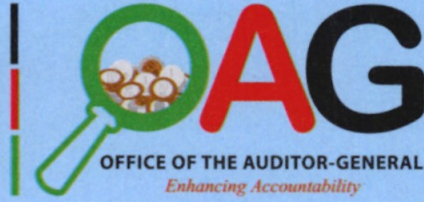


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**REPORT**

THE NATIONAL ASSEMBLY  
PAPERS LAID

OF

DATE: 12 FEB 2026

DAY.

*Tuesday*

TABLED

*Hon George Mungara*

**THE AUDITOR-GENERAL**

*Comr*

CLERK-AT  
THE TABLE:

*Randa Tillet*

**ON**

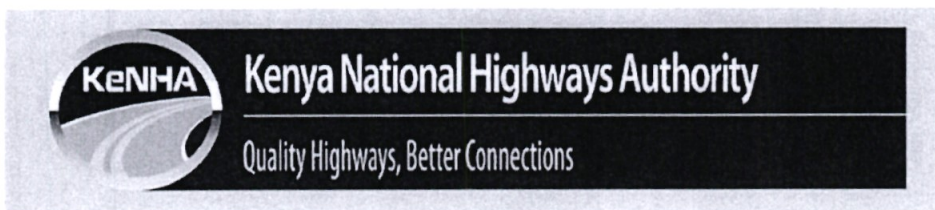
**MOMBASA-MARIAKANI HIGHWAY PROJECT  
(A109) ROAD LOT 1 (MOMBASA-KWA JOMVU)  
LOAN NO.2100150032743**

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

**KENYA NATIONAL HIGHWAYS AUTHORITY**



**MINISTRY OF ROADS AND TRANSPORT**



**PROJECT NAME: MOMBASA-MARIAKANI HIGHWAY PROJECT (A109) ROAD LOT  
1: (MOMBASA – KWA JOMVU)**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

**PROJECT CREDIT NUMBER: 2100150032743**

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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)**

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**1. Acronyms and Definition of Terms**

ADF	African Development Fund
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIA	Environmental Impact Assessment
EIK	Environmental Institute of Kenya
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
KISM	Kenya Institute of Supplies and Management
JKIA	Jomo Kenya International Airport
Kshs.	Kenya Shillings
NEMA	National Environment Management Authority
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RMLF	Road Maintenance Levy Fund
SDG	Sustainable Development Goals
TNT	National Treasury
UA	Unit of Account

## **2. Project Information and Overall Performance**

### **2.1 Name and registered office**

#### **Name**

The project's official name is Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu)

#### **Objective:**

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

The specific objective of the Project is to improve transport of import and export goods and passengers' traffic along the Northern Corridor. The Project will also contribute towards restoring the road network and improving economic and social welfare of people living in urban, peri-urban and rural areas along the project road.

#### **Address**

The project headquarter offices are in Nairobi City, Nairobi County, Kenya. The address of its registered office is Barabara Plaza, Jomo Kenyatta International Airport (JKIA) off Mazao Road, Nairobi Kenya

The project has a site office in Bonje, Kilifi County.

**Contacts:** The following are the project contacts

Director General

Kenya National Highways Authority

Po Box 49712-00100

Nairobi

Telephone: (254) 020 495000

E-mail: dg@Kenha.co.ke

Website: www.kenha.co.ke

### **2.2 Project Information**

Project Start Date:	September, 2015
Project End Date:	30 <sup>th</sup> June 2026
Project Coordinator	Eng. Cleophas Makau
Project Sponsors:	1. African Development Fund (ADF) 2. Government of Kenya (GK)

**Mombasa-Mariakani Highway Project (AI09) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

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

**2.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of State Department for Roads under the Ministry of Roads and Transport.
Project number	P-KE-DB0-021
Strategic goals of the project	The strategic goals of the project are as follows: (i) Improve trade and regional integration and contribute to the Government of Kenya's social and economic development. (ii) Enhance social economic development of the people along the project road.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the strategic goals through implementation of the project in a timely, efficient and effective manner through: i. Monthly site meetings ii. Stakeholder engagements
Other important background information of the project	The Project has four (4) components namely; 1. <b>Road Construction Civil Works</b> ; which involves dualling of the Mombasa – Kwa Jomvu Road (12 Kms). It will also include maintenance of the road for five years following the completion of the works. 2. <b>Consulting Services and Training</b> ; include (i) construction supervision services for the road civil works, (ii) impact assessment of investments in the road sub-sector, (iii) provision for studies of Marua-Nanyuki-Lewa Road, (iv) project audit, (v) HIV/AIDS, gender, road safety awareness and sensitization and monitoring of ESMP and (vi) vocational training of unemployed youth. 3. <b>Institutional Support</b> ; include consultancy services for: (i) development of Roads sub-sector guideline on gender mainstreaming; (ii) capacity building on planning and management of road maintenance contracts; and, (iii) project coordination. 4. <b>Compensation and Resettlement</b> ; this component makes provision for the adequate compensation and resettlement of Project Affected Persons identified in the Project Environmental and Social Impact Assessments, and relocation of utilities.
Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: i. Traffic congestion at Chagamwe roundabout ii. Slow trade and regional integration iii. Poverty levels among the communities living around the project area
Project duration	The initial implementation period is 5 years (2015 – 2020) with additional maintenance period of 5 years. Revised completion date is 19 <sup>th</sup> August 2024

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

	based on Engineer's evaluation of contractor's claim number 10 for extension of time)
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**2.4 Bankers**

The following are the bankers for the project:

- (i) Co-operative Bank of Kenya  
Upper Hill Branch  
Po Box  
Nairobi.
- (ii) National Bank of Kenya  
Hill Branch  
P.O Box  
Nairobi.
- (iii) Kenya Commercial Bank  
JKIA Branch  
P.O Box  
Nairobi.

**2.5 Independent Auditor**

The project is audited by the Office of the Auditor-General P.O Box 30084 – 00100 Nairobi, Kenya.

**2.6 Roles and Responsibilities**

List of the people working on the project.

No.	Names	Title designation	Key qualification	Responsibilities
1	Eng. Luka Kimeli	Director General	Registered Engineer	Oversight & Governance
2	Eng. Henry Gakuru	Director-Development	Registered Engineer	Project Implementing Team Leader
3	Eng. Cleophas Makau	Deputy Director-Special Projects	Registered Engineer	Project Engineer
4	Mr. Walter Nyatwang'a	Deputy Director-Environment & Social Interests	NEMA Lead Expert, Member-EIK	Project Environment & Social Safeguards Specialist
5	Ms. Norah Odingo	Deputy Director-Legal Services	Advocate of the High Court of Kenya	Project Legal Specialist
6	Mr. Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist
7	Mr. Richard Kilel	Assistant Director-Supply Chain Management	Member-KISM	Project Procurement Specialist

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
**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 duration of 5 years from September, 2015 to November 2023 with a revised completion date of 30<sup>th</sup> June 2026 with an approved Development Partner budget of UA 80,000,000 equivalent to Kshs. 11,316,256,000 as highlighted in the table below:

**A. Source of Funds**

Source of funds	Development Partner Commitment		Amount received to date – (30th June 2025)		Undrawn balance to date	
	UA	Kshs	UA	Kshs	UA	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Loan</b>						
ADF	80,000,000	11,316,256,000	69,058,341	9,768,523,366	10,941,659	1,547,732,634
<b>(ii) Counterpart funds</b>						
Government of Kenya	-	8,649,291,619	-	7,625,001,939	-	1,024,289,680
<b>Total</b>	<b>80,000,000</b>	<b>19,965,547,619</b>	<b>69,058,341</b>	<b>17,393,525,305</b>	<b>10,941,659</b>	<b>2,572,022,314</b>

**B. Application of Funds**

Application of funds	Amount received to date - (30th June 2025)		Cumulative Amount paid to date - (30th June 2025)		Unutilised balance to date - (30th June 2025)	
	UA	Kshs	UA	Kshs	UA	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Loan</b>						
Africa Development Fund (ADF)	69,058,341	9,768,523,366	69,058,341	9,768,523,366	-	-
<b>(ii) Counterpart funds</b>						
Government of Kenya (GoK)	-	7,625,001,939	-	7,416,252,056	-	208,749,883
<b>Total</b>	<b>69,058,341</b>	<b>17,393,525,305</b>	<b>69,058,341</b>	<b>17,184,775,422</b>	<b>-</b>	<b>208,749,883</b>

**2.8 Summary of Overall Project Performance:**

(i) Budget performance against actual amounts for current year and for cumulative to-date: -

Budget	2024-2025			Cumulative		
	Budget	Actual	%	Budget	Actual	%
	Kshs	Kshs		Kshs	Kshs	
GoK	1,382,186,404	1,175,087,498	85%	7,675,166,086	7,416,252,056	97%
ADF	300,000,000	301,989,912	101%	10,785,000,000	9,768,523,366	91%
<b>Total</b>	<b>1,682,186,404</b>	<b>1,477,077,410</b>	<b>88%</b>	<b>18,460,166,086</b>	<b>17,184,775,422</b>	<b>93%</b>

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
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, outcome and impacts since project commencement: -

As at 30<sup>th</sup> June, 2025, the overall weighted progress of works achieved was approximately 93.91% based on updated project cost appraisal against percentage of time elapsed of 98.86% based on the Engineer's recommended completion date of 5<sup>th</sup> August 2025.

(iii) Absorption rate for each year since the commencement of the project

<b>Financial Year</b>	<b>Budget</b>	<b>Actual</b>	<b>Percentage (%)</b>
FY 2024/25	1,682,186,404	1,477,077,410	88%
FY 2023/24	2,072,677,349	1,602,339,902	77%
FY 2022/23	679,341,735	438,703,736	65%
FY 2021/22	1,185,000,000	1,164,625,180	98%
FY 2020/21	2,054,000,000	1,929,304,082	94%
FY 2019/20	5,586,305,040	5,468,385,035	98%
FY 2018/19	3,121,286,000	3,097,385,051	99%
FY 2017/18	995,136,406	984,065,025	99%
FY 2016/17	944,233,152	893,576,270	95%
FY 2015/16	140,000,000	129,313,731	92%
<b>Total</b>	<b>18,460,166,086</b>	<b>17,184,775,422</b>	<b>93%</b>

(iv) The following are the Project's implementation challenges and recommended next steps.

- Delays in payment of land compensation for Project Affected Persons to allow Right of Way. To resolve this, the Authority is working with the Parent Ministry and the National Treasury to ensure adequate GoK budget is allocated for the project and prompt release of Exchequer funds.
- Delays in relocation of power and water lines. Contractor engaging Kenya Power and Mombasa Water Supply & Sanitation Company to expedite the relocation services.
- Court cases and injunctions. The Authority has been engaging some of the parties in out of court settlement. In some areas there was redesign of alignment and the encumbrances are now resolved.

**2.9 Summary of Project Compliance:**

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 the national/county government entity’s performance against predetermined objectives at the end of each financial year.

The key development objectives of the project are: -

- a) To improve trade and regional integration and contribute to the Government of Kenya’s social and economic development
- b) To enhance social economic development of the people along the project road

#### **Progress on attainment of Strategic development objectives**

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

Below we provide the progress on attaining the stated objectives.

<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
To improve trade and regional integration and contribute to the Government of Kenya’s social and economic development	Reduced congestion in Mombasa town. Reduced travel time between Mombasa and Malaba	Increased volume of Import/Export trade handled at the port of Mombasa.	Construction works almost complete. Physical progress of works as at 30 <sup>th</sup> June 2024 was 93.47% based on Engineer’s appraisal of revised completion date of 31 <sup>st</sup> December 2024
To enhance social economic development of the people along the project road	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	Reduced dust and carbon emission along the project road.

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

Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) exists to transform lives. This is our purpose; the driving force behind everything we do. It’s what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

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

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the people and their 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 strives 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 encourages 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 develops 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 endeavours 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 endeavours 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 is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact Assessment (EIA) Audits, carries 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)**

**3. Employee welfare**

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

**4. Market place practices**

The Authority strives to ensure responsible competition practices through undertaking annual governance audits in projects, monitoring the implementation of policies and further promotes ethical conduct in projects. The Authority equally sensitizes staff on corruption and integrity.

The Authority undertakes 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.

**5. Community Engagements**

During the implementation of the Project, the Authority is 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 is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

To achieve inclusive growth among the community around the project area, the project has a component of training unemployed youth around the project area. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross-cutting issues.

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**5. Statement of Project Management Responsibilities**

The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) 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 the financial year ended on June 30, 2025.

This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 the 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 and 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

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



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

## **REPORT OF THE AUDITOR-GENERAL ON MOMBASA-MARIAKANI HIGHWAY PROJECT (A109) ROAD LOT 1 (MOMBASA-KWA JOMVU) LOAN NO.2100150032743 FOR THE YEAR ENDED 30 JUNE, 2025 - KENYA NATIONAL HIGHWAYS AUTHORITY**

### 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 Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa- Kwa Jomvu) set out on pages 1 to 23, 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 of comparison of budget and actual amounts for the year then ended

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*Report of the Auditor-General on Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu) Loan No.2100150032743 for the year ended 30 June, 2025-Kenya National Highways Authority*

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 Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu) as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) including the transitional provisions permitted under IPSAS 33 and comply with Financing Agreement No.2100150032743 between the Republic of Kenya and the African Development Fund (ADF) dated 22 May, 2015 and the Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No.3 of April, 2025.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu) 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.

### **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 prior years' audit reports, several issues were raised under the Report on Financial Statements, Other Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following five (5) issues remained unresolved:

<b>No.</b>	<b>Financial Year</b>	<b>Audit Issue</b>
1.	2023/2024	Inaccuracies in the Financial Statements
2	2023/2024	Budgetary Control and Performance
3.	2023/2024	Nugatory Project Expenditure
4.	2023/2024	Delayed Land Compensation
5.	2023/2024	Delayed Project Implementation and Completion

### **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 thereon.

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

### Conclusion

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

### Basis for Conclusion

#### 1. Avoidable Expenditure

The statement of financial position reflects trade and other payables balance of Kshs.1,252,810,786 as disclosed in Note 10 to the financial statement. Included the trade and other payables balance is an amount of Kshs.772,198,851 in respect of cost claim arising from the extension of the contract period which was necessitated by delays in the acquisition of the Right of Way at the start of the Project as well as court injunctions that halted constructions works. The claim has remained outstanding since August, 2022. Further, by 6 June, 2025, the Contractor submitted claim update No.14, seeking additional costs linked to an extra 244 days of extension, citing delayed events and site access constraints.

The unsettled cost claims expose the entity to significant financial and operational risks in form of additional interest charges, increased likelihood of costly litigations, and escalation of future claims by the contractor.

In the circumstances, value for money on the amount incurred could not be confirmed.

#### 2. Interest on Delayed Payments

Review of records revealed that interest on delayed payments to a Company (Contractor) amounted to Kshs.347,369,895, out of which an amount of Kshs.139,055,958 had already

been paid resulting to unpaid interest balance of Kshs.208,583,937. The interests arose from delay in payment of Interim Payment Certificates (IPCs). Management attributed this to inadequate Government of Kenya budgetary provisions compounded by delays in Exchequer releases.

In the circumstances, there was loss of money through interest on delayed payments.

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.

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 Financing Agreement No. 2100150032743 between the Republic of Kenya and Japan International Cooperation Agency dated 22 May, 2015, 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. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project 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**

**20 November, 2025**

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

	<b>Issue</b>	<b>Audit Status</b>
1.	Inaccuracies in the Financial Statements	Not Resolved
2.	Budgetary Control and Performance	Not Resolved
3.	Nugatory Project Expenditure	Not Resolved
4.	Delayed Land Compensation	Not Resolved
5.	Delayed Project Implementation and Completion	Not Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

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

	Notes	FY 2024/25
		Kshs
<b>Revenue</b>		
Revenue Transfers	6	4,380,896
<b>Total revenue</b>		<b>4,380,896</b>
<b>Expenses</b>		
Use of goods and services	7	4,419,396
<b>Total expenses</b>		<b>4,419,396</b>
<b>Surplus/ (deficit)</b>		<b>(38,500)</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**

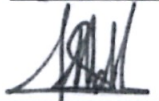
**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

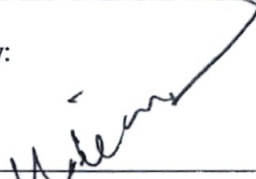
**8. Statement of Financial Position as at 30th June 2025**

	Note	FY 2024/25	1 <sup>st</sup> July 2024
		Kshs	Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash equivalents	8	217,564,529	12,631,732
<b>Total Current Assets</b>		<b>217,564,529</b>	<b>12,631,732</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	9	18,273,493,930	17,632,255,925
<b>Total Non- Current Assets</b>		<b>18,273,493,930</b>	<b>17,632,255,925</b>
<b>Total Assets (a)</b>		<b>18,491,058,459</b>	<b>17,644,887,657</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables	10	1,252,810,786	2,084,230,795
Third Party Deposits	11	8,814,646	4,679,860
<b>Total Current Liabilities</b>		<b>1,261,625,432</b>	<b>2,088,910,655</b>
<b>Total Liabilities (b)</b>		<b>1,261,625,432</b>	<b>2,088,910,655</b>
<b>Net Assets (a-b)</b>		<b>17,229,433,027</b>	<b>15,555,977,002</b>
<b>Represented By:</b>			
Capital Grants		17,221,519,655	15,548,025,130
Accumulated Surplus		7,913,372	7,951,872
<b>Total Net Assets</b>		<b>17,229,433,027</b>	<b>15,555,977,002</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

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***


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

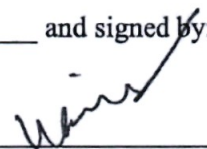
Description	Capital Grants	Accumulated Surplus	Total
	Kshs	Kshs	Kshs
<b>As at 30<sup>th</sup> June 2024 (Cash Basis)</b>	-	<b>7,951,872</b>	<b>7,951,872</b>
Adjustments:			
Asset Recognition	17,632,255,925	-	17,632,255,925
Liabilities recognition	(2,084,230,795)	-	(2,084,230,795)
<b>As at 1<sup>st</sup> July 2024</b>	<b>15,548,025,130</b>	<b>7,951,872</b>	<b>15,555,977,002</b>
Capital grants received during the year	1,673,494,525	-	1,673,494,525
Surplus/(Deficit) for the year	-	(38,500)	(38,500)
<b>As at 30<sup>th</sup> June 2025</b>	<b>17,221,519,655</b>	<b>7,913,372</b>	<b>17,229,433,027</b>

The accounting policies and explanatory notes to these financial statements are 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

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
**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	FY 2024-25
		Kshs
<b>Cashflow from operating activities</b>		
<b>Receipts</b>		
Revenue Transfers		4,380,896
<b>Total receipts</b>		<b>4,380,896</b>
<b>Payments</b>		
Use of goods and services		4,380,896
<b>Total payments</b>		<b>4,380,896</b>
<b>Net cash flow from operating activities</b>	12	-
<b>Cashflow from investing activities</b>		
Acquisition of non-financial assets		(1,468,561,728)
Proceeds from sale of Assets		-
Acquisition of Intangible assets		-
<b>Net cash flows from investing activities</b>		<b>(1,468,561,728)</b>
<b>Cash flow from financing activities</b>		
Capital Transfers: GoK		1,372,919,109
Capital Transfers: Development Partner		300,575,416
<b>Net cash flow from financing activities</b>		<b>1,673,494,525</b>
Net increase/Decrease in cash and cash equivalents		204,932,797
<b>Cash and cash equivalent at 1<sup>st</sup> July 2024</b>	<b>8</b>	<b>12,631,732</b>
<b>Cash and cash equivalent at end June 2025</b>	<b>8</b>	<b>217,564,529</b>

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
**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	Budget Utilization Comment(s)
	a	b	c=a+b	d	e=c-d	f=d/c %	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs		
<b>Budget Carry Overs from previous periods</b>	-	7,951,872	7,951,872	7,951,872	-	100%	N/A
<b>Receipts</b>							
Revenue Transfers-GoK Exchequer	78,000,000	144,150,000	222,150,000	215,849,106	6,300,894	97%	N/A
Revenue Transfers-Bridge Settlement	-	1,160,036,404	1,160,036,404	1,160,036,403	1	100%	N/A
Revenue Transfers-Development Partner (ADF)	400,000,000	(100,000,000)	300,000,000	301,989,912	(1,989,912)	101%	Budget reduction after expenditure
<b>Total Revenue</b>	<b>478,000,000</b>	<b>1,212,138,276</b>	<b>1,690,138,276</b>	<b>1,685,827,293</b>	<b>4,310,983</b>	<b>100%</b>	
<b>Payments</b>							
Use of goods and services	4,380,896	-	4,380,896	4,380,896	-	100%	N/A
Capital works in progress	473,619,104	1,212,138,276	1,685,757,380	1,472,696,514	213,060,866	87%	Slow progress of works due to court injunction
<b>Total Payments</b>	<b>478,000,000</b>	<b>1,212,138,276</b>	<b>1,690,138,276</b>	<b>1,477,077,410</b>	<b>213,060,866</b>	<b>87%</b>	
<b>Surplus</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>208,749,883</b>	<b>(208,749,883)</b>		

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)***  
***Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**Budget Reconciliation**

	<b>Description of Particulars</b>	<b>Amount in Kshs</b>
	Actual Surplus Amounts as per the statement of Budget	208,749,883
1	Reason for differences-Retention Amount	8,814,646
	Closing Cash and Cash Equivalent as per the statement of Cash flows	217,564,529

**12. Notes to the Financial Statements**

**1. General Information**

Kenya National Highways Authority is established by and derives its authority and accountability from 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 development, rehabilitation, management and maintenance of all National Trunk Roads comprising of Class S, A, and B roads.

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

The 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

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

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

Standard	Effective date and impact:
IPSAS 43	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><b><i>The project does not anticipate that the standard will have any impact on its operations and reporting</i></b></p>
IPSAS 44:	<b><i>Applicable 1<sup>st</sup> January 2025</i></b>

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025**

Standard	Effective date and impact:
<p>Non- Current Assets Held for Sale and Discontinued Operations</p>	<p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: 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. <b><i>The project does not anticipate that the standard will have any impact on its operations and reporting</i></b></p>
<p>IPSAS 45- Property Plant and Equipment</p>	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b> 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 recognised 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. <b><i>The project does not anticipate that the standard will have any impact on its operations and reporting</i></b></p>
<p>IPSAS 46 Measurement</p>	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b> The objective of this standard was to improve measurement guidance across IPSAS by: i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS; iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement</p>

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

Standard	Effective date and impact:
	<p>related disclosures.</p> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting</i></p>

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

Standard	Effective date and impact:
<p>IPSAS 47- Revenue</p>	<p><i>Applicable 1<sup>st</sup> January 2026</i></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 anticipate that the standard will have any impact on its operations and reporting</i></p>
<p>IPSAS 48- Transfer Expenses</p>	<p><i>Applicable 1<sup>st</sup> January 2026</i></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 anticipate that the standard will have any impact on its operations and reporting</i></p>
<p>IPSAS 49- Retirement</p>	<p><i>Applicable 1<sup>st</sup> January 2026</i></p> <p>The objective is to prescribe the accounting and reporting requirements for the</p>

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

Standard	Effective date and impact:
Benefit Plans	<p>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><b><i>The project does not anticipate that the standard will have any impact on its operations and reporting</i></b></p>
<p>IPSAS 50: Exploration For &amp; Evaluation of Mineral Resources</p>	<p><b><i>Applicable 1<sup>st</sup> January 2027</i></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> <ul 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> </ul> <p><b><i>The standard does not impact the Entity</i></b></p>

***iii) Early adoption of standards***

The Entity did not early – adopt any new or amended standards in the financial year.

**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 entity 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.

**Notes to the financial statements**

**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 28<sup>th</sup> 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 of **Kshs 1,212,138,276** on the FY 2024/2025 budget following the Board's approval. The entity'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. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity 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. *For purposes of transition, all property, plant and equipment have been stated at historical cost.*

**Notes to the financial statements**

**d) Leases**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. 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 Entity 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 Entity 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 Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity 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**

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 entity does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity 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 entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity, or fair value through surplus and deficit on the basis of both the entity'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 an entity has made an irrevocable election at initial recognition for particular investments in equity instruments.

## **Notes to the financial statements**

### **Subsequent measurement**

Based on the business model and the cash flow characteristics, the entity 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.

### **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 entity 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 entity 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 entity recognizes a loss allowance for such losses at each reporting date. There were no credit losses during the reporting period and prior years.

## **Notes to the financial statements**

### ***Financial liabilities***

#### ***Classification***

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

#### **h) Inventories**

Inventory is measured at the lower of cost and net realizable value (NRV). 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.
- 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 *Authority*.

#### **i) Provisions**

Provisions are recognized when the *Authority* 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 *Authority* 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.

**Notes to the financial statements**

***Contingent liabilities***

The *Authority* does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

***Contingent assets***

The *Authority* 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 *Authority* 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.

**j) Nature and purpose of reserves**

The Authority does not create and maintain reserves in terms of specific requirements.

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

**Notes to the financial statements**

The *Authority* 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 *Authority* provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are

**Notes to the financial statements**

recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**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 *Authority* regards a related party as a person or an entity with the ability to exert control individually or jointly or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

**p) Service concession arrangements**

The *Authority* 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 *Authority* 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,

**Notes to the financial statements**

**Service concession arrangements (continued)**

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 *Authority* 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.

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

The preparation of the *Authority* 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 *Authority* 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 *Authority*. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
Annual Report and Financial Statements for the financial year ended June 30, 2025***

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**Notes to the financial statements**

**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 *Authority*
- 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**

There were no provisions raised.

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.

**6. Revenue Transfers**

Description	FY 2024/25
	KShs
<b>Unconditional Transfers</b>	
GoK Counter Part funding	215,849,106
Other unconditional transfers (Bridge Settlement Financing)	1,160,036,403
<b>Total Unconditional Transfers (a)</b>	<b>1,375,885,509</b>
<b>Conditional Transfers</b>	
Transfers from Development partners (AfDB)	301,989,912
<b>Total Conditional Transfers (b)</b>	<b>301,989,912</b>
<b>Total Transfers for the Year (a + b)</b>	<b>1,677,875,421</b>

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2025**

**Notes to the financial statements**

**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 (FY 2024-2025)
	Kshs	Kshs	Kshs	Kshs
State Department of Roads GOK Funding	2,966,400	-	1,372,919,109	1,375,885,509
African Development Bank	1,414,496	-	300,575,416	301,989,912
<b>Subtotal</b>	<b>4,380,896</b>	<b>-</b>	<b>1,673,494,525</b>	<b>1,677,875,421</b>
Deferred Income realized	-	-	-	-
Transfers in Kind	-	-	-	-
<b>Total</b>	<b>4,380,896</b>	<b>-</b>	<b>1,673,494,525</b>	<b>1,677,875,421</b>

**7. Use of Goods and Services**

Description	FY 2024/25
	Kshs
Domestic travel and subsistence	3,004,900
Training payments	1,414,496
<b>Total</b>	<b>4,419,396</b>

**8. Cash and Cash Equivalents**

Description	FY 2024/25	1 <sup>st</sup> July
	Kshs	Kshs
Cash in Bank	217,564,529	12,631,732
<b>Total Cash and Cash Equivalents</b>	<b>217,564,529</b>	<b>12,631,732</b>

**Project Bank Accounts**

Details	FY 2024/25	1 <sup>st</sup> July 2024
	Kshs	Kshs
<b>Local Currency Accounts</b>		
Co-operative Bank of Kenya [A/c No.01141160979900]	208,749,883	7,951,872
National Bank of Kenya Ltd. [A/c No. 0100132733200]	8,814,646	4,679,860
Kenya Commercial Bank Ltd. [A/c No. 1274695775]	-	-
Total local currency balances	<u>217,564,529</u>	<u>12,631,732</u>
<b>Total bank account balances</b>	<b><u>217,564,529</u></b>	<b><u>12,631,732</u></b>

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
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Notes to the financial statements

**9. Property, Plant and Equipment**

Cost	Land	Capital Work in Progress	Total
	Kshs	Kshs	Kshs
<b>Depreciation rate</b>			
<b>As At 1 July 2024 (opening balances)</b>	5,427,224,759	12,205,031,166	<b>17,632,255,925</b>
Additions	8,000,000	635,877,985	643,877,985
Disposals	-	-	-
Transfers/Adjustments	-	(2,639,980)	(2,639,980)
<b>As at 30<sup>th</sup> June 2025</b>	<b>5,435,224,759</b>	<b>12,838,269,171</b>	<b>18,273,493,930</b>
<b>Net Book Values</b>			
<b>As at 1<sup>st</sup> July 2024</b>	<b>5,427,224,759</b>	<b>12,205,031,166</b>	<b>17,632,255,925</b>
<b>As at 30<sup>th</sup> June 2025</b>	<b>5,435,224,759</b>	<b>12,838,269,171</b>	<b>18,273,493,930</b>

**10. Trade and Other Payables (Annex 5)**

Description	FY 2024/2025		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
Trade payables	1,252,810,786		2,084,230,795	
<b>Total trade and other payables</b>	<b>1,252,810,786</b>		<b>2,084,230,795</b>	
<b>Ageing analysis: (Trade and other payables)</b>	<b>FY 2024/2025</b>	<b>% of the Total</b>	<b>FY 2023/2024</b>	<b>% of the Total</b>
Under one year	258,062,487	21%	-	0%
1-2 years	-	0%	1,801,568,591	86%
2-3 years	994,747,299	79%	118,667,904	6%
Over 3 years	1,000	0%	163,994,300	8%
<b>Total (tie to above total)</b>	<b>1,252,810,786</b>		<b>2,084,230,795</b>	

**11. Third-Party Deposits**

Description	FY 2024/25		1 <sup>st</sup> July 2024	
	Kshs		Kshs	
Contractor's Retention	8,814,646		4,679,860	
<b>Total deposits</b>	<b>8,814,646</b>		<b>4,679,860</b>	
<b>Ageing analysis: (Refundable deposits)</b>	<b>FY 2024/25</b>	<b>% of the Total</b>	<b>FY 2023/24</b>	<b>% of the Total</b>
<b>Under one year</b>	<b>4,134,786</b>	<b>40%</b>	<b>1,082,773</b>	<b>23%</b>
1-2 years	1,082,773	14%	1,145,349	24%
2-3 years	1,145,349	15%	2,451,738	52%
Over 3 years	2,451,738	31%	-	0%
<b>Total</b>	<b>8,814,646</b>		<b>4,679,860</b>	

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)***  
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**Notes to the financial statements**

**12. Cash Generated from Operations**

<b>Description</b>	<b>FY</b>
	<b>2024/2025</b>
	<b>Kshs</b>
<b>Surplus/Deficit for the year</b>	<b>(38,500)</b>
<b>Adjusted for:</b>	
Increase in payables ( <i>Use of Goods &amp; Services</i> )	38,500
<b>Net cash flow from operating activities</b>	<b>-</b>

**13. Related Party Disclosures**

**Nature of related party relationships**

Entities and other parties related to the *Authority* 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 *Authority's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Authority*, both domestic and external.

**Other related parties include:**

- i) The Parent Ministry
- ii) Kenya Roads Board
- iii) County Governments
- iv) Other SCs and SAGAs
- v) Key management
- vi) Board of Directors

**14. Events after the Reporting Period**

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

**15. Ultimate and Holding Entity**

The Entity is a State Corporation under the State Department for Roads. Its ultimate parent is the Government of Kenya.

***Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
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**Notes to the financial statements**

**16. 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**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><b>Basis for Qualified Opinion</b></p> <p><b>Inaccuracies in the Financial Statements</b></p> <p>The statements of management responsibilities, receipts and payments and assets and liabilities were signed by the Director-Development and Deputy Director (F and A) instead of the Project Coordinator and Project Accountant.</p> <p>The statement of financial assets and liabilities reflects a fund balance brought forward of Kshs.16,591,039 that differed with the prior year's Nil comparative balance resulting to an unreconciled variance of Kshs.16,591,039.</p> <p>Annex 1 on the prior year's Auditor-General's recommendations was signed by the Director-Development instead of the Project Coordinator. The reconciliation of inter-entity transfers was signed by the Director-General instead of the Project Coordinator.</p> <p>In the circumstances, Management did not comply with the financial statements</p>	<p>We wish to note that the Director-Development has the overall co-ordination responsibility of the project whereas the Deputy Director-Finance is the head of the Finance and Accounting Unit within the Authority. The financial statements therefore comply with the reporting template requirements. In addition, section 2.7 of the financial statements highlight the roles further.</p> <p>We wish to confirm that prior year (FY 2022/23) financial statements reflected nil fund balance brought forward as correctly reflected in the financial statements.</p> <p>We further wish to clarify that the Director-Development duly signed Annex 1 on prior years Auditor General recommendations and the reconciliation of inter-entity transfers of the audited financial statements due to his assigned role as the Project Implementation Team Leader.</p>	Resolved	Resolved

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	presentation format prescribed in the Annual Financial Reporting template issued by the Public Sector Accounting Standards Board.			
	<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 final receipts budget and actual on comparable basis of Kshs.2,072,677,349 and Kshs.1,593,700,735 respectively resulting to an underfunding of Kshs.478,976,614 or 23% of the budget. However, the Project spent Kshs.1,602,339,902 against actual receipts of Kshs.1,593,700,735 resulting to an overutilization of Kshs.8,639,167. The underfunding affected the planned activities and may have impacted negatively on service delivery to the public.</p>	<p>We wish to clarify that the Authority received the GoK final budget amount of Kshs.56,086,310 allocated for the project in FY 2023/24 in full within the Financial Year.</p> <p>Budget utilization difference of Kshs.462,385,575 with respect to proceeds from borrowings receipts however does not constitute underfunding as the payments were made by the Development Partner directly on behalf of the entity upon request in form of certified works and services rendered by the project's contractor and consultants. Due to the court case barring the contractor from proceeding with works at the Kwa Jomvu interchange, the Authority was only able to realize Kshs.1,537,614,425 being direct payment requests against the final budget amount of Kshs.2,000,000 hence the budget utilization difference of Kshs.462,385,575. The overall utilization difference with respect to receipts of Kshs.478,976,614 as reflected in the Statement of Comparison of Budget and Actual Amounts however is made up of Kshs.462,385,575 with respect to proceeds from borrowings and Kshs.16,591,039 being GoK balances from the prior year.</p> <p>We further wish to clarify that the deficit of Kshs.8,639,167 represent the amount utilized out of the balance from FY 2022/23 of Kshs.16,591,039 to settle payments in FY 2023/24 hence a bank balance of Kshs.7,951,872 as reflected in Note 5A to the financial statements - Bank Accounts.</p> <p>Please note that balances from prior years are not reported as receipts in the current financial year in the statement of receipts and payments. Consequently, whenever payment is</p>	Resolved	Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
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		made from these balances and the current period receipts are fully utilized then the statement of receipts and payments would reflect a deficit in compliance with the reporting template issued by PSASB.		
	<p><b>Other Matter</b></p> <p><b>Unresolved Prior Year Audit Matters</b></p> <p>In the audit report of the previous year, several matters were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although Management indicated the issues were resolved, the proof of how the issues were resolved was not provided for audit as detailed below;</p> <p><b>1.Unsupported Transfers from Government Entities</b></p> <p>The statement of receipts and payments reflects transfer from Government entities of Kshs.229,341,735 as disclosed in Note 1 to the financial statements which include an annuity fund of Kshs.109,483,464 and appropriation in aid amount of Kshs.18,000,000. However, copies of the exchequer notifications and receipt vouchers in respect of annuity funds and appropriation-in-aid were not provided for audit.</p> <p>In the circumstances, the accuracy of the transfers from Government entities of Kshs.229,341,735 could not be confirmed.</p>	<p>We note the audit observation.</p> <p>We 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> <p>We wish to clarify that in the FY 2023/2024 the Project only received Kshs.56,086,310 as counterpart funding from GoK. Kshs.109,483,464 and Kshs.18,000,000 were received as annuity funds and appropriations in aid respectively during the FY 2022/23. We wish to further clarify that all transfers from government entities were supported with copies of Exchequer requests amounting to Kshs.109,483,464 and corresponding evidence of receipt of the funds in the bank statement.</p>	<p>Not Resolved</p> <p>Not Resolved</p>	<p>FY 2025/26</p> <p>FY 2025/26</p>

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	<p><b>2.Unsupported Cash and Cash Equivalents Balance</b></p> <p>The statement of financial assets reflects cash and cash equivalents balance of Kshs.12,631,732 as disclosed in Note 5 to the financial statements. The amount includes Kshs.4,679,860 held in a local bank retention account whose certificate of bank balance was not provided for audit.</p> <p>The balance further excludes Kshs.16,591,039 held in another local bank account whose bank reconciliation statement reflected the reconciled bank balance of Kshs.3,582,156,401 resulting in an unexplained variance of Kshs.3,565,565,362.</p> <p>Further, the two (2) bank accounts were maintained in commercial banks instead of the Central Bank of Kenya. Management did not provide evidence of exemption by the Cabinet Secretary. This was contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that for disbursement of project funds, there shall be opened and maintained project account for every project at Central Bank of Kenya</p>	<p>We wish to clarify that the project’s cash balance amounting to Kshs.4,679,860 was held in the Authority’s retention bank account at the National Bank of Kenya. A copy of the certificate of Bank balance from the National Bank of Kenya was provided for audit review.</p> <p>Further, although the Authority maintains one retention bank account for managing all the retention monies, it also maintains a Retention Memorandum Cash Book for each Project which contains the opening Retention balance, amounts retained during the financial year, amounts released to the contractor and the Retention closing balance. The project’s Retention Cash Memorandum for the year which correspond with the bank balance amount of Kshs 4,679,860 is available for further audit review.</p> <p>We further wish to clarify that the project’s cash balance amounting to Kshs.16,591,039 was held in the Authority’s GoK Exchequer Bank Account at the Co-operative Bank of Kenya Ltd. Although the Authority operates one Exchequer Bank account which receives and pays out all Exchequer proceeds to contractors, consultants, vendors and other project beneficiaries, it also maintains an Exchequer Memorandum Cash Book for each Project which contains the opening Exchequer balance, amounts received during the financial year, amounts paid and the closing balance. The project’s Exchequer Cash Memorandum with a closing balance of Kshs 16,591,039 is available for further review</p> <p>We lastly clarify that the Authority sought approval from the National Treasury to open the two bank accounts at the commercial banks. A copy for the approval to open and operate the two bank accounts is available for further</p>	<p>Not Resolved</p>	<p>FY 2025/26</p>
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	<p>unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.</p> <p>In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.12,631,732 could not be confirmed.</p> <p><b>3.Unsupported Deposits and Retention Monies</b></p> <p>The statement of financial assets reflects a balance of Kshs.4,679,860 in respect of deposits and retentions and as disclosed in Note 6 to the financial statements which represents a decrease of Kshs.7,341,570 from the previous year's balance of Kshs.12,021,430. However, the details and corresponding taking over certificates issued for the sections or part of the works completed were not provided for audit contrary to the provisions of Clause 14.9 of the contract agreement between the contractor and the Authority which provides that when taking over certificate has been issued for the works, the first half of the retention money shall be certified by the engineer for payment to the contractor and that if a taking over certificate has been issued for a section or part of the works, a proportion of the retention money shall be certified and paid.</p> <p>In the circumstances, the accuracy and authenticity of the retention monies paid and</p>	<p>review.</p> <p>We wish to clarify that the decrease in retention amounting to Kshs.7,341,570 during the financial year and subsequent retention balance is tabulated and supported by taking over certificates as highlighted below:</p>		
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	<p>the balance of Kshs.4,679,860 could not be confirmed.</p> <p><b>4.Presentation and Disclosures of the Financial Statements</b>  Review of the financial statements submitted for audit revealed various inconsistencies in presentation and disclosure as indicated below:  i. The list of the implementation challenges and recommended steps were omitted in the summary on overall</p>	<table border="1"> <thead> <tr> <th>Description</th> <th>Amount</th> <th>Payment Voucher and</th> </tr> </thead> <tbody> <tr> <td>Opening Balance-A</td> <td>12,021,430</td> <td>N/A</td> </tr> <tr> <td>Release of retention monies for relocating oil &amp; LPG pipelines upon completion of works-B</td> <td>(3,722,538)</td> <td>Taking over certificate available</td> </tr> <tr> <td>Release of retention monies against a bank guarantee-C</td> <td>(4,701,805)</td> <td>Released against bank guarantee</td> </tr> <tr> <td>Withheld retention monies during the year-D</td> <td>1,082,773</td> <td>IPC/Payment Voucher</td> </tr> <tr> <td>Increase/(Decrease) in retention monies- <b>E=B+C+D</b></td> <td><b>(7,341,570)</b></td> <td>N/A</td> </tr> <tr> <td>Balance of retention monies in retentions bank account-<b>F=A+E</b></td> <td><b>4,679,860</b></td> <td>N/A</td> </tr> </tbody> </table> <p>We have noted the Auditor's observation.  We wish to clarify that the financial statements were amended during the FY 2023/24 audit review to address the observation.</p>	Description	Amount	Payment Voucher and	Opening Balance-A	12,021,430	N/A	Release of retention monies for relocating oil & LPG pipelines upon completion of works-B	(3,722,538)	Taking over certificate available	Release of retention monies against a bank guarantee-C	(4,701,805)	Released against bank guarantee	Withheld retention monies during the year-D	1,082,773	IPC/Payment Voucher	Increase/(Decrease) in retention monies- <b>E=B+C+D</b>	<b>(7,341,570)</b>	N/A	Balance of retention monies in retentions bank account- <b>F=A+E</b>	<b>4,679,860</b>	N/A		
Description	Amount	Payment Voucher and																							
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**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
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	<p>performance section.</p> <p>ii. The payment of retention monies of Kshs.7,341,570 for the year under review and Kshs.3,011,714 for 2021/2022 financial year were disclosed in the statement of financial assets under the represented by section as a decrease instead of disclosing them as adjustments in the statement of cashflows.</p> <p>iii. Adjustments which included deposits and retention monies paid during the year under review were not disclosed in the statement of cashflows.</p> <p>In the circumstances, the financial statements were not compliant with the format prescribed in the Annual Financial Reporting template issued by the Public Sector Accounting Standards Board.</p> <p><b>5.Irregular Transfer of Project Motor Vehicles</b></p> <p>Information provided during the audit indicated that the Project Resident Engineer had nine (9) motor vehicles acquired between March, 2017 and October, 2018. However, it was noted that the vehicles were transferred to the project contractor under unclear circumstances to reduce the project cost. The value of the vehicles and the total cost reduction was not disclosed. This was</p>	<p>We note the audit observation.</p> <p>We wish to clarify that the Project uses Standard Specifications for Road and Bridge Construction (1986 Edition) for roads and bridges construction works in Kenya. Clause 138 of the Specifications provides that, <i>“Unless otherwise specified, the vehicles shall be owned by the Contractor and be licensed and comprehensively insured by the Contractor for use within Kenya by any licensed driver authorized by the Engineer together with authorized</i></p>		
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**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
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	<p>contrary to the provisions of Regulation 139(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.</p> <p>In the circumstances, Management was in breach of the law.</p> <p><b>6.Pending Bills</b></p> <p>The financial statements under other important disclosures reflect pending bills of Kshs.2,225,743,167 as at 30 June, 2023 and as analyzed in Annex 4 of the financial statements. Management did not provide a satisfactory explanation for the failure to settle the huge outstanding amount of pending bills.</p> <p>In the circumstances, the Project risks incurring significant losses in the form of interest and penalties due to continued delay in settlement of the pending bills.</p>	<p><i>passengers and the carriage of goods and samples...The vehicles on being released shall revert to the Contractor.'</i></p> <p>Upon substantial completion of the project, the 9 motor vehicles that had been acquired for the purpose of project operations were returned to the contractor as provided for in the Standard Specifications for Road and Bridge Construction (1986 Edition).</p> <p>We note the audit observation that the financial statements under other important disclosures reflect pending bills of Kshs.2,225,743,167 as at 30 June, 2023 and as analyzed in Annex 4 of the financial statements.</p> <p>We wish to clarify that the pending bills are as a result of inadequate Gok budgetary allocations in the current and prior financial years.</p> <p>The Authority 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>		
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**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
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<p><b>Basis for Conclusion</b></p> <p><b>1.Nugatory Project Expenditure</b>  Included in the pending bills amount of Kshs.2,084,230,795 as disclosed in Note 9 to the financial statements are taxes amount of Kshs.18,449,623 that have remained unsettled for over two (2) years and interests accrued due to delayed payments of Kshs.856,733,470 which could have been avoided had the bills been settled in time.  In the circumstances, the accrued interest of Kshs.856,733,470 on delayed payments amounts to wasteful expenditure.</p>	<p>We note the audit observation that included in the pending bills amount of Kshs.2,084,230,795 as disclosed in Note 9 to the financial statements are taxes amount of Kshs.18,449,623 that have remained unsettled for over two (2) years and interests accrued due to delayed payments of Kshs.856,733,470 which could have been avoided had the bills been settled in time.  We wish to clarify that tax amount of Kshs.18,449,623 represent income tax on non-resident experts which are reimbursable costs and are paid pursuant to clause 43.2 of the contract agreement which stipulates that all local identifiable indirect taxes are reimbursed to the consultant or are paid by the client on behalf of the consultants.</p> <p>Similarly, we wish to clarify that interest claims are contractual claims provided for in the contract in case of late settlement of consultants and contractors dues. Late payments arise due to inadequate GoK budgetary allocations and delayed release of Exchequer funds.  Further, as correctly observed, these amounts represent pending bills which are yet to be paid and will only be settled upon in-depth examination of the invoices.</p>	<p>Not Resolved</p>	<p>FY 2025/26</p>
<p><b>Delayed Land Compensation</b></p> <p>Annex 4 to the financial statements reflects accumulated paid land compensation cost of Kshs.4,625,656,168. The amount excludes pending bills of Kshs.801,568,591. This amount is based on the award letter from the National Land Commission dated 11 January, 2023 in which the Commission was seeking the Authority to deposit</p>	<p>We note the audit observation that Annex 4 to the financial statements reflects accumulated paid land compensation cost of Kshs.4,625,656,168. The amount excludes pending bills of Kshs.801,568,591.  We wish to clarify that as correctly observed, National Land Commission (NLC) valued the project affected person's premises and awarded Kshs.618,762,235 as compensation which the Authority has duly reflected in the financial</p>	<p>Not Resolved</p>	<p>FY 2025/26</p>

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	<p>Kshs.618,762,235 having finalized inspection of the project-affected person's premises and awarded the amount. Further inquiry revealed that the project-affected person had been awarded a court injunction through MSA HC Petition No. 13 of 2015 stopping the demolition of structures encroaching Road Reserve. Although Management indicated that the matter had been settled in Annex 6 to the financial statements, no evidence was provided that the affected persons had accepted the award and that the amount was due for payment. In the circumstances, the Project risks incurring significant losses in the form of interest and penalties due to continued delay in settlement of Land compensations.</p>	<p>statements as pending bills. The project affected person has not rejected the award and the Authority therefore has an obligation to send the amount to NLC who have the mandate to pay the project affected person.</p> <p>The delays in settlement of Land compensation is due to inadequate GoK budgetary allocation and delay in release of Exchequer funds.</p> <p>The Authority continues to work with the Parent Ministry and The National Treasury (TNT) with an aim of securing additional budget for the project to enable settlement of pending land compensation bills.</p>		
	<p><b>3.Delayed Project Implementation and Completion</b></p> <p>The statement of receipts and payments reflects total cumulative receipts of Kshs.15,715,649,884 out of which Kshs.6,249,116,430 was in respect of transfer from Government entities while Kshs.9,466,533,454 was in respect of loans from external development partners resulting in total cumulative payments of Kshs.15,707,698,012. As previously reported, the contract was awarded to an international contractor at a cost of Kshs.6,016,868,260 on 29 July, 2016 with a commencement date of 6 January, 2017. The African Development Fund (ADF) and the Government of the Republic of Kenya were jointly financing the project, the Bank taking 97.8% of the cost while the Government of</p>	<p>We agree with the audit observation that in FY 2023/24, the statement of receipts and payments reflects total cumulative receipts of Kshs.1,593,700,735 out of which Kshs.56,086,310 was in respect of transfer from Government entities while Kshs.1,537,614,425 was in respect of loan from external development partners. The total cumulative receipts were however Kshs.15,715,649,844.</p> <p>We wish to clarify that delay in project completion has been caused majorly by court injunctions which led to stoppage of road works for example at Kwa Jomvu Interchange. Further, at the beginning of construction, the Project experienced delays occasioned by lack of Right of Way due to inadequate GoK budget allocation coupled with delayed Exchequer funds release to enable compensation of project affected persons.</p>	<p>Not Resolved</p>	<p>FY 2025/26</p>

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	<p>Kenya financing the remaining 2.2% including the tax elements arising during execution of the Contract.</p> <p>The contract period was extended to 24 November, 2024 from the initial completion date of 3 August, 2019, occasioning the variation of the contract sum to Kshs.8,538,736,334 from the original contract sum of Kshs.6,016,868,260. Review of the monthly progress report number 77, indicated that the contractor and the joint consultants requested for several extensions of time cumulatively adding up to 2,895 days.</p> <p>In the circumstances, the implementation of the Project was behind schedule and may lead to cost escalation and delayed realization of the expected benefits from the Project.</p>	<p>It is however worth noting that the works are now substantially complete except at the Kwa Jomvu Interchange which has an ongoing court case stopping the works.</p>		
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**Eng. Luka Kimeli**  
**Ag. Director General**



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

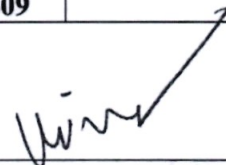
**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
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**Annex 3: Reconciliation of Inter-Entity Transfers**

<b>Project Name:</b>		<b>Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa - Kwa Jomvu)</b>		
<b>Break down of Transfers from the State Department of Roads</b>				
<b>A. Government Counterpart Funding</b>				
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
		6-May-25	214,857,647	FY 2024/25
		1-Jul-24	991,459	FY 2024/25
	<b>Total</b>	<b>Total</b>	<b>215,849,106</b>	
<b>B. Direct Payments</b>				
			<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
			-	
		<b>Total</b>	-	
<b>C. Others</b>				
			<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
	Bridge Financing	1-Apr-25	1,160,036,403	FY 2024/25
		<b>Total</b>	<b>1,160,036,403</b>	
		<b>Total (A+B+C)</b>	<b>1,375,885,509</b>	



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



**CPA Isaac Kimani Karumba**  
**Ag. Deputy Director (F&A)**  
**ICPAK Member No. 8279**

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)  
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**Annex 4: Fixed Asset Register**

Asset class	Historical Cost b/f (Kshs)	Additions during the Year (Kshs)	Disposals during the Year (Kshs)	Transfers in/(out) during the year	Historical Cost c/f (Kshs)
	2023-2024	2024-2025	2024-2025	2024-2025	2025
Land	5,427,224,758	8,000,000	-	-	5,435,224,758
Work in Progress	12,205,031,167	633,238,005	-	-	12,838,269,172
<b>Total</b>	<b>17,632,255,925</b>	<b>641,238,005</b>	<b>-</b>	<b>-</b>	<b>18,273,493,930</b>

**Annex 5: Analysis of Pending Bills**

Supplier of Goods/Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				FY 2024/25	FY 2023/24	
		a	b	c=a-b		
<b>Goods &amp; Services</b>						
Splash World Limited	30.06.2025	38,500	-	38,500	-	Inv 00039534
<b>Sub-total</b>		<b>38,500</b>	<b>-</b>	<b>38,500</b>	<b>-</b>	
<b>Consultancy Services</b>						
Sai Consulting Engineers	15.12.2020	733,016	733,016	-	733,016	FN 14
Sai Consulting Engineers	20.05.2021	1,907,331	1,907,331	-	1,907,331	FN 12(Tax)
Sai Consulting Engineers	02.08.2021	12,502,634	12,502,634	-	12,502,634	FN 16(Tax)
Sai Consulting Engineers	04.08.2021	2,060,053	2,060,053	-	2,060,053	FN 16A(Int)
Sai Consulting Engineers	25.03.2022	4,039,658	4,039,658	-	4,039,658	FN 17(Tax)
Sai Consulting Engineers	01.04.2025	4,481,146	-	4,481,146	-	FN 20(Tax)
Sai Consulting Engineers	01.04.2025	118,946,953	110,840,242	8,106,711	-	FN 35
Gibb Africa Ltd	26.05.2021	47,370,748	47,370,748	-	2,000,000	FN 4(Lewa)
Gibb Africa Ltd	18.01.2022	35,263,743	35,263,743	-	793,520	FN 5(Lewa)
Cardno IT Transport	11.06.2021	8,515,121	8,515,121	-	1,843,314	FN 2
Cardno IT Transport	11.06.2021	8,515,121	8,515,121	-	1,843,314	FN 3
Cardno IT Transport	11.06.2021	8,515,121	8,515,121	-	1,843,314	FN 4
Cardno IT Transport	11.06.2021	8,935,071	8,935,071	-	2,021,691	FN 5

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Supplier of Goods/Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				FY 2024/25	FY 2023/24	
		a	b	c=a-b		
Cardno IT Transport	01.03.2023	11,970,347	11,970,347	-	1,651,083	FN 6
<b>Sub-total</b>		<b>273,756,063</b>	<b>261,168,206</b>	<b>12,587,857</b>	<b>33,238,928</b>	
<b>Civil Works</b>						
Third Engineering	04.05.2020	25,272,255	25,271,255	1,000	25,272,255	IPC 13
Third Engineering	01.10.2020	28,056,411	28,056,411	-	28,056,411	IPC 20
Third Engineering	04.08.2021	342,978,866	342,978,866	-	49,520,157	IPC 31
Third Engineering	01.12.2021	219,193,963	219,193,963	-	34,390,810	IPC 32
Third Engineering	28.06.2022	28,412,884	28,412,884	-	28,412,884	IPC 33
Third Engineering	01.03.2023	772,198,851	(0)	772,198,851	772,198,851	Claim 1
Third Engineering	01.03.2023	1,143,498,095	1,053,110,647	90,387,448	179,410,908	IPC 36
Third Engineering	22.12.2023	519,460,737	437,959,134	81,501,603	81,501,603	IPC 38
Third Engineering	22.12.2023	322,884,070	272,224,673	50,659,397	50,659,397	IPC 39
Third Engineering	02.01.2025	265,898,345	57,315,408	208,582,937	-	IPC 40
Third Engineering	27.11.2024	234,888,442	198,035,249	36,853,193	-	IPC 41
<b>Sub-total</b>		<b>3,902,742,919</b>	<b>2,662,558,490</b>	<b>1,240,184,429</b>	<b>1,249,423,276</b>	
<b>Land Compensation</b>						
National Land Commission			5,435,224,759	-	801,568,591	
<b>Grand-Total</b>		<b>4,176,498,982</b>	<b>8,358,951,455</b>	<b>1,252,810,786</b>	<b>2,084,230,795</b>	

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)**  
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**Annex 6: Analysis of Loan from External Development Partners**

No.	Date	Payee	Currency of Payment	Payment Reference	Amounts in respective currency of IPC/fee note		Equivalent amount in reporting currency	Equivalent amount in Donor Currency (UA)	Description
					USD	Kshs	Kshs	UA	
1	8/6/2024	Mtongwe Youth Polytechnic	Kshs	PV92013 WA152	-	676,790	676,790	4,785	Mombasa-Kwa Jomvu 001/2024
5	6/27/2025	Kenya Coast National Polytechnic	Kshs	PV 98760 WA 157	-	737,706	737,706	5,215	Mombasa-Kwa Jomvu INV 112
<b>Total Recurrent</b>					-	<b>1,414,496</b>	<b>1,414,496</b>	<b>10,000</b>	
2	11/27/2024	The Third Engineering Bureau of China City	USD	PV94727 WA0153	1,148,830	-	117,444,202	830,269	Mombasa-Kwa Jomvu 41(AfDB USD)
3	11/27/2024	The Third Engineering Bureau of China City	Kshs	PV94728 WA0154	-	80,591,048	80,591,048	569,736	Mombasa-Kwa Jomvu 41(AfDB Kshs)
4	6/24/2025	Sai Consulting Engineers Pvt Ltd	USD	PV 99992 WA 156	793,376	-	102,540,166	724,905	Mombasa-Kwa Jomvu FN 35
<b>Total Development</b>					<b>1,942,206</b>	<b>80,591,048</b>	<b>300,575,416</b>	<b>2,124,911</b>	
<b>Grand Total</b>					<b>1,942,206</b>	<b>82,005,544</b>	<b>301,989,912</b>	<b>2,134,910</b>	