs.1,590,000,000. The total payments from the Annuity Fund Bank Account over the financial year for the benefit of the Service Providers and the Independent experts amounted to Kshs.4,046,522,925 against an approved Budget of Kshs.7,681,000,000. The Road Annuity Fund closed the year with a bank account balance of Kshs.7,327,877,261.

In implementing the Road Annuity Programme, the collections to the fund are appropriated by parliament through the Annual Printed Estimates with financing from the Fuel Levy Fund. The expenditure from the Annuity Fund is approved by the Annuity Oversight Committee in form of yearly budgets. The Road projects financed by the Annuity Fund are implemented by the Road Agencies. Up to the end of the Financial Year 2022/2023, one road project Lot 33 - Ngong – Kiserian – Isinya - Kajiado/Imaroro had been constructed and is in the operation and Maintenance phase under KeRRA while two road projects lot 15(Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia) and lot 18(Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia) were under construction by KURA.

Once an invoice is raised by the promoter of the project, the Independent Expert certifies the invoice as due for payment and forwards to the Implementing Agency. The Implementing Agency requests for a cash transfer from the Annuity Fund for the benefit of the Service Provider and the Independent Expert.

The Officer Administering the Fund (The Principal Secretary/Roads) authorises transfer of the requested cash from the Annuity Fund to the Implementing Agency's bank Account up to the Limit of the Approved Budgets by the Oversight Committee. The Implementing Agency subsequently pays the promoter of the project.

## **9. Environmental and Sustainability Reporting**

The Road Annuity Programme is geared towards development of roads supporting primary growth sectors through Contractor facilitated mechanism.

The project Lot 33 -Ngong – Kiserian – Isinya- Kajiado/Imaroro Operation and Maintenance(O&M) Phase commenced after issuance of the Provisional Completion Certificate effective from 1st November, 2020. The Construction Phase, thereby, was deemed to be substantially completed. The Service Provider is now fully engaged on the O&M Activities along the entire Project Highway. On the safety Management the Service provider has Emergency Response Units arrangements with Emergency Service Providers at various strategic locations to provide emergency services to the road users along the Project Network. This includes the following;

- Agreement with the Kajiado County Fire and Disaster Department for responding to any fire incidents within 45 minutes of its intimation to them.
- Agreement for ambulance services with Namunyak Medical Centre for providing ambulance services within 45 minutes of notification of an incident/accident.
- Agreement with Isinya Health Centre and Ngong Sub County Hospital for admission to these hospitals in cases of medical emergencies caused by an incident/accident

The Annuity Financed Projects Lot 15 and Lot 18 are in the construction phase where the service provider are directly interacting with the community. Some of the interaction instances during the year 2022/23 are;

- Installation of Lined drains and outfalls to address the challenge of storm water
- Restoration of Materials sites
- Developing soak pits to control flooding in adjacent land
- Sensitization on HIV/AIDs
- Implementation of livelihood Restoration Plan (LRP)
- Payments of Project Affected Persons (PAPs) disturbance allowances -Lot 15 has paid 412 PAPs.

## Roads Annuity Fund

### Annual Reports & Financial Statements for the year ended June 30, 2023.

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## 10. Report of the Oversight Committee

The Management submits their report together with the audited financial statements for the year ended June 30, 2023, which show the state of the affairs of the fund.

### Principal activities

The objective and purpose of the Fund shall be to provide funds to meet the National Government's Annuity payment obligations for the development and maintenance of roads under the Annuity programme.

### Results

The results of the entity for the year ended June 30, 2023, are set out on page xvii

### Oversight Committee

The Oversight Committee members who served during the year are shown on page vi, vii, viii, ix and x.

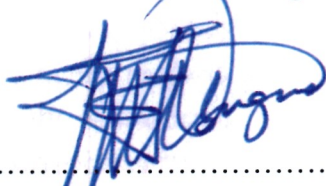
### Surplus remission

The Road Annuity Fund remitted Kshs.10,350,000,000 to the consolidated Fund in Financial Year 2022/23.

### Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the oversight Committee



.....  
**Fund Administrator**

## **11. Statement of Oversight Committee's responsibilities**

Section 81 of the Public Finance Management Act, 2012 require the Accounting Officer of the Fund to prepare financial statements in respect of the Roads Annuity Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year and the operating results. The Accounting Officer is also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Accounting Officer is also responsible for safeguarding the assets of the Fund.

The Accounting Officer is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Roads Annuity Fund for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangements 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 Roads Annuity Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Accounting Officer is of the opinion that the financial statements give a true and fair view of the state of the Fund's transactions during the financial year ended June 30, 2023, and of the Roads Annuity Fund's financial position as at that date. The Accounting Officer further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Roads Annuity Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting Officer to indicate that the Roads Annuity Fund will not remain a going concern for at least the next twelve months from the date of this statement.

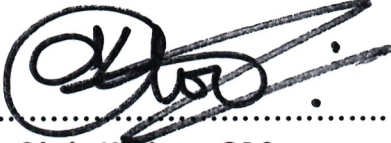


**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

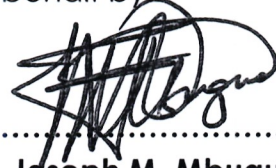
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**Approval of the financial statements**

The Roads Annuity Fund's financial statements were approved by the Oversight Committee on \_\_\_\_\_ 2023 and signed on its behalf by:



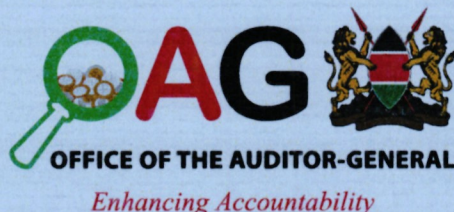
.....  
**Dr. Chris Kiptoo, CBS**  
**Chairman, Oversight**  
**Committee**



.....  
**Eng. Joseph M. Mbugua**  
**Fund Administrator**

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON ROADS ANNUITY FUND FOR THE YEAR ENDED 30 JUNE, 2023 - 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 the 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 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 that the Government achieves value for money and that such funds are applied for the intended purpose.
- 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, the risk management environment and the 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 and that its internal controls, 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 Roads Annuity Fund set out on pages 1 to 20, which comprise of the statement of financial position as at 30 June, 2023,

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*Report of the Auditor-General on Roads Annuity Fund for the year ended 30 June, 2023 - State Department for Roads*

and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information 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 the Roads Annuity Fund as at 30 June, 2023, 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 Public Finance Management Act, 2012 and the Roads Annuity Fund Regulations, 2015

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Roads Annuity Fund Management in accordance with ISSAI 130 on 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**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects total budgeted receipts amount of Kshs.1,590,000,000 against actual receipts amount of Kshs.1,590,000,000 or 100% of the budget. However, the statement of comparison of budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.7,681,000,000 and Kshs.4,046,522,925 respectively, resulting to an under expenditure of Kshs.3,634,477,075 or 47% of the budget.

The underperformance affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

My opinion is not modified on the effects of the matter.

### **Key Audit Matters**

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

## **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, some issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness in Internal Controls, Risk Management and Governance. However, the Management has not given any explanation on how the issues were resolved.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter discussed in 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**

#### **Delay in Implementation of Projects**

Review of records revealed that the State Department for Roads had planned to implement four (4) other Lots (Roads) under the Roads Annuity Fund amounting to 290KM as follows:

- (i). Lot 3-Modogashe-Habaswein-Smatar and Rhamu-Mandera Roads-143KM.
- (ii). Lot 32-Illasit-Njukini-Taveta Road-67KM.
- (iii). Lot 15-Identified roads in Nyeri, Kirinyaga, Murang'a, Embu, Tharaka Nithi; Laikipia-45KM
- (iv). Lot 18-Identified town roads in Kakamega, Vihiga, Bungoma, Busia-35KM.

Further, available records revealed that, Lot 3 and Lot 32 roads, whose implementing Agency is Kenya National Highways Authority (KeNHA), had delayed in commencement of construction. This was further discussed during the 14<sup>th</sup> Roads Annuity Oversight Committee meeting held on 20 April, 2023 and which resolved that, a letter be done by the State Department for Roads to the Attorney General to advice on the termination of Lot 3 and Lot 32 due to envisaged high costs. Management provided the letter to the Attorney General (AG) and the legal advisory by the AG on Lot 32 road project dated 30 October, 2023 and 6 November, 2023 respectively. However, the letter by the State Department and the legal advisory related to Lot 3 road project was not provided for audit.

In the circumstances, the continued delay in commencement of construction of Lots 3 and 32 road projects denies services to the public and value for money on the two projects may not be achieved.

The audit was conducted in accordance with ISSAI 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 are in compliance, 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

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

### **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 control 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund'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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 and weakness 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 addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, 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 accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.

  
**FCPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

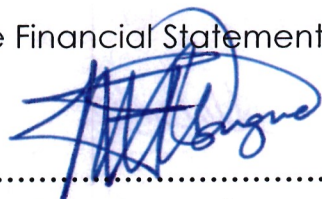
**15 December, 2023**

Roads Annuity Fund  
Annual Report & Financial Statements for the year ended June 30, 2023.

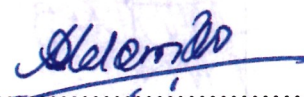
**13. Statement of Financial Performance for year ended June 30, 2023**

	Note	2022-2023	2021-2022
<b>Revenue- Non-Exchange Transactions</b>			
		<b>Kshs</b>	<b>Kshs</b>
Transfers from Other Government entities	6	1,590,000,000	14,472,865,319
<b>Total revenue</b>		<b>1,590,000,000</b>	<b>14,472,865,319</b>
<b>Expenditure</b>			
Transfers to Government Agencies	7	4,046,522,925	2,937,429,510
<b>Total expenses</b>		<b>4,046,522,925</b>	<b>2,937,429,510</b>
<b>Surplus/Deficit for the year</b>		(2,456,522,925)	11,535,435,809
Remission to Treasury	8	10,350,000,000	0
<b>Net deficit for the year</b>		<b>(12,806,522,925)</b>	<b>11,535,435,809</b>

The Financial Statements were signed on .....by:



.....  
Eng. Joseph M. Mbugua  
**Fund Administrator**



.....  
Mwangashi Sophie Wakio  
**Head of Accounting Unit**  
**ICPAK No. 11341**



**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

**14. Statement of Financial Position as at June 30, 2023**

	Note	2022-2023	2021-2022
Assets		<b>Kshs</b>	<b>Kshs</b>
Current Assets			
Cash and Cash Equivalents	9	7,327,877,261	20,134,400,186
<b>Total Assets</b>		<b>7,327,877,261</b>	<b>20,134,400,186</b>
Net Assets			
Capital Fund	10	500,000,000	500,000,000
Accumulated Surplus		6,827,877,261	19,634,400,186
<b>Total Net Assets</b>		<b>7,327,877,261</b>	<b>20,134,400,186</b>

The Financial Statements were signed on .....by:



.....  
 Eng. Joseph M. Mbugua  
**Fund Administrator**



.....  
 Mwangashi Sophie Wakio  
**Head of Accounting Unit**  
**ICPAK No. 11341**

**Roads Annuity Fund**

**Annual Report & Financial Statements for the year ended June 30, 2023.**

**15. Statement of Changes in Net Assets for Year Ended June 30, 2023**

	<b>Capital Fund</b>	<b>Accumulated Surplus</b>
<b>Details</b>	<b>Kshs</b>	<b>Kshs</b>
July 1, 2021	500,000,000	8,098,964,377
Surplus for the Year		11,535,435,809
<b>June 30, 2022</b>	<b>500,000,000</b>	<b>19,634,400,186</b>
July 1, 2022	500,000,000	19,634,400,186
Deficit for the Year		(12,806,522,925)
<b>June 30, 2023</b>	<b>500,000,000</b>	<b>6,827,877,261</b>

**Roads Annuity Fund**  
**Annual Report & Financial Statements for the year ended June 30, 2023.**

**16. Statement of Cash Flows for the Year Ended June 30, 2023**

	Notes	2022-2023	2021-2022
		Kshs	Kshs
<b>Cash flows from Operating Activities</b>			
<b>Receipts</b>			
Transfers from Other Govt entities		1,590,000,000	14,472,865,319
<b>Total Receipts</b>		<b>1,590,000,000</b>	<b>14,472,865,319</b>
<b>Payments</b>			
Transfers to Other Government Agencies		4,046,522,925	2,937,429,510
Remission to Treasury		10,350,000,000	
<b>Total Payments</b>		<b>14,396,522,925</b>	<b>2,937,429,510</b>
<b>Net cash flows from Operating Activities</b>	11	<b>(12,806,522,925)</b>	<b>11,535,435,809</b>
Net Decrease in Cash & Equivalents		(12,806,522,925)	11,535,435,809
Cash & Equivalents at the year Start	9	20,134,400,186	8,598,964,377
<b>Cash &amp; Equivalents at Year End</b>	9	<b>7,327,877,261</b>	<b>20,134,400,186</b>

Roads Annuity Fund  
Annual Reports & Financial Statements for the year ended June 30, 2023.

**17. Statement of Comparison of Budget & Actual Amounts for the Year Ended June 30, 2023**

Revenue	Original budget Kshs	Adjustments Kshs	Final budget Kshs	Actual on comparable basis Kshs	Performance Difference Kshs	%
Transfers from Other Government entities	10,990,000,000	(9,400,000,000)	1,590,000,000	1,590,000,000		100%
<b>Total Revenue</b>				<b>1,590,000,000</b>		
<b>Expenses</b>						
Transfers to other Government Entities	7,681,000,000	-	7,681,000,000	4,046,522,925		53%
<b>Total expenditure</b>				<b>4,046,522,925</b>		
<b>Net Surplus</b>				<b>(2,456,522,925)</b>		

## **18. Notes to the Financial Statements**

### **General Information**

The Roads Annuity Fund is established by and derives its authority for Public Finance Management Act 2012. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is to provide funds to meet the national government's annuity payment obligations for the development and maintenance of roads under the Annuity Programme.

### **Statement of Compliance and Basis of Preparation**

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Roads Annuity Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of The Roads Annuity Fund

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

**Adoption of New and Revised Standards**

New and amended standards and interpretations in issue effective in the year ended 30 June 2023.

Standard	Effective date and impact:
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2023:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p style="text-align: center;">The standard has no impact on the Fund</p>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2023</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p> <p>(b) The key features of the operation of those social benefit schemes; and</p>

**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

Standard	Effective date and impact:
	<p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p> <p>The standard has no impact on the Fund</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January 2023:</b></p> <p>Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 30, to update the guidance for accounting for financial guaranteed contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>The standard has no impact on the Fund</p>
<p>Other improvements to IPSAS</p>	<p><b>Applicable 1st January 2023</b></p> <p><i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <p><i>IPSAS 39: Employee Benefits.</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <p><b>IPSAS 29: Financial instruments: Recognition and Measurement.</b> Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p>

**Notes to the Financial Statements (Continued)**

***New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.***

Standard	Effective date and impact:
IPSAS 43	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <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>

**iii Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2022/2023.



### **Summary of Significant Accounting Policies**

#### **Revenue recognition- Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

#### **Budget information**

The original budget for FY 2022-2023 was approved by the National Assembly in June 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. The budget is prepared on the same basis as the financial statements thus there are no need for a reconciliation statement.

#### **Provisions**

Provisions are recognized when the Roads Annuity Fund 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 Fund 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 Roads Annuity Fund 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.

**Contingent assets**

The Roads Annuity Fund 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 Fund 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.

**Nature and purpose of reserves**

The Roads Annuity Fund has an accumulated surplus reserve that fund that facilitates the core mandate of the entity.

**Changes in accounting policies and estimates**

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

**Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**Roads Annuity Fund**  
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**Related parties**

The Roads Annuity Fund 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 also regarded as related parties.

**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.

**Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**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, 2023.

**Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the Fund'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.

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

**Roads Annuity Fund**  
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<b>Note 6</b>		
<b>Transfers from Other Government Entities</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Kenya Roads Board (Levies)	1,590,000,000	14,472,865,319
<b>Total</b>	<b>1,590,000,000</b>	<b>14,472,865,319</b>

<b>Note 7</b>		
<b>Transfers to Other Government Agencies</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Kenya Rural Roads Authority (KeRRA)	3,064,991,485	2,937,429,510
Kenya Urban Roads Authority (KURA)	981,531,440	
<b>Total</b>	<b>4,046,522,925</b>	<b>2,937,429,510</b>

<b>Note 8</b>		
<b>Remission to National Treasury</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Surplus Remitted	10,350,000,000	-
<b>Total</b>	<b>10,350,000,000</b>	<b>-</b>

**Roads Annuity Fund****Annual Reports & Financial Statements for the year ended June 30, 2023.**

<b>Note 9</b>		
<b>Cash and Cash Equivalents</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash In Bank (CBK - A/c1000236663)	7,327,877,261	20,134,400,186
<b>Total</b>	<b>7,327,877,261</b>	<b>20,134,400,186</b>

<b>Note 10</b>		
<b>Capital Fund</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Capital Fund	500,000,000	500,000,000
<b>Total</b>	<b>500,000,000</b>	<b>500,000,000</b>

<b>Note 11</b>		
<b>Cash From Operating Activities</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Net Deficit for Year	(12,806,522,925)	11,535,435,809
Adjustments	-	-
<b>Net Cash from Operating Activities</b>	<b>(12,806,522,925)</b>	<b>11,535,435,809</b>

**Roads Annuity Fund**  
**Annual Reports & Financial Statements for the year ended June 30, 2023.**

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**Financial Risk Management**

The Fund activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Fund's financial risk management objectives and policies are detailed below:

**Credit risk**

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	<b>Total amount Kshs</b>	<b>Performing Kshs</b>	<b>Impaired Kshs</b>
At 30 June 2023			
<b>Bank balances</b>	<b>7,327,877,261</b>	<b>7,327,877,261</b>	<b>0</b>
At 30 June 2022			
<b>Bank balances</b>	<b>20,134,400,186</b>	<b>20,134,400,186</b>	<b>0</b>

## Roads Annuity Fund

### Annual Reports & Financial Statements for the year ended June 30, 2023.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

#### iii) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the entity's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2022-2023	2021-2022
	Kshs	Kshs
Capital	500,000,000	500,000,000
Retained earnings	6,827,877,261	19,634,400,186
Total borrowings	-	-
Less: cash and bank balances	7,327,877,261	20,134,400,186
Net debt/(cash and cash equivalents)		
Gearing	0%	0%

#### Related Party Disclosures

##### Nature of related party relationships

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



**Roads Annuity Fund**  
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**Government of Kenya**

The Government of Kenya is the principal shareholder of the Roads Annuity Fund, holding 100% equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

**Other related parties include:**

The Parent Ministry.  
 Other SCs and SAGAs.  
 Key management.

<b>Transactions with related parties</b>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Transfers from the Government</b>		
Transfers from Kenya Roads Board	1,590,000,000	14,472,865,319
Total	1,590,000,000	14,472,865,319
<b>Key management compensation</b>		
Directors' emoluments	-	-
Compensation to key management	-	-
Total	-	-

## **Roads Annuity Fund**

### **Annual Reports & Financial Statements for the year ended June 30, 2023.**

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#### **Surplus Remission**

The fund remitted Kes 10,350,000,000 to the National Treasury

#### **Events after the Reporting Period**

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

#### **Ultimate and Holding Entity**

The entity is a Semi- Autonomous Government Agency under the Ministry of Infrastructure. Its ultimate parent is the Government of Kenya.

#### **Currency**

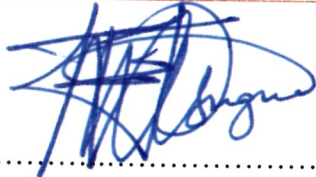
The financial statements are presented in Kenya Shillings (Kshs).

## 19. Appendices

### Appendix 1: Progress on Follow Up of Auditor Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
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*There were no outstanding issues raised the external auditor.*



.....  
**The Fund Administrator**

## Roads Annuity Fund

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#### Appendix II: Projects Implemented by The Fund

The Road Annuity Fund is currently actively implementing three Roads Projects namely;

- 1.Lot 33: Ngong – Kiserian - Isinya- Kajiado- Imaroro
- 2.Lot 15: Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia
- 3.Lot 18: Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia

#### 1.Lot 33: Ngong – Kiserian - Isinya – Kajiado - Imaroro

The project road is located in Kajiado County and measures approximately 90.5 km. Procurement of the project commenced in 2013 when an expression of interest was issued out to prospective bidders to submit expressions for the project under a Public Private Partnership Framework using the Annuity Model.

The project reached Commercial Close in November 2016 and Financial Close in May 2018 where the Service Provider M/s Intex RAF 1 Ltd was given the go ahead to start construction

The following is the salient information on the project;

Project Details		
1	Lot No.	33
2	Road Name	Ngong-Kiserian-Isinya and Kajiado-Imaroro
3	Service Provider	INTEX RAF 1 Ltd
4	Financier	Kenya Commercial Bank
5	Total Project Length	91 Km
6	Section Lengths	Ngong-Kiserian-Isinya : 48 Km Kajiado-Imaroro : 43 Km
7	Project Term	10 years
8	Construction Period (As per Project Agreement)	2 years
9	Maintenance Period (As per Project Agreement)	8 years
10	Major Maintenance	in year 6-8 (From Appointed Date)
11	Major Maintenance Cost (Ksh)	1,510,000,000.00

## Roads Annuity Fund

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12	Routine Maintenance Cost (Ksh)	3,472,000,000.00
13	Annual Charge (Ksh)	2,418,000,000.00
14	Commercial Close Date	16 <sup>th</sup> November 2016
15	Financial Close Date	28 <sup>th</sup> February 2018
16	Appointed Date	21 <sup>st</sup> May 2018
17	Accordance of Provisional Certificate	1 <sup>st</sup> November,2020
18	Accordance of Completion Certificate	30 <sup>th</sup> December 2021
19	Current Status	The Project is current under Operations and Maintenance Phase

#### 2.Lot 15: Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu,Tharaka Nithi, Laikipia

The Projects Covers six (6) counties of Nyeri,Laikipia,Kirinyaga,Embu ,Tharaka Nithi and Laikipia Counties covering a length of 45 Km. The following is the salient information on the project;

Lot No.	Lot 15: Central & Eastern Kenya
1	Project Name Nyeri, Murang'a, Nanyuki, Kerugoya Kutus, Kathwana and Embu Towns
2	Service Provider Infraconnect Fifteen Limited
3	Financier CFC Stanbic Bank
4	Total project length 45.0 KM
5	Concession Period 10 years
6	Construction Period 2 years
7	Maintenance Period 8 years
8	Construction Cost (Ksh) Ksh. 4,547,000,000.00
9	Routine Maintenance Cost Ksh. 640,000,000.00
10	Periodic Maintenance Cost Ksh. 540,000,000.00

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11	Annuity (Yearly Payments after Construction)	Ksh. 2,088,000,000.00
12	Overall Project Cost to the CA (Kshs)	16,704,000,000.00
13	Value for Money (Kshs Million)	5,161
12	Date of Commencement (EPC)	16 <sup>th</sup> February 2022
13	Expected Date of Completion (EPC)	15 <sup>th</sup> February 2024
14	Implementation Status	Project is 69% complete

**3.Lot 18: Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia**

The following is the salient information on the project;

	<b>Lot No.</b>	<b>Lot 18: Western Kenya</b>
1	Project Name	Vihiga, Kakamega, Bungoma, and Busia Towns
2	Service Provider	Infraconnect Eighteen Limited
3	Financier	CFC Stanbic Bank
4	Total project length	35.0 KM
5	Concession Period	10 years
6	Construction Period	2 years
7	Maintenance Period	8 years
8	Construction Cost (Ksh)	Ksh. 3,547,000,000.00
9	Routine Maintenance Cost	Ksh. 320,000,000.00
10	Periodic Maintenance Cost	Ksh. 572,000,000.00
11	Annuity (Yearly Payments after Construction)	Ksh. 1,659,000,000.00
12	Overall Project Cost to the CA (Kshs)	13,272,000,000.00
13	Value for Money (Kshs Million)	111

**Roads Annuity Fund**

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12	Date of Commencement (EPC)	16 <sup>th</sup> February 2022
13	Expected Date of Completion (EPC)	15 <sup>th</sup> February 2024
14	Implementation Status	Project is 80% complete

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**Appendix III: Inter-Entity Transfers**

**The Roads Annuity Fund**

**Break Down of Transfers from Kenya Roads Board**

Development Grants	Bank Statement Date	Amount (Kshs)	Indicate The FY To Which the Amounts Relate
Development Grants	7/4/2023	1,590,000,000	2022/23
<b>Total</b>		<b>1,590,000,000</b>	

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

.....  
**Administrator**  
**The Roads Annuity Fund**

Date: .....

.....  
**Head of Finance**  
**The Kenya Roads Board**

Date: .....





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Appendix IV: Recording of Transfers from Other Government Entities

Entity Transferring the Fund	Date received as per bank statement	Nature: Development	Statement of Financial Performance Kshs	Total Transfers during the year Kshs
Kenya Roads Board	7/4/2023	Dev	1,590,000,000.	1,590,000,000.
<b>Total</b>			1,590,000,000.	1,590,000,000.

**Appendix V: Project by Pictures**



A section of the Lot 33: Ngong-Kiserian-Isinya-Imaroro





Aerial view of Ngong-Kiserian section



Aerial view of Kiserian-Isinya Road Section

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Aerial Kajiado – Imaroro section

### Lot 15 – Kenya Roads Annuity Program Pictorials



Road 1: Riamukurwe-Gatitu Road



Road 2: Munungaine - Nyeri UCB4 Road

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Road 3: Industrial Area Road



Road 4: Upper Muthaiga Road



Road 5: Kutus-Kiarie Road



Road 6: Muthatari-Kimangaru Road

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Road 7: Majimbo-Karurina Road



Road 8: Ndikwe-Kiria Road



Road 9: Murang'a Mucunguca Kiangage Road

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Road 10: Kanjuki – Kathwana Road

Lot 18 - Kenya Roads Annuity Program Pictorials



Kakamega -Lutonyi Road-2 Progress Photos



Vihiga- Kiritu Road-3 Progress photos

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Mateka -Siritanyi Road-4 Progress Photos



Mateka -Samoya Road-5 Progress Photos



Busia -Alupe Road 6 Progress Photos



**Appendix VI: Reporting of Climate Relevant Expenditures**

There was no expenditure related to climate management.

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Appendix VII: Reporting on Disaster Management Expenditure

There was no expenditure on disaster management.