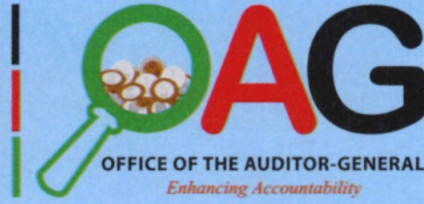


REPUBLIC OF KENYA



**REPORT**

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 12 FEB 2026 DAY: Thursday

ENABLED BY: Hon George Mungosi  
Orubonyo of Lorian

CLERK-AT-TABLE: Kanda Tiller

PARLIAMENT  
OF KENYA  
LIBRARY

**THE AUDITOR-GENERAL**

**ON**

**DUALLING OF MAGONGO ROAD (A109L):  
PHASE II (FIDIC/TURNKEY BASED)**

**FOR THE YEAR ENDED  
30 JUNE, 2025**

**KENYA NATIONAL HIGHWAYS AUTHORITY**



**MINISTRY OF ROADS AND TRANSPORT**



**Kenya National Highways Authority**

*Quality Highways, Better Connections*

**PROJECT NAME: DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC  
EPC/TURKEY BASED)**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

**PROJECT GRANT/CREDIT NUMBER.....N/A.....**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2025**

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**Transitional IPSAS Financial Statements/Prepared in accordance with the Accrual Basis of  
Accounting Method under the International Public Sector Accounting Standards (IPSAS)**

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)***  
***Annual Report and Financial Statements for the financial year ended June 30, 2025***

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***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)***  
***Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**1. Acronyms and Definition of Terms**

CPA	Certified Public Accountant
EIA	Environmental Impact Assessment
EPC	Engineering, Procurement & Construction
ESIA	Environmental Social Impact Assessment
ESMP	Environment & Social Management Plan
FIDIC	International Federation of Consulting Engineers
FY	Financial Year
GoK	Government of Kenya
HIV	Human Immunodeficiency Virus
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
ICB	International Competitive Bidding
KeNHA	Kenya National Highways Authority
KISM	Kenya Institute of Supplies and Management
Kshs.	Kenya Shillings
MDAs	Ministries Departments & Agencies
M&E	Monitoring & Evaluation
NEMA	National Environment Management Authority
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
PWDs	Persons Living with Disabilities
RAP	Resettlement Action Plan
SIA	Social Impact Assessments
SDG	Sustainable Development Goals
SMART	Specific, Measurable, Achievable, Realistic & Time Bound
TMEA	Trade Mark East Africa
TNT	The National Treasury
USD	United States Dollar

**2. Project Information and Overall Performance**

**2.1 Name and registered office**

**Name:** Dualling of Magongo Road (A109L): Phase II (FIDIC/TURNKEY BASED)

**Objective:**

The development objectives of the Project were to increase trade and regional integration and to contribute to the Government of Kenya's social and economic development and poverty reduction efforts by providing a more efficient and effective transport system.

**Address:** Barabara Plaza  
 Jomo Kenyatta International Airport (JKIA)  
 Off Mazao Road  
 Nairobi Kenya

**Contacts:** Director General  
 Kenya National Highways Authority  
 P. O Box 49712-00100  
 Nairobi  
 Telephone: (254) 020 495000  
 E-mail: [dg@Kenha.co.ke](mailto:dg@Kenha.co.ke)  
 Website: [www.kenha.co.ke](http://www.kenha.co.ke)

**2.2 Project Information**

Project Start Date:	06 April 2018
Project End Date:	08 June 2024
Project Coordinators:	Eng. Henry Gakuru
	Eng. Kevin Nyabuto
Project Sponsor:	Trade Mark East Africa (TMEA) and the Government of Kenya (GoK)

**2.3 Project Overview**

Line Ministry/ State Department of the project	The project was under the supervision of the State Department of Roads under the Ministry of Roads and Transport
Project number	N/A
Strategic goals of the project	The strategic goals of the project were as follows: (i) Improve cargo off take from the port. (ii) Reduce the vehicle operating costs and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport. (iii) Enhance social economic development of the people around the project area.
Summary of Project Strategies for achievement of strategic goals	The project management aimed to achieve the strategic goals through implementation of the project in a timely, efficient and effective manner.

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)***  
***Annual Report and Financial Statements for the financial year ended June 30, 2025***

**Project information and overall performance (continued)**

Other important background information of the project	<ol style="list-style-type: none"> <li>The project involved the Dualling of Magongo road starting approximately 300m from the Magongo (A109L) road/Airport access (C110) road intersection through Magongo road to terminate at the Railways crossing just before the A109L/A109 road junction at Kwa-Jomvu (a length of approximately 5.0 Km).</li> <li>The project was jointly financed by Trade Mark East Africa (TMEA) and The Government of Kenya (GoK). In the financing agreement, TMEA contribution was 32% while GoK contribution was 68%</li> </ol>
Project duration	The Project was for a duration of 60 calendar months originally, revised to 90.79 calendar months (54.79 months for design & construction and 36 months Defects Notification period)

**2.4 Bankers** Co-operative Bank of Kenya  
Upper Hill Branch, Nairobi

Kenya Commercial Bank  
JKIA Branch, Nairobi

National Bank of Kenya  
Hill Branch, Nairobi

**2.5 Independent Auditor**

Auditor General  
Office of the Auditor General  
P.O. Box 30084 - 00100 GPO  
Nairobi.

**2.6 Roles and Responsibilities**

List of the people who were working on the project is tabulated below:

	<b>Names</b>	<b>Title designation</b>	<b>Key qualification</b>	<b>Responsibilities</b>
1.	Eng. Henry Gakuru	Director-Development	Registered Engineer	Project Implementing Team Leader
2.	Eng. Kevin Nyabuto	Deputy Director-Special Projects	Registered Engineer	Project Engineer
3.	Mr. Walter Nyatwang'a	Deputy Director-Environment & Social Interests	NEMA Lead Expert, Member EIK	Project Environment & Safeguards Specialist
4.	Ms. Norah Odingo	Deputy Director-Legal Services	Advocate of the High Court of Kenya	Project Legal Specialist
5.	Mr. Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist
6.	Mr. Richard Kilel	Assistant Director-Supply Chain Management	Member, KISM	Project Procurement Specialist

**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Project Information and Overall Performance (Continued)**

**2.7 Funding summary**

The Project was for a duration of 6 years from 2018 to 2024 with an approved budget of USD 11,785,982 equivalent to Kshs.1,190,973,504 as highlighted in the table below:

**A. Source of Funds**

Source of funds	Development Partner Commitments		Amount received to date (30th June 2025)		Undrawn balance to date	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Grant</b>						
TMEA	11,785,982	1,190,973,504	11,785,982	1,190,973,504	-	-
<b>(ii) Counterpart funds</b>						
Government of Kenya	-	4,746,122,949	-	3,612,331,863	-	1,133,791,087
<b>Total</b>	<b>11,785,982</b>	<b>5,937,096,453</b>	<b>11,785,982</b>	<b>4,803,305,367</b>	<b>-</b>	<b>1,133,791,087</b>

Note: - Contract Exchange rate to USD is Kshs.101.050

**B. Application of Funds**

Application of funds	Amount received to date - (30.06.2025)		Cumulative Amount paid to date - (30.06.2025)		Unutilised balance to date - (30.06.2025)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Grant</b>						
TradeMark East Africa	11,785,982	1,190,973,504	11,785,982	1,190,973,504	-	-
<b>(ii) Counterpart funds</b>						
Government of Kenya	-	3,612,331,863	-	3,588,848,898	-	23,482,965
<b>Total</b>	<b>11,785,982</b>	<b>4,803,305,367</b>	<b>11,785,982</b>	<b>4,779,822,402</b>	<b>-</b>	<b>23,482,965</b>

**2.8 Summary of Overall Project Performance:**

i) Budget performance against actual amounts for the current year and for cumulative to-date,

BUDGET	2024/2025			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - Gok	961,449,614	901,929,560	94%	4,088,868,899	3,588,848,898	88%
Grants from External Development Partners						
TMEA	-	-	0%	1,550,000,000	1,190,973,504	77%
<b>Total</b>	<b>961,449,614</b>	<b>901,929,560</b>	<b>94%</b>	<b>5,638,868,899</b>	<b>4,779,822,402</b>	<b>85%</b>

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)***  
***Annual Report and Financial Statements for the financial year ended June 30, 2025***

**Project Information and Overall Performance (Continued)**

ii) *Physical progress based on outputs and outcomes since project commencement*

The Project was completed and handed over to the employer

iii) *Indicate the absorption rate for each year since the commencement of the project*

<b>Financial Year</b>	<b>Budget</b>	<b>Actual</b>	<b>Percentage (%)</b>
	<b><i>Kshs.</i></b>	<b><i>Kshs.</i></b>	
FY 2024/25	961,449,614	901,929,560	94%
FY 2023/24	282,629,465	271,541,568	96%
FY 2022/23	228,247,155	205,372,141	90%
FY 2021/22	385,000,000	168,930,487	44%
FY 2020/21	1,736,349,015	1,307,460,750	75%
FY 2019/20	1,857,693,650	1,801,562,526	97%
FY 2018/19	150,000,000	121,509,136	81%
FY 2017/18	37,500,000	1,516,234	4%
<b>Total</b>	<b>5,638,868,899</b>	<b>4,779,822,402</b>	<b>85%</b>

iv) *Implementation challenges and recommend next steps*

<b>Item No.</b>	<b>Project Implementation Challenges</b>	<b>Recommendations</b>
1	Delay in providing access for contractor in areas where land acquisition/relocation of services process was ongoing	Continuous engagements and compulsory land acquisition aided in resolving the pending right of way and settlement of Project of Affected Persons.
2	Delayed payments of GOK components of the Contractor's Interim Payment Certificates (IPCs).	Budget provisions were made in subsequent financial years that facilitated settlement of Project pending bills.

**2.9 Summary of Overall Project Performance:**

There are no significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants, which has been reported.

**3. Statement of Performance against Project's Predetermined Objectives**

**Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012, requires that the Accounting Officer include a statement of Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) performance against predetermined objectives at the end of each financial year.

The key development objectives of the project agreement/ plan were: -

- a) To improve cargo off take from the port of Mombasa.
- b) To reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport.
- c) To enhance social economic development of the people around the project area.

**Progress on attainment of Strategic development objectives**

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for the reasons of tracking progress and performance measurement.

Below we provide the progress on attaining the stated objectives:

<b>Project</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)	To improve cargo offtake from the port	Reduced congestion in Mombasa town. Reduced travel time between Mombasa and Malaba	Increased volume of Import Export trade handled at the port of Mombasa.	Improved cargo movement out of the Port of Mombasa
	To reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport.	Reduced congestion in Mombasa town.	Increased volume of Import Export trade handled at the port of Mombasa.	Improvement of traffic movement at intersections.
	To enhance social economic development of the people around the project area.	Improved air quality along the project road hence improved health among communities along the project road.	Reduced CO <sub>2</sub> concentration along the project road as a result of reduced traffic congestion.	Trade volumes have increased along the project road as a result of ease of access to business premises.

#### **4. Environmental and Sustainability Reporting**

Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) had a main focus of improving transportation infrastructure to enhance connectivity and efficiency. In terms of environmental and sustainability reporting, the strategy involved rigorous assessment and mitigation of environmental impacts throughout the project lifecycle. Below is a brief highlight of the activities that drove towards sustainability.

##### **1. Sustainability strategy and profile**

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the people and Authority's prosperity. Five out of the seventeen goals are pertinent to management of projects being undertaken by the Authority. These are being addressed through the following initiatives;

- a) *Good health and well-being (SDG 3)*: The Authority strove to undertake Road Safety Audits to identify accident black spots, implement intervention measures and provide road safety education to reduce accidents;
- b) *Gender Equality (SDG 5)*: The Authority encouraged mainstreaming of gender equality in project and programmes by incorporating compliance to one third gender rule in procurement and recruitment;
- c) *Industry, innovation and infrastructure (SDG 9)*: The Authority developed quality, reliable, sustainable and resilient infrastructure including regional and trans-border infrastructure to support economic development and human wellbeing with a focus on affordable and equitable access for all;
- d) *Sustainable cities and communities (SDG 11)*: The Authority endeavoured to extend the paved road network to hitherto underserved areas in the region to improve nationwide access to high speed and all – weather connectivity; and
- e) *Climate action (SDG 13)*: The Authority endeavoured to combat negative impacts of road development through environmental mitigation, climate change measures and compliance with National Environment Management Authority (NEMA) requirements in all development projects.

##### **2. Environmental performance**

The Authority worked towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforcing reinstatement of quarries and borrow pits after construction works, undertook regular Environmental Impact Assessment (EIA) Audits, carried out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

**Environmental and Sustainability Reporting (Continued)**

While executing works, the Contractor continued to perform air quality management such as regularly dampening of deviations and other dust-prone accesses to lay dust; Sprinkling of stockpiles (mainly the quarry dust) at the construction camp; control of construction vehicle speed limits along the deviations and dusty accesses; regularly servicing of vehicles and other machinery that controlled exhaust gas emissions, maintenance of the asphalt and concrete batching plants including the dust collection systems that ensured effectiveness in dust collection.

**3. Employee welfare**

In all its staff appointments, the Authority took deliberate actions to embrace Equal Employment Opportunity policies, gender mainstreaming, addressed concerns around Persons Living with Disabilities (PWDs) and took affirmative action in line with prevailing Government Policy guidelines. The Authority prioritized training to develop technical capacity of staff in the fields of Value Engineering, Project Financing, Project, Contract Management, Performance Based Maintenance and Safety.

**4. Marketplace practices-**

**a) Responsible Supply chain and supplier relations**

The Authority strived to ensure responsible competition practices through undertaking annual governance audits in projects, monitored the implementation of policies and further promoted ethical conduct in projects.

**b) Responsible ethical practices**

The Authority equally sensitized staff on corruption and integrity.

**c) Regulatory impact assessment**

The Authority undertook to be actively involved in the negotiations during budget sector hearings in order to increase budgetary allocations for projects thus honouring contracts by paying its liabilities on time.

Further, the Authority endeavoured to honour its contractors and vendors payments through paying within the set payment timelines in the contracts and agreements.

**5. Community Engagements**

During the implementation of the Project, the Authority was committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement was to ensure that the projects fostered long-term relationships with stakeholders and communities around the project.

**Environmental and Sustainability Reporting (Continued)**

The aim was not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff were also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

During the project execution, the Contractor continued to offer employment opportunities to the locals as casuals. The Contractor also carried out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

The Contractor was able to construct new sewers at the following sections for the community at no extra cost to the Project:

1. Magongo Safari: Scope; Length 185m, diameter 150mm with 5 number chambers.
2. Wayani: Scope; Length 65m, diameter 200mm with 3 number chambers.
3. Jomvu Madukani: Scope; Length 180m, diameter 200mm with 4 number chambers.

To enhance social safeguards in projects, the Authority undertook Resettlement Action Plan (RAP) studies and implemented its recommendations, carried out Social Impact Assessments (SIA), undertook gender mainstreaming and conducted stakeholders' forums that sensitized the public in several cross-cutting issues.

## **5. Statement of Project Management Responsibilities**

The Director General, KeNHA and the Project Implementation Team Leader are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2025. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

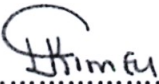
The Director General, KeNHA and the Project Implementation Team Leader accept responsibility for the Project's financial statements, which have been prepared on the accrual basis method of financial reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

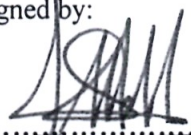
The Director General, KeNHA and the Project Implementation Team Leader are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2025, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Director General, KeNHA and the Project Implementation Team Leader confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

### **Approval of the Project financial statements**

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader on 27 AUG 2025 and signed by:

  
.....  
**Eng. Luka Kimeli**  
**Ag. Director General**

  
.....  
**Eng. Henry Gakuru**  
**Director-Development**

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC/TURNKEY BASED) FOR THE YEAR ENDED 30 JUNE, 2025 - KENYA NATIONAL HIGHWAYS AUTHORITY**

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### **PREAMBLE**

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

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

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

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities 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 transitional IPSAS financial statements of Dualling of Magongo Road (A109L) Phase II set out on pages 1 to 21, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement

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*Report of the Auditor-General on Dualling of Magongo Road (A109L): Phase II (FIDIC/TURNKEY BASED) for the year ended 30 June, 2025 - Kenya National Highways Authority*

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

In my opinion, the transitional IPSAS financial statements present fairly, in all material respects, the financial position of Dualling of Magongo Road (A109L): Phase II (FIDIC/TURNKEY BASED) as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with Transitional International Public Sector Accounting Standards (Accrual Basis) including the transitional provisions permitted under IPSAS 33 and comply with Financing Agreements between the Republic of Kenya and Trademark East Africa (TMEA) dated 24 November, 2010 and the Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No.3 of 14 April, 2025.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Dualling of Magongo Road (A109L): Phase II (FIDIC/TURNKEY BASED) Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Emphasis of Matter**

#### **1. Long Outstanding Payables**

The statement of financial position reflects trade and other payables balance of Kshs.1,133,791,086 which includes as disclosed in and Note 11 to the financial statements. This balance includes trade payables amount of Kshs.684,466,506 which had been outstanding for over one (1) year. Management attributed this to lack of adequate budgetary allocations and timely releases of Exchequer funds.

The Project runs the risk of incurring significant interest costs and penalties with the continued delay in settling the bills.

#### **2. Project Closure Report**

Paragraph 2.7 on Funding Summary indicates that the Project was for a duration of six (6) years from 06 April, 2018 to 08 June, 2024 with an approved Development Partner Commitment budget of USD.11,785,982 equivalent to Kshs.1,190,973,504 and Government of Kenya counterpart funds of Kshs.4,746,122,949 totalling to Kshs.5,937,096,453. The Donor Commitment was received in full while an amount of Kshs.1,133,791,087 in respect of GoK counterpart funds had not been received.

Further, Paragraph 2.8 on summary of overall Project performance indicates that the Project was physically completed and handed over to the employer. However, the Project

closure report was not provided for audit. Management did not provide an explanation for the failure to close the Project.

My opinion is not modified in respect of these matters.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There 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, several issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources as indicated in Annex 1. However, Management had not resolved the issues as at 30 June, 2025.

#### **Annex 1: Unresolved Prior Year Audit Issues – Financial Year 2023/2024**

	<b>Issue</b>	<b>Audit Status</b>
1	Budgetary Control and Performance	Not Resolved
2	Irregular Variation of Project Costs on Government Contributions	Not Resolved
3	Failure to Adequately Budget for Pending Bills	Not Resolved
4	Delay in Completion of Project	Not Resolved
5	Irregular Variation of Contract Sum on Consultancy Services	Not Resolved

### **Other Information**

The Management is responsible for the Other Information set out on page iii to xi which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **Contract Price Variation and Interest on Delayed Payments**

Review of Project records revealed that the contractor was awarded claims totaling Kshs.614,329,869 comprising of an amount of Kshs.401,844,724 and Kshs.212,485,154 in respect of contract price variations and interest on delayed payments respectively.

Further, the Project briefs dated 25 July, 2023 revealed that the contractor had lodged a prolongation cost claim of Kshs.3,497,747,818, representing 142% of the original civil works project cost of Kshs.2,464,287,937. The claim remained under evaluation as at September, 2025. This exposes the Project to the risk of escalation of costs, potential disputes, and litigation, which could derail project completion and result in substantial loss of public funds.

In the circumstances, there may be no value for money as public resources are diverted to settle avoidable costs such as interest on delayed payments and contract price variation.

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

## REPORT ON THE 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 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Conclusion

As required by the Financing Agreement No. 200765123 between the Republic of Kenya and German Development Bank (KfW) dated 14 December, 2009, I report, based on my audit, that:

- i. 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.
- ii. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

### Basis for Conclusion

The Financing Agreement requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Project's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### Responsibilities of the Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Transitional International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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

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

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

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

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

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

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

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

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

**Nairobi**

**24 November, 2025**

**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**7. Statement of Financial Performance for the Year Ended 30th June 2025.**

	Notes	2024/25
		Kshs
<b>Revenue</b>		
Revenue Transfers	6	-
Miscellaneous Revenue		-
<b>Total revenue</b>		-
<b>Expenses</b>		
Use of goods and services	7	479,945
Depreciation and amortization expense		-
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
<b>Total expenses</b>		<b>479,945</b>
<b>Other gains/(losses)</b>		
Gain/Loss on sale of assets		-
Gain/Loss on foreign exchange transactions		-
Impairment loss		-
<b>Surplus/ (deficit)</b>		<b>(479,945)</b>

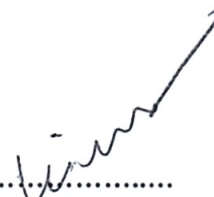
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



.....  
**Eng. Luka Kimeli**  
**Ag. Director General**



.....  
**Eng. Henry Gakuru**  
**Director -Development**



.....  
**CPA Isaac Kimani Karumba**  
**Ag. Deputy Director (F&A)**  
**ICPAK Member No. 3321**

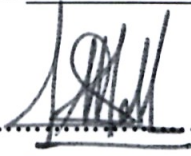
**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

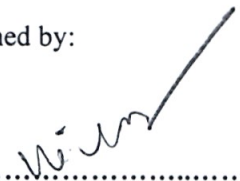
**8. Statement of Financial Position as at 30th June 2025**

	Note	2024/25	1 <sup>st</sup> July 2024
		Kshs	Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash equivalents	8	62,526,445	62,170,098
Receivables	9	70,000,000	99,048,633
Inventories		-	-
Prepayment		-	-
<b>Total Current Assets</b>		<b>132,526,445</b>	<b>161,218,731</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	10	5,884,297,746	5,288,320,328
Intangible Assets		-	-
<b>Total Non- Current Assets</b>		<b>5,884,297,746</b>	<b>5,288,320,328</b>
<b>Total Assets (a)</b>		<b>6,016,824,191</b>	<b>5,449,539,059</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables	11	1,133,791,086	1,538,311,916
Third Party Deposits	12	39,043,480	28,207,187
Deferred Income		-	-
<b>Total Current Liabilities</b>		<b>1,172,834,566</b>	<b>1,566,519,103</b>
<b>Total Liabilities (b)</b>		<b>1,172,834,566</b>	<b>1,566,519,103</b>
<b>Net Assets (a-b)</b>		<b>4,843,989,625</b>	<b>3,883,019,956</b>
<b>Represented By:</b>			
Capital Grant		4,810,506,659	3,849,057,045
Accumulated Surplus		33,482,966	33,962,911
<b>Total Net Assets</b>		<b>4,843,989,625</b>	<b>3,883,019,956</b>

The financial statements were approved on 27 AUG 2025 and signed by:

  
 .....  
 Eng. Luka Kimeli  
 Ag. Director General

  
 .....  
 Eng. Henry Gakuru  
 Director -Development

  
 .....  
 CPA Isaac Kimani Karumba  
 Ag. Deputy Director (F&A)  
 ICPAK Member No. 3321

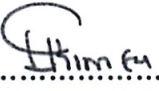
**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**9. Statement of Changes in Net Assets**

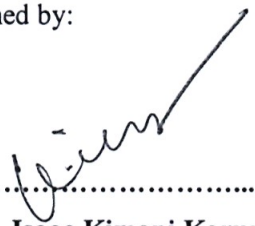
Description	Capital Grant	Accumulated Surplus	Total
		Kshs	
<b>As at 30<sup>th</sup> June 2024 (Cash Basis)</b>	-	33,962,911	33,962,911
Adjustments:			
Asset Recognition	5,387,368,961	-	5,387,368,961
Liabilities recognition	(1,538,311,916)	-	(1,538,311,916)
<b>As at 1<sup>st</sup> July 2024</b>	<b>3,849,057,045</b>	<b>33,962,911</b>	<b>3,883,019,956</b>
Capital Grants received during the FY	961,449,614	-	961,449,614
Surplus/(Deficit) for the year	-	(479,945)	(479,945)
<b>As at 30<sup>th</sup> June 2025</b>	<b>4,810,506,659</b>	<b>33,482,966</b>	<b>4,843,989,625</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

The financial statements were approved on 27 AUG 2025 and signed by:

  
 .....  
**Eng. Luka Kimeli**  
**Ag. Director General**

  
 .....  
**Eng. Henry Gakuru**  
**Director -Development**

  
 .....  
**CPA Isaac Kimani Karumba**  
**Ag. Deputy Director (F&A)**  
**ICPAK Member No. 3321**

*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2025*

**10. Statement of Cashflow for the year ended 30th June 2025**

Description	Note	2024/25
		Kshs
<b>Cashflow from operating activities</b>		
<b>Receipts</b>		
Revenue Transfers		-
Miscellaneous Revenue		-
<b>Total receipts</b>		-
<b>Payments</b>		
Use of goods and services		479,945
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
<b>Total payments</b>		<b>479,945</b>
<b>Net cash flow from operating activities</b>	13	<b>(479,945)</b>
<b>Cashflow from investing activities</b>		
Acquisition of non-financial assets		(890,613,322)
Proceeds from sale of Assets		-
Acquisition of Intangible assets		-
<b>Net cash flows from investing activities</b>		<b>(890,613,322)</b>
<b>Cash flow from financing activities</b>		
<b>Capital grants - Gok</b>		<b>891,449,614</b>
		-
<b>Net cash flow from financing activities</b>		<b>891,449,614</b>
Net increase/Decrease in cash and cash equivalents		356,347
<b>Cash and cash equivalent at 1<sup>st</sup> July 2024</b>	<b>8</b>	<b>62,170,098</b>
<b>Cash and cash equivalent at end June 2025</b>	<b>8</b>	<b>62,526,445</b>

*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2025*

**11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30th June 2025**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Budget Carry Overs from previous periods</b>	-	-	33,962,911	33,962,911	-	100%
<b>Receipts</b>						
Transfers from GoK	115,000,000	846,499,614	961,499,614	891,449,614	70,050,000	93%
<b>Total Revenue</b>	115,000,000	846,499,614	995,462,525	925,412,525	70,050,000	93%
<b>Payments</b>						
Use of goods and services	115,000,000	846,499,614	995,462,525	479,945	104,369,258	90%
Acquisition of non-financial assets				890,613,322		
<b>Total Payments</b>	115,000,000	846,499,614	995,462,525	891,093,267	104,369,258	90%
<b>Surplus</b>	-	-	-	34,319,258	(34,319,258)	-

The changes between original and final budget arose due to the partial release of funds, budget cuts and Bridge settlement financing.

**Budget Reconciliation**

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	34,319,258
1.	Retention as at 1 July 2024	28,207,187
	Closing Cash and Cash Equivalent as per the statement of Cash flows	62,526,445

**12. Notes to the Financial Statements**

**1. General Information**

Kenya National Highways Authority (KeNHA) is established by and derives its authority and accountability from the Kenya Roads Act, 2007. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to improve transportation infrastructure on National Trunk Roads, which are classified as Class S, Class A, and Class B roads. This advances road development to support national and regional integration, and promote greater connectivity and efficiency. The Dualling of Magongo Road (A109L) is under the supervision of KeHNA.

**2. Statement of Compliance and Basis of Preparation**

The Project financial statements have been prepared in accordance with the Public Finance Management Act, 2012 and with the International Public Sector Accounting Standards (IPSAS).

These financial statements were authorized for issue by the accounting officer on 27 AUG 2025

**3. Adoption of New and Revised Standards**

**i) *New and amended standards and interpretations in issue effective in the year ended 30 June 2025.***

<b>Standard</b>	<b>Effective date and impact:</b>
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 recognize, measure and present information on right of use assets and lease liabilities.</p> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></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,</p> <p>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> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>

**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

<b>Standard</b>	<b>Effective date and impact:</b>
IPSAS 45- Property Plant and Equipment	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognized as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p> <p><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>
IPSAS 46 Measurement	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> <li>i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.</li> <li>ii. Clarifying transaction costs guidance to enhance consistency across IPSAS;</li> <li>iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</li> </ul> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> <p><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025**

<b>Standard</b>	<b>Effective date and impact:</b>
IPSAS 47- Revenue	<p><b><i>Applicable 1<sup>st</sup> January 2026</i></b></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p> <p><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>

**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

Standard	Effective date and impact:
IPSAS 48- Transfer Expenses	<p><b>Applicable 1<sup>st</sup> January 2026</b></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p> <p><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>
IPSAS 49- Retirement Benefit Plans	<p><b>Applicable 1<sup>st</sup> January 2026</b></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<p><b>Applicable 1<sup>st</sup> January 2027</b></p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:</p> <ol style="list-style-type: none"> <li>i. Limited improvements to existing accounting practices for exploration and evaluation expenditures.</li> <li>ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26.</li> <li>iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.</li> </ol> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>

**iii) Early adoption of standards**

The Project did not early – adopt any new or amended standards in the financial year 2024/2025.

#### **4. Summary of Significant Accounting Policies**

##### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions**

###### **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 Project and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

##### **ii) Revenue from exchange transactions**

###### **Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

##### **b) Budget information**

The original budget for FY 2024/2025 was approved by the National Assembly on 28th January 2024. 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 to conclude the final budget. Accordingly, the entity recorded additional appropriations following its approval.

The Project's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 6 under section 11 of these financial statements.

##### **c) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the item of property appropriately according to the acronyms you use in your financial statements plant and equipment.

**Notes to the financial statements (Continued)**

**Property, plant and equipment (Continued)**

When significant parts of property, plant and equipment are required to be replaced at intervals, the Project recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized in surplus, or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

**d) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Project. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Project also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Project will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

**e) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

**f) Research and development costs**

The Project expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Project can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

**Notes to the financial statements (Continued)**

**Research and development costs (Continued)**

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**g) Financial instruments**

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The Project does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Project's financial statements.* A financial instrument is any contract that gives rise to a financial asset of one Project and a financial liability or equity instrument of another Project. At initial recognition, the Project measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

***Financial assets***

***Classification***

The Project classifies its financial assets as subsequently measured at amortized cost, fair value through net assets/ equity, or fair value through surplus and deficit on the basis of both the Project's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless the Project has made an irrevocable election at initial recognition for particular investments in equity instruments.

**Subsequent measurement**

Based on the business model and the cash flow characteristics, the Project classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

**Notes to the financial statements (Continued)**

**Amortized cost**

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through net assets/ equity**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through surplus or deficit**

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the Project manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

**Trade and other receivables**

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year-end.

**Impairment**

The Project assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The Project recognizes a loss allowance for such losses at each reporting date. The Project did not have any impairment during the financial year.

***Financial liabilities***

***Classification***

The Project classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

**h) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method.

**Notes to the financial statements (Continued)**

**Inventories (Continued)**

- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Project.

**i) Provisions**

Provisions are recognized when the Project 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 Project 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 Project 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. The project is currently involved in one legal case regarding a dispute on the NLC award amount. The estimated potential liability is Kshs.62,000,000 and based on legal advice, it is not probable that the entity will be required to settle the claim. The project has a request for extension of time from the contractor amounting to Kshs.2,851,043,577 currently under review by the Authority's Director General. Accordingly, no provision has been made and a contingent liabilities register has been disclosed in Annex 5 to these financial statements

***Contingent assets***

The Project 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 Project 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.

**Notes to the financial statements (Continued)**

**j) Nature and purpose of reserves**

The Project creates and maintains reserves in terms of specific requirements. The Project maintains grants and surplus reserves. The grant reserves are exchequer and donor funds received from the Government and Development Partners for development of roads. The surplus reserve represents the surplus or deficit of Road maintenance contributions and other internally generated funds against road maintenance and operation expenses.

The exchequer and Development partner funds are capitalized in the statement of financial position whereas Road maintenance contributions are expensed in the statement of financial performance. However, the portion of exchequer funds spent on non-capital items or project expenses is transferred to recurrent transfers and treated as recurrent government grants and expenditures accordingly.

**k) Changes in accounting policies and estimates**

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

**l) Employee benefits**

**Retirement benefit plans**

The Project does not provide retirement benefits nor does it pay any fixed contributions into a separate fund.

**m) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. At each reporting date, foreign currency monetary items are translated using the closing rate. Non-monetary items measured in historical cost are translated using the exchange rate at the date of the transaction, and those measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising from the settlement of monetary items or translation of monetary/non-monetary items at rates different from those at which they were initially reported are recognized in surplus or deficit in the period.

**n) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**o) Related parties**

The Project 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 Project, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

**Notes to the financial statements (Continued)**

**p) Service concession arrangements**

The Project analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Project recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price.

In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Project also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**q) 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.

**r) 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, 2025.

**Notes to the financial statements (Continued)**

**5. Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the Project'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 Project 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 Project. 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 by the Project.
- 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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. There were no additional provisions made in the reporting financial year.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Notes to the financial statements (Continued)

**6. Revenue Transfers**

Description	2024/25
	Kshs
<b>Unconditional Transfers</b>	
GoK Counter Part funding	110,000,000
TradeMark East Africa (TMEA)	-
Other unconditional transfers - Bridge Settlement Financing	851,449,614
<b>Total Unconditional Transfers (a)</b>	<b>961,449,614</b>
<b>Conditional Transfers</b>	
TradeMark East Africa (TMEA)	-
<b>Total Conditional Transfers (b)</b>	<b>-</b>
<b>Total Transfers for the Year (a + b)</b>	<b>961,449,614</b>

**a) Details to Revenue Transfers**

Name of The Entity Transferring	Amount recognized to Statement of Financial performance	Amount deferred under deferred income.	Amount moved to Capital fund	Total transfers (2024/25)
	Kshs	Kshs	Kshs	Kshs
GOK Funding	-	-	110,000,000	110,000,000
Bridge Settlement Financing	-	-	851,449,614	851,449,614
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>961,449,614</b>	<b>961,449,614</b>
Deferred Income realized	-	-	-	-
Transfers in Kind	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>961,449,614</b>	<b>961,449,614</b>

**7. Use of Goods and Services**

Description	FY 2024/2025
	Kshs
Domestic travel and subsistence	479,945
	-
<b>Total</b>	<b>479,945</b>

**8. Cash and Cash Equivalents**

Description	2024/25	1 <sup>st</sup> July
	Kshs	Kshs
Cash in Bank	62,526,445	62,170,098
Cash on hand	-	-
<i>Others</i>	-	-
<b>Total Cash and Cash Equivalents</b>	<b>62,526,445</b>	<b>62,170,098</b>

*The Co-operative Bank Account -Exchequer Account is the Main KeNHA bank account where all GoK funds are transacted from.*

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**Notes to the financial statements (Continued)**

**Project Bank Accounts**

Details	2024/2025	1st July 2024
	Kshs	Kshs
<b>Local Currency Accounts</b>		
National Bank of Kenya Ltd. [A/c No. 01001032733200]	39,043,480	28,207,187
Co-operative Bank of Kenya [A/c No 01141160979900]	23,482,965	33,962,911
Kenya Commercial Bank [A/c No1274695775]	-	-
Others	-	-
<b>Total bank account balances</b>	<b>62,526,445</b>	<b>62,170,098</b>

**9. Receivables**

Description	2024/2025	1st July 2024
	Kshs	Kshs
GoK Counter Part Funding	70,000,000	-
Contractor's Advance payments	-	99,048,633
<b>Total Receivables</b>	<b>70,000,000</b>	<b>99,048,633</b>

*During the FY the advance payments were recovered. Out of the approved counterpart funding of Kshs. 110,000,000, only Kshs. 40,000,000 had been received in cash as at 30 June 2025, however the full amount was recognized as grant income resulting in a receivable of Kshs. 70,000,000 at 30 June 2025 which has been reported as part of the grant income in the Statement of Changes in Net Assets.*

**Ageing analysis for Receivables**

Description	2024/2025		1st July 2024	
	Kshs		Kshs	
	Current FY	% of the total	Comparative FY	% of the total
Less than 1 year	70,000,000	100%	-	%
Between 1- 2 years	-	%	-	%
Between 2-3 years	-	%	-	%
Over 3 years	-	%	-	%
<b>Total (a+b)</b>	<b>70,000,000</b>	<b>100%</b>	<b>-</b>	<b>0%</b>

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Notes to the financial statements (Continued)

**10. Property, Plant and Equipment**

Cost	Land	Capital	Total
		Work in progress	
		Kshs	Kshs
<b>Depreciation rate</b>			
<b>As At 1 July 2024 (opening balances)</b>	<b>2,696,068,274</b>	<b>2,592,252,054</b>	<b>5,288,320,328</b>
Additions	-	670,347,218	670,347,218
Disposals	-	-	-
Transfers/Adjustments	-	(74,369,800)	(74,369,800)
<b>As at 30<sup>th</sup> June 2025</b>	<b>2,696,068,274</b>	<b>3,188,229,472</b>	<b>5,884,297,746</b>
<b>Depreciation and Impairment</b>			
<b>As at 1 July 2025</b>		-	-
Depreciation charge for the year		-	-
Impairment loss		-	-
Transfers/ Adjustments		-	-
<b>As At 30<sup>th</sup> June 2025</b>		-	-
<b>Net Book Values</b>			
<b>As at 1<sup>st</sup> July 2024</b>		<b>2,592,252,054</b>	<b>5,288,320,328</b>
<b>As at 30<sup>th</sup> June 2025</b>	<b>2,696,068,274</b>	<b>3,188,229,472</b>	<b>5,884,297,746</b>

**11. Trade and Other Payables**

Description	2024/2025		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
Trade payables	1,133,791,086		1,538,311,916	
<b>Total trade and other payables</b>	<b>1,133,791,086</b>		<b>1,538,311,916</b>	
<b>Ageing analysis: (Trade and other payables)</b>	<b>Current FY</b>	<b>% of the Total</b>	<b>Comparative FY</b>	<b>% of the Total</b>
Under one year	449,324,580	40%	143,247,340	9%
1-2 years	82,869,207	7%	-	0%
2-3 years	-	0%	83,467,277	5%
Over 3 years	601,597,299	53%	1,311,597,299	85%
<b>Total</b>	<b>1,133,791,086</b>	<b>100%</b>	<b>1,538,311,916</b>	<b>100%</b>

*As at 1 July 2024 the opening pending bills was Kshs.1,538,311,916 and Kshs.1,133,791,086 as at the close of the financial year. A more detailed analysis of the payables is attached in Annex 4 to these financial statements.*

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Notes to the financial statements (Continued)

**12. Third-Party Deposits**

Description	2024/2025		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
Contractor's Retention	39,043,480		28,207,187	
<i>Prepayment</i>	-		-	
<b>Total deposits</b>	<b>39,043,480</b>		<b>28,207,187</b>	
Ageing analysis: (Refundable deposits)	Current FY	% of the Total	Comparative FY	% of the Total
Under one year	10,836,293	28%	3,775,793	13%
1-2 years	3,775,793	10%	24,431,394	87%
2-3 years	24,431,394	63%	-	0%
Over 3 years	-	0%	-	0%
<b>Total</b>	<b>39,043,480</b>	<b>100%</b>	<b>28,207,187</b>	<b>100%</b>

*The total amount of Retention held increased by Ksh10,836,293 during the financial year.*

**13. Cash Generated from Operations**

Description	2024/25
	Kshs
<b>Surplus/Deficit for the year</b>	<b>(479,945)</b>
<b>Adjusted for:</b>	
Depreciation	-
Non-cash grants received	-
Impairment	-
Gains and losses on disposal of assets	-
<b>Working capital adjustments</b>	
Increase in inventory	-
Increase in receivables	-
Increase in deferred income	-
Increase in payables	-
Increase in payments received in advance	-
<b>Net cash flow from operating activities</b>	<b>(479,945)</b>

**14. 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.

**Government of Kenya**

The Government of Kenya is the principal shareholder of the *Entity*, holding 100% of the *Entity*'s 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:**

- i) Kenya Roads Board.

Description	2024/2025
	Kshs
<b>Transactions with related parties</b>	
<b>b) Grants /transfers from the government</b>	
Grants from Kenya Roads Board	851,449,614
Grants from County Government	-
Donations in kind	-
<b>Total</b>	<b>851,449,614</b>

**15. Events after the Reporting Period**

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

**16. Ultimate And Holding Entity**

The *Entity* is a Semi-Autonomous Government Agency under the Ministry of Roads and Transport. Its ultimate parent is the Government of Kenya.

**17. Currency**

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

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**13. Annexes**

**Annex 1: Prior Year Auditor-General's Recommendations**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

<b>Ref No.</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status:</b>	<b>Time frame</b>
724.	<p><b>Opinion</b></p> <p><b>Emphasis of Matter</b></p> <p><b>Budgetary Control and Performance</b></p> <p>The statement of comparison of budget and actual amounts reflects approved receipts budget of Kshs.282,629,465 all of which was realized. In addition, budgeted expenditure amounted to Kshs.282,629,465 while actual expenditure was Kshs.271,541,568, resulting to under-utilization of Kshs.11,087,897 or 4%. Available information indicates that the project was for a duration of six (6) years from 2018 to 2024 with an approved budget of USD 11,785,982 equivalent to Kshs.1,190,973,504.</p>	<p>We agree with the audit observation that the budgeted expenditure amounted to Kshs.282,629,465 while actual expenditure was Kshs.271,541,568, resulting to under-utilization of Kshs.11,087,897 or 4%. We however wish to clarify that the amount was received towards the end of the FY 2023/24 and was paid at the beginning of FY 2024/2025.</p>	Not Resolved	FY 2025/2026
725.	<p><b>Other Matter</b></p> <p><b>Unresolved Prior Year Matters</b></p> <p>Various prior-year audit issues remained unresolved as at 30 June, 2024. Even though Management indicated that the Authority has already appeared before the Public Accounts Committee (PAC) and made submissions on all matters raised by the Auditor-General for the financial year 2022/2023, the PAC report was yet to be shared.</p>	<p>We note the audit observation and wish to clarify that the Authority has appeared before the Public Accounts Committee and made its submissions on all matters raised by the Auditor General on the Project financial statements up to FY 2021/22.</p>	Not Resolved	FY 2025/2026

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
726.	<p><b>Basis for Conclusion</b></p> <p><b>Irregular Variation of Project Costs on Government Contribution</b></p> <p>The statement of receipts and payments reflects cumulative receipts to date from the inception of Kshs.3,911,855,753 out of which Kshs.1,190,973,504 or approximately 30% were receipts from Trade Mark East Africa (TMEA) while Kshs.2,720,882,249 or approximately 70% were receipts from The Government of Kenya (GoK).</p> <p>However, the financing agreement indicated that the TMEA contribution was to be 32% while GoK contribution was to be 68%. The increased variation of Kshs.190,063,553 borne by GoK was attributed to price and interest on delayed payments.</p> <p>In the circumstances, the value for money and efficient achievement of strategic goals of the project could not be confirmed.</p>	<p>We agree with the audit observation that the statement of receipts and payments reflects cumulative receipts to date from inception of Kshs.3,911,855,753 out of which Kshs.1,190,973,504 or approximately 30% were receipts from Trade Mark East Africa (TMEA) while Kshs.2,720,882,249 or approximately 70% were receipts from the Government of Kenya (GoK).</p> <p>We however wish to clarify that Variation of Price and interest on delayed payments are contractual obligations provided for in the contract agreement which the Contractor opted to claim. The variation of price was due to increased costs and interest was due to inadequate budgetary allocations in the current as well as prior financial years, delays in release of exchequer funds which led to delays in processing GoK counterpart portion. In addition, the Financing Agreement lapsed prior to project completion.</p>	Not Resolved	FY 2025/2026
727	<p><b>Failure to Adequately Budget for Pending Bills</b></p> <p>Note 10 to the financial statements on other important disclosures and the corresponding analysis at Annex 4 to the financial statements reflect a balance of Kshs.1,538,311,916 in respect of pending bills. The balance includes Kshs.1,451,647 in respect to</p>	<p>We agree with the audit observation that Note 10 to the financial statements on other important disclosures and the corresponding analysis at Annex 4 to the financial statements</p>		

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
	<p>supply of services, Kshs.225,262,970 in relation to construction of civil works and Kshs.1,311,597,299 in relation to lands compensation.</p> <p>As reported in the previous years, Management has undertaken to liaise with The National Treasury to obtain adequate budgetary allocation to pay the pending bills.</p> <p>However, review of the approved budget for the year 2023 - 2024 revealed that Management did not have an adequate budget for the pending bills, contrary to the provisions of Regulation 31(2) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to budget for and obtain approval for all services which can be foreseen.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>reflect a balance of Kshs.1,538,311,916 in respect of pending bills.</p> <p>We wish to clarify that the Authority has and continues to work closely with the Parent Ministry and the National Treasury with the aim of allocating additional budget to clear the outstanding pending bills.</p> <p>We agree with the audit observation and wish to clarify that pending bills are as a result of inadequate GoK budgetary allocations in the current and prior financial years. The budget approved for FY 2024/25 was Kshs.961,499,614 in comparison to Kshs.282,629,465 for the FY 2023/24 which has resulted in a reduction of the pending bills balance to Kshs.1,133,791,086 as at 30 June 2025.</p>	Not Resolved	Ongoing
728.	<p><b>Delay in Completion of the Project</b></p> <p>Review of project information revealed that the Project commenced on 2 May, 2018 for an initial contract period of sixty (60) months, with an initial completion date of 1 May, 2020 and an original contract sum of Kshs.2,420,327,530.</p> <p>However, during the implementation of the project, several extensions of time were requested cumulatively summing up to 1591 days out of which 933 days were determined and approved by the employer while the cost claim is still being evaluated. The revised completion date based on the extension of time was 20</p>	<p>We note the audit observation regarding delay in completion of the Project.</p> <p>We wish to clarify that as at the time of reporting, the delay in completion of the Project and the several extension of time (EOT) requests were due to inadequate Government of Kenya (GoK) budgetary allocations in the current and prior financial</p>	Not Resolved	FY 2025/2026


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<b>Ref No.</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status:</b>	<b>Time frame</b>
	<p>November, 2022 with an actual completion date of 8 June, 2024 and a revised contract sum of Kshs.2,464,287,937.</p> <p>A physical verification of the road project undertaken on 17 September, 2024 revealed that the contractor was not on site on account of substantial completion of the Project. The physical progress of works completed was 92.66% with time elapsed being 74 months.</p> <p>However, street lights have not been installed and some sections of the road works which included a roundabout at Kwa Jomvu junction was not done as designed due to failure of the Authority to compensate land owners. This was contrary to Section 5(1), (8) and (9) of the Public Procurement and Asset Disposal Act, 2015 which provides that all procurement by State organs and public entities are subject to the rules and principles of this Act.</p> <p>An accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates. An accounting officer who knowingly commences any procurement process without ascertaining whether the good, work or service is budgeted for, commits an offence under this Act. In addition, Section 47(6) of the Public Finance Management Act, 2012 states that if a project that is being financed by a grant or donation requires National Government funding, the project may only be started when the required funding has been appropriated in accordance with this</p>	<p>years. This affected compensations to Project Affected Persons hence lack of right of way to the contractor.</p> <p>We further clarify that as at 30 June 2024 the road works were substantially complete hence the contractor was not on site. In addition, a Taking over certificate was issued for the road project.</p> <p>We agree with the observation that the street lights had not been installed in some sections at the time of audit. However, we wish to clarify that streetlighting was completed during Defects Liability Period.</p> <p>We additionally confirm that the planned Kwa Jomvu junction roundabout wasn't tenable on account of lack of adequate right of way, the road design was retrofitted to fit on the available corridor.</p> <p>We also wish to clarify that the Project is a multi-year project whose funding is dependent on the annual allocations in line with Government Budgeting cycle. The project however experienced inadequate allocations during the implementation phase hence delays in compensation of the project affected persons.</p>		

**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
	Act or is authorized by other legislation or the Cabinet Secretary has given a written authorization for the project to start. In the circumstances, the achievement of the Project objectives and value for money could not be confirmed.			
729.	<b>Irregular Variation of Contract Sum on Consultancy Services</b>  Review of the contract agreement for consultancy services for supervision of the project dated 11 June, 2018, revealed initial contract sum of Kshs.97,326,900. Over the past six (6) years, the contract sum has increased to Kshs.194,429,055 translating to an increase of Kshs.97,102,155 or 99.8% of the original contract sum which exceeds the 25% threshold set by law. Management did not provide any approval for separate tender or justification for the contract variation contrary to Section 139(4) (b) of the Public Procurement and Asset Disposal Act, 2015 on amendments or variations to contracts which provides that the quantity variation for goods and services does not exceed fifteen percent (15%) of the original contract quantity.  In the circumstances, Management was in breach of the law.	We note the audit observation that contract agreement for consulting services for supervision of the Project has varied to Kshs.194,429,055. However, we wish to clarify that the project was financed by Trademark East Africa (TMEA) through a grant to the Government of Kenya. The procurement of the various project components under the Dualling of Magongo Road were therefore processed in accordance with the Financier's guidelines (TMEA) and the provisions of the Financing agreement. Further, all variations were done in line with the said guidelines where prior no-objection from TMEA was obtained before approval.	Not Resolved	FY 2025/2026

  
 .....  
**Eng. Luka Kimeli**  
**Ag. Director General**

  
 .....  
**Eng. Henry Gakuru**  
**Director Development**

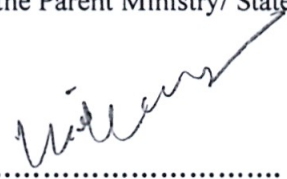
**Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)**  
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**Annex 2: Reconciliation of inter-entity transfers**

<b>Project Name:</b>		Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey)		
<b>Break down of transfers from the State Department of Ministry of Roads and Transport</b>				
<b>A.</b>	<b>Government Counterpart funding</b>			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		26/09/2024	10,000,000	FY 2024/2025
		<b>Total</b>	<b>10,000,000</b>	
<b>B.</b>	<b>Direct payments</b>			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			-	
		<b>Total</b>	<b>-</b>	
<b>C.</b>	<b>Others</b>			
	<b>Fuel Levy Funds</b>			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		26/02/2025	30,000,000	FY 2024/2025
	<b>Bridge Financing</b>			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		01/04/2025	282,921,459	FY 2024/2025
		29/04/2025	380,000,000	FY 2024/2025
		21/05/2025	188,528,155	FY 2024/2025
		<b>Total</b>	<b>881,449,614</b>	
		<b>Total (A+B+C)</b>	<b>891,449,614</b>	

The above amounts have been communicated to and reconciled with the Parent Ministry/ State Department

  
 .....  
 Eng. Luka Kimeli  
 Ag. Director General

  
 .....  
 CPA Isaac Kimani Karumba  
 Ag. Deputy Director (F&A)  
 ICPAK Member No. 3321

*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2025*

**Annex 3: Fixed Asset Register**

Asset class	Historical Cost b/f	Additions during the year	Disposals during the year	Transfers in/(out) during the year	Historical Cost c/f
	(Kshs)	(Kshs)	(Kshs)		(Kshs)
	2024/2025				2024/2025
Land	2,696,068,274	-	-	-	2,696,068,274
Infrastructure assets roads	2,592,252,054	670,347,218	-	(74,369,800)	3,188,229,472
<b>Total</b>	<b>5,288,320,328</b>	<b>670,347,218</b>	<b>-</b>	<b>(74,369,800)</b>	<b>5,884,297,746</b>

*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2025*

**Annex 4: Pending Bills**

Supplier of Goods or Services	Date Contracted	Original	Amount	Advance Recovery	Waived interest	Outstanding Balance 2024/2025	Outstanding Balance 2023/24	Comments
		Amount	Paid					
		a	b			c = a - b		
<b>Consultancy Services</b>								
Multiscope	20.05.2024	1,451,647	1,451,647			-	1,451,647	FN 71
<b>Construction of Roads</b>								
China Wu Yi	23.06.2022	47,539,042	47,539,042			-	47,539,042	1-Int
China Wu Yi	23.06.2022	80,591,658	80,591,658			-	12,777,825	VoP 2
China Wu Yi	23.06.2022	23,150,410	7,707,096		15,443,314	-	23,150,410	2-Int
China Wu Yi	07.08.2023	106,806,687			58,926,486	47,880,201	106,806,687	3- Int
China Wu Yi	12.06.2024	34,989,006	-			34,989,006	34,989,006	4- Int
China Wu Yi	12.07.2024	253,319,055	121,974,004	99,048,633		32,296,417	-	IPC 10
China Wu Yi	03.12.2024	158,860,570	-			158,860,570	-	VoP No 3
China Wu Yi	28.02.2025	178,772,464	-			178,772,464	-	IPC 11
China Wu Yi	28.02.2025	79,395,129	-			79,395,129	-	VoP No 4
<b>Total Construction of Roads</b>		<b>963,424,021</b>	<b>257,811,801</b>	<b>99,048,633</b>	<b>74,369,800</b>	<b>532,193,787</b>	<b>225,262,970</b>	
<b>Land</b>								
	30.06.2019	2,696,068,274	2,094,470,975			601,597,299	1,311,597,299	
<b>Total</b>		<b>3,660,943,941</b>	<b>2,353,734,422</b>	<b>99,048,633</b>	<b>74,369,800</b>	<b>1,133,791,086</b>	<b>1,538,311,916</b>	

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)***  
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**Annex 5: Contingent Liabilities Register**

	<b>Nature of contingent liability</b>	<b>Payable to</b>	<b>Estimated Amount Kshs</b>	<b>Expected date of payment</b>	<b>Remarks</b>
1	Claim for extension of time plus associated costs	China Wu Yi Co. Ltd.	2,851,043,577	Claim is under review	The Authority's Director General is reviewing the submissions. This is subject to the extension of time being approved.
2.	Dispute on NLC Award amount	Muna Ahmed Salim, Abude Suleman Abdalla and Abdulkarm	62,000,000	Upon date of ruling.	This is subject to the ruling being in favour of plaintiff and allocation of budget by GoK

*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)*  
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**Annex 6: Other Support Documents**

- (i) Bank Reconciliations statement as at 30<sup>th</sup> June 2025