NATIONAL ROADS AUTHORITY

REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2025 AUDIT

JULY 2026

To help the public service spend wisely

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. I have completed our audit of the 31 December 2025, financial statements of the *National Roads Authority* (the *"Authority"*). International Standards on Auditing (ISAs) require that I communicate certain matters to those charged with governance of the Authority in sufficient time to enable them to take appropriate action. The matters I am required to communicate under ISAs include:

   - Auditors' responsibilities in relation to the audit
   - The overall scope and approach to the audit, including any expected limitations, or additional requirements
   - Relationships that may bear on our independence, and the integrity and objectivity of our staff
   - Expected modifications to the audit report
   - Significant findings from our audit.

2. This report sets out for the consideration of those charged with governance, those matters arising from the audit of the 2025 financial statements that I consider worthy of drawing to your attention.

3. This report has been prepared for the sole use of those charged with governance, and I accept no responsibility for its use by a third party. Under the *Freedom of Information Act* (*2021 Revision*), it is the policy of the Office of the Auditor General to proactively release all final reports through our website: www.auditorgeneral.gov.ky.

AUDITOR'S RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING (ISAs)

4. ISAs require that I plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters, and this report includes only those matters of interest that came to our attention during the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 15 October 2025. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While I have no responsibility to perform any audit work on other information, including forward-looking statements containing audited financial statements, I have read the other information contained in the Authority's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the operations of the *Authority*.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff and the nature and scope of the audit were outlined in the engagement letter presented to the Managing Director and follow the requirements of the ISAs. I am not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. I have issued an *unmodified* audit report on the 31 December 2025 financial statements.

9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. There were no unadjusted misstatements.

10. As part of the completion of our audit, I obtained written representations from management on aspects of the accounts, judgments, and estimates made. These representations were provided to us on 27 April 2025.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. I am responsible for providing our views about qualitative aspects of the *Authority's* significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

12. Generally accepted accounting principles provide for the *Authority* to make accounting estimates and judgments about accounting policies and financial statement disclosures. I am, however, not aware of any new or controversial accounting practices reflected in the Authority's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management has made judgments and estimates with regard to the following financial statement items:

- Depreciation based on useful lives of property, plant and equipment
- Expected Credit Losses
- Right of use asset and lease liability
- Post-retirement health care liability
- Post-retirement past pension liability

GOING CONCERN DOUBTS

14. As a result of our audit, I did not become aware of any events and conditions that may cast significant doubt on the *Authority's* ability to continue as a going concern.

INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

15. Internal control matters and significant findings are noted in Appendix 2, along with management's response.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts and regulations rests with both those charged with governance of the entity and with management. It is important that management, under the oversight of those charged with governance, places a strong emphasis on fraud prevention and deterrence.

17. They are also responsible for establishing and maintaining controls pertaining to the *Authority's* objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. When exercising oversight responsibility, those charged with governance should consider the potential for management to override controls or exert other inappropriate influences over the financial reporting process.

18. As auditors, in planning and performing the audit, I am required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud.

19. However, I cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent

limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

20. No fraud or illegal acts came to our attention as a result of the 2025 audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

22. I have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

23. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

24. I would like to express our thanks to the staff of the *National Roads Authority* for their help and assistance during the audit of this year's financial statements. This enabled me to provide an audit report within the agreed timetable.

Yours Sincerely,

Angela Cullen, CPFA
Acting Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED MISSTATEMENTS

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
1	Employee Entitlements	20210		18,822.97	OAG
1	Labor	50001	12,640.96		OAG
1	Pension Contribution - Salary	80008	2,520.17		OAG
1	Pension Contribution - Employees	80009	3,661.84		OAG
Pension on employee entitlements at 31 December 2025					
2	Other Receivables	12404	12,685.85		OAG
2	Fixed Deposit Interest	43001		12,685.85	OAG
To recognise additional interest revenue and corresponding receivable for the 2025 period					
3	Prepayments	12009	26,250.00		OAG
3	Prepayments	12009		45,000.00	OAG
3	ROU Asset	17160	45,000.00		OAG
3	ROU Asset	17160	42,698.55		OAG
3	Accumulated Impairment Reserve	17165		25,578.74	OAG
3	Lease liability	21300		42,698.55	OAG
3	Lease liability	21300		1,327.81	OAG
3	Warehouse & Property Rentals	80040		26,250.00	OAG
3	Depreciation ROU	80060	25,578.74		OAG
3	Interest expense	80061	1,327.81		OAG
To recognise ROU asset and corresponding liability, depreciation and interest					
4	Pension Liability	23200	902,008.00		Client
4	Post-Retirement Health Liability	23201		5,681,003.00	Client
4	Other Comprehensive Income	42095		754,000.00	Client
4	Other Comprehensive Income	42095	6,048,000.00		Client
4	Pension-Past Service Cost	80002		148,008.00	Client
4	Post-Employment Health Care	80057		366,997.00	Client
To recognise the past pension service and healthcare following receipt of the actuarial valuation reports					
5	Trade Payables	20100	33,892.02		OAG
5	Trade Payables	20100		33,892.02	OAG
5	Trade Payables	20100	82,973.95		OAG
5	Trade Payables	20100		82,973.95	OAG
5	Trade Payables	20100	14,800.00		OAG

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
5	Trade Payables	20100		14,800.00	OAG
5	Trade Payables	20100	22,185.55		OAG
5	Trade Payables	20100		22,185.55	OAG
5	Retainage Payables	20105	33,892.02		OAG
5	Retainage Payables	20105	82,973.95		OAG
5	Retainage Payables	20105	14,800.00		OAG
5	Retainage Payables	20105	22,185.55		OAG
5	Accruals	20150		33,892.02	OAG
5	Accruals	20150		82,973.95	OAG
5	Accruals	20150		14,800.00	OAG
5	Accruals	20150		22,185.55	OAG
To derecognise outstanding payables for which no additional work will be carried out					
6	Accruals	50005	3,575.95		Client
6	Subcontractors	20150		3,575.95	Client
To derecognise the payables outstanding where no additional work will be carried out					
7	Accruals	20150		3,078.00	Client
7	Accruals	20150		10,143.00	Client
7	Professional Fees	80024	3,078.00		Client
7	Professional Fees	80024	10,143.00		Client
Recognition of payables for PSPB actuarial valuation invoice					
8	Accruals	20150		982.80	OAG
8	Accruals	20150		189.00	OAG
8	Professional Fees	80024	982.80		OAG
8	Professional Fees	80024	189.00		OAG
Recognition of accruals for HSM invoices					
	TOTAL		**7,448,043.71**	**7,448,043.71**	

APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
Non-compliance with Acts and Regulations					
1. Non-compliance with Public Management and Finance Act (2020 Revision) ("PMFA") Section 52(1) of the Public Management and Finance Act (2020 Revision) ("PMFA") requires statutory authorities and government companies to prepare and submit an annual report for the Auditor General's review within two months after the end of each financial year. The Authority submitted its 2025 annual report on 3 March 2026, contrary to the requirements of the PMFA.	**<u>Risk/ Implication</u>** Non-compliance with the PMFA. Various stakeholders utilise information to inform their decisions. The late submission of the annual report may delay reporting to stakeholders, thereby affecting the timeliness of their decisions. **<u>Recommendation</u>** Management should ensure that it submits its annual reports for review within the statutory	**Yes**	**Yes**	Management accepts that the annual report was submitted a few days late. We note that whilst the annual report was delayed, management maintained an open and transparent dialogue with the auditor throughout the process, inclusive of draft financial statements and open access to underlying data and documentation when needed. We assert that this ongoing cooperation mitigated the risk of 'lack of transparency' Actuarial reports are a fundamental component of the NRA's financial statements.	Management remains committed to working with OAG to identify ways to prevent these delays in the future, especially concerning external dependencies.

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	deadline imposed by the PMFA.			The complexity of operations and data coupled with the reliance on external specialized actuarial reports, naturally extends the time required for accurate compilation and audit and affects the Authority's ability to ensure timely submittal of the Annual Report. A slightly delayed but accurate report is more beneficial to stakeholders than a timely but inaccurate one.	
2. Non-compliance with the procurement regulations Section 19(1) of the procurement regulations requires an entity to publish a notice of the award of the procurement contract on the website designated by the Central Procurement Office. The Authority did not publish contract award notifications for $2.7 million of procurements	**Risk/ implication** Lack of public transparency and accountability, potential for perception of impropriety, and non-compliance with regulatory obligations. **Recommendation**	**Yes**	**Yes**	Note that the Authority after the observations of 2024 took active measures to have the CPO create a portal on the Bonfire platform through which the Authority could upload a disclosure log containing information of all non-bonfire procurements.	Immediate

<table>
<tr><th>Observation</th><th>Risk/Implication and Recommendation</th><th>Recurring issue (Y/N)</th><th>Recommendation accepted by Management (Y/N)</th><th>Management Response</th><th>Implementation Date</th></tr>
<tr><td>on the website designated by the CPO within the required timelines.

The table below details the contracts not published:

<table>
<tr><th>Contract reference</th><th>Amount</th></tr>
<tr><td>C2025/126</td><td>166,106.81</td></tr>
<tr><td>C2025/127</td><td>17,955.00</td></tr>
<tr><td>C2025/128</td><td>105,163.20</td></tr>
<tr><td>C2025/129</td><td>69,795.72</td></tr>
<tr><td>C2025/132</td><td>27,197.40</td></tr>
<tr><td>C2025/133</td><td>132,896.68</td></tr>
<tr><td>C2025/141</td><td>90,172.72</td></tr>
<tr><td>C2025/161</td><td>11,400.00</td></tr>
<tr><td>C2025/129</td><td>31,625.00</td></tr>
</table>
</td><td>Management should promptly publish contract awards on the website designated by the CPO in accordance with the Procurement Regulations, to encourage future interest and competition.</td><td></td><td></td><td>The upload was done in early Q4 2025 hence it did not capture the contracts listed in the observation. These were mainly hot mix paving jobs that were executed in the latter part of the year utilizing supplementary funds approved by Parliament in Q3 of 2025. The Authority has since uploaded an updated disclosure log of Non-Bonfire procurements that is current to May 2026. Management commits to uploading the disclosures monthly henceforth to remain in compliance with Section 19 (1) of the Procurement Regulations.</td><td></td></tr>
</table>

Observation		Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
C2025/142	247,229.41					
C2025/145	290,560.02					
C2025/147	560,450.40					
C2025/148	168,351.67					
C2025/150	86,220.28					
C2025/154	44,209.42					
C2025/155	49,184.25					
C2025/156	151,804.81					
C2025/157	62,144.22					
C2025/166	46,173.26					
C2025/168	143,689.75					
C2025/169	187,904.80					
NRA/2025/RFQ/7	97,200					

<table>
<tr><th>Observation</th><th>Risk/Implication and Recommendation</th><th>Recurring issue (Y/N)</th><th>Recommendation accepted by Management (Y/N)</th><th>Management Response</th><th>Implementation Date</th></tr>
<tr><td><table><tr><td>Total</td><td>2,787,434.82</td></tr></table></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>3. Non-compliance with procurement regulations

Section 5(3)(c) requires procurements with a value of two hundred and fifty thousand dollars or greater to be approved on the advice of the Public Procurement Committee (PPC).

The Authority procured supplies and services worth $5.2 million for paving supplies and installation without PPC advice and approval, as required by the regulations. These contracts were issued between January 2025 and November 2025.

The table below lists the contracts issued without PPC’s approval.<table><tr><th>Contract Reference</th><th>Amount</th></tr><tr><td>C2025/106</td><td>15,760.44</td></tr><tr><td>C2025/126</td><td>166,106.81</td></tr></table></td><td><u>Risk/ implication</u>

Lack of value for money and non-compliance with the regulations.

<u>Recommendation</u>

Management should ensure that the necessary approvals, depending on the thresholds, are obtained before proceeding with procurement.</td><td>No</td><td>Yes, but while the Authority accepts the observation, we contest any implication of systemic non-compliance with Section 5(3) of the Procurement Act. The Authority has consistently demonstrated transparency, rigorous justification of its business cases, and a steadfast commitment to fiscal diligence to the absolute best of its ability within a highly</td><td>Context for the 2025 Expenditure: The Authority acknowledges a technical lapse in our administrative renewal timeline. The previous 3-year sole-source acknowledgement expired on December 31, 2024, and the subsequent renewal was not formalized by the PPC until the latter part of 2025.

However, we respectfully emphasize the following points regarding the $5.4 million spent during this interim period:

No Alternate Suppliers: The market conditions had not changed; Island Paving Ltd. remained the only viable provider on the island and</td><td></td></tr>
</table>

Observation		Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
C2025/127	17,955.00			restricted local market	has been since 2014. Retroactive Recognition: The comprehensive business case and application submitted to the PPC for our new 3-year acknowledgement explicitly recognized and accounted for the paving jobs executed in the earlier part of 2025. Value for Money and Operational Risk: The expenditures were necessary to maintain critical infrastructure and were executed with the same diligence and transparency as those made under active PPC acknowledgements.	
C2025/128	105,163.20					
C2025/129	69,795.72					
C2025/132	27,197.40					
C2025/133	132,896.68					
C2025/141	90,172.72					
C2025/161	11,400.00					
C2025/32	726,097.49					
C2025/33	68,575.18					
C2025/35	895,661.97					
C2025/36	236,230.44					
C2025/40	55,422.38					
C2025/42	122,986.25					

Observation		Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
C2025/44	121,386.89					
C2025/47	15,136.80					
C2025/48	42,273.58					
C2025/50	54,731.12					
C2025/51	111,873.61					
C2025/56	53,634.79					
C2025/57	30,301.49					
C2025/58	14,950.56					
C2025/59	609,192.30					
C2025/67	580,780.48					
C2025/69	45,211.85					
C2025/73	113,036.36					
C2025/74	54,733.20					

Observation		Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
C2025/85	19,389.12					
C2025/86	370,332.18					
C2025/87	60,667.88					
C2025/91	30,630.00					
C2025/94	105,199.55					
Total	**5,174,883.44**					
4. Inappropriate use of the direct procurement method Section 5(1) of the procurement regulations specifies when entities may use the direct procurement process. The Authority procured air compressors worth $55,800 using the direct procurement method and relied on section 5(1) (h) of the regulations, which requires demonstrating that only one supplier can meet the requirements.		**<u>Risk/ implication</u>** Lack of value for money due to a lack of competition. **<u>Recommendation</u>** Management should encourage competition in procurement, especially when multiple providers can provide the same or similar supplies, to ensure	**No**	**Yes**	Management acknowledges that the application of a direct award for this small procurement was erroneous. However, we reject the assertion that there was lack of VfM in this instance. The EPC was careful to explain its rationale, and provided evidence of an alternative vendor whose product cost	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
The direct award justification noted that another local supplier could supply the compressors. Therefore, the available evidence did not justify the direct award, since another capable supplier was available.	value for money at all times.			$4.000 more per unit. The rationale for awarding to IPL was 1) their product was much cheaper, and 2) machinery standardization. VfM was demonstrated in this case and through standardization the NRA cuts costs and improves safety and operational efficiency.	
Governance					
5. No Board approval for the leave pay-out of the Managing Director I noted that the Managing Director approved the 2025 payout, totalling $47,057. As an employee, the managing director was a beneficiary of the leave payout. In line with best practice, the pay-out should be approved by the Board, not just the Managing Director, to mitigate the risk of self-interest.	**<u>Risk/Implication</u>** The risk of self-interest arises when the beneficiary, who is the overall approver of the payout, conducts a review. This may lead to breaches of corporate governance and fiduciary duty, triggering a conflict of interest that exposes the Authority to financial	**No**	**Yes**	Management wishes to provide vital context regarding the established delegated authorities under which these payouts were executed. The Managing Director (CEO) is appointed by the Board of Directors and is explicitly tasked with the delegated authority to oversee the day-to-day	The Managing Director will retain the delegated authority to approve and process standard vacation and leave payouts for all agency staff, as this

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	loss and reputational damage. **Recommendation** Management should obtain board approval for the Managing Director's leave pay-outs to ensure appropriate oversight of employees' total benefits.			operations of the Authority. This operational mandate comprehensively includes the administration of payroll, remuneration, and the execution of established human resources policies for all personnel. Under this established framework, the Managing Director is authorized to process standard operational payroll. This includes the regular monthly processing of his own contracted salary and benefits. The end-of-year vacation payouts in question were administered under this exact same operational authority. They were in no way exercised as a means to buy out leave but rather to (at the employees' request)	remains a core day-to-day Operational function. Moving forward, any specific end-of- year leave payouts or non-standard remuneration processing directly pertaining to the Managing Director will be submitted to the Board of Directors (or the designated Board Chairman) for documented review and approval prior

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
				reduce the balance of leave, considering that the NRA's policy affords the carrying over of no more than 5 days into the next calendar year. The payouts totalling $47, 057 were granted to ten (10) key staff who were not able to expend the majority of their vacation leave during the calendar year due to the Authority's heavy workload. The Managing Director received payout for a total of eight (8) unused vacation days in 2025. These unused leave payouts were not discretionary bonuses; rather, they were the standard processing of accrued, earned benefits executed in strict accordance with existing HR policies, verified leave balances, and within the	to disbursement. This adjustment will satisfy the OAG's recommendation for executive-level oversight without impeding the routine administrative operations of the Authority.

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
				Board-approved operational budget. The MD's current business necessities, project work load, Ministry and Board obligations inhibited him from taking the full 5.5 weeks of annual leave so an end-of- year cash payout was given in lieu of the leave being forfeited. Management maintains that the processing of these — including that of the Managing Director—was conducted entirely within the scope of the Managing Director's delegated operational authority, functioning as an extension of standard HR & payroll administration.	