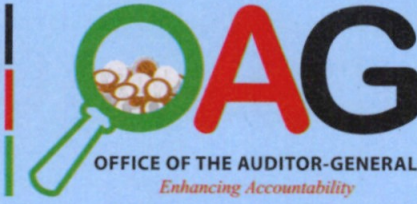


REPUBLIC OF KENYA



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 24 FEB 2026

DAY: Tuesday

OF

TABLED
BY:

Deputy Leader Majority Party
Hon. Owen Baya, MP

CLERK-AT
THE TABLE:

Mr. Benson Inzofa

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

UPGRADING OF KIBWEZI-MUTOMO-
KITUI-MIGWANI ROAD PROJECT NO.
BLA2016K001

FOR THE YEAR ENDED
30 JUNE, 2025

KENYA NATIONAL HIGHWAYS
AUTHORITY

OFFICE OF THE AUDITOR GENERAL
P.O. Box 30084 - 00100, NAIROBI
RECORDS OFFICE
19 NOV 2025
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MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

PROJECT NAME: KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT LOAN NO: CHINA EXIMBANK (CONTRACT NO. BLA2016K001)

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Table Contents	Page
1. Acronyms and Definition of Terms	ii
2. Project Information and Overall Performance.....	iii
3. Statement of Performance Against Project’s Predetermined Objectives.....	viii
4. Environmental and Sustainability reporting	x
5. Statement of Project Management Responsibilities	xiii
6. Report of the Independent Auditors on Financial Statements for Kibwezi – Mutomo – Kitui - Migwani Road Project	xiv
7. Statement of Financial Performance for the Year Ended 30th June 2025	1
8. Statement of Financial Position as at 30th June 2025	2
9. Statement of Changes in Net Assets.....	3
10. Statement of Cashflow for the year ended 30th June 2025	4
11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30 th June 2025.....	5
12. Notes to the Financial Statements.....	6
13. Annexes	24

1. Acronyms and Definition of Terms

CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIK	Environment Institute of Kenya
EXIM	Export – Import
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IHRM	Institute of Human Resource Management
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
KISM	Kenya Institute of Supplies Management
Kshs.	Kenya Shillings
LSK	Law Society of Kenya
MRT	Ministry of Roads and Transport
NEMA	National Environment Management Authority
NLC	National Land Commission
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RMB	Renminbi
SDG	Sustainable Development Goals
TNT	The National Treasury
UA	Unit of Account
USD	United States Dollar

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

2. Project Information and Overall Performance

2.1 Name and registered office

Project Name	Kibwezi – Mutomo – Kitui Road Project
Project Objectives	The loan will contribute to improve the accessibility, affordability and reliability of the transport infrastructure system to promote economic growth and socio-economic development in Kenya.
Project Registered Office and Physical Location:	The project headquarters offices are at Barabara Plaza, Jomo Kenyatta International Airport, Nairobi, Off Mazao Road
Project Address	P.O. Box 49712-00100, Nairobi
Contacts:	Telephone: 020-8013842; Email dg@kenha.co.ke; Website www.kenha.co.ke

2.2 Project Information

Project Start Date:	28 th November 2016
Project End Date:	14th May 2022
Project Management:	Eng. Henry Gakuru – Director, Development Eng. Cleophas Makau – Project Engineer.
Project Sponsor:	The Export – Import Bank of China and the Government of Kenya

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the State Department of Roads under the Ministry of Roads and Transport
Project number	N/A
Strategic goals of the Project	<p>i)Improvement of socio-economic status of Makueni and Kitui counties and the whole country at large.</p> <p>(ii)The road project will link Kitui and other counties and help boost tourism, mineral exploitation and transportation of agricultural produce and link the region to the Mombasa Port.</p> <p>(iii)Reduction of travel time, vehicle maintenance and operation costs.</p> <p>(iv) The project (as part of the Mombasa – Isiolo-Addis Ababa Road Transportation Corridor) will strengthen and boost regional trade between Kenya, Ethiopia and South Sudan.</p> <p>(v) Strengthen the Connection between Kenya’s three main regional transport corridors: Northern Corridor (A8), the Kenya – Ethiopia Corridor (A2) and Thika – Garissa - Liboi (A3)</p>

Project Information and Overall Performance (continued)

Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through implementation of the project in timely, efficient and effective manner																						
Other important background information of the project	<p>PROJECT COMPONENTS AND COSTS - LOAN</p> <table border="1" data-bbox="608 533 1385 884"> <thead> <tr> <th rowspan="3"></th> <th colspan="3">USD</th> </tr> <tr> <th>Base Rate</th> <th>Foreign Exchange Cost</th> <th>Total Cost</th> </tr> <tr> <th>%</th> <th>USD</th> <th>(USD)</th> </tr> </thead> <tbody> <tr> <td>A. Civil Works</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Kibwezi – Mutomo – Kitui</td> <td>85%</td> <td>194,740,598.46</td> <td>194,740,598.46</td> </tr> <tr> <td>TOTAL</td> <td></td> <td>194,740,598.46</td> <td>194,740,598.46</td> </tr> </tbody> </table> <p>Contract No. KeNHA/1469/2016 – Sinohydro Corporation Ltd at the revised Contract sum of Kshs 21,545,912,342.94</p> <p>The project is financed by Republic of China through The Export – Import Bank of China at 85% on Civil Works Construction inclusive of works consultancy supervision while 15% is financed by the Government of Kenya.</p> <p>Project Background: - In January 2011, the Government of Kenya (GK) and Messrs Sinohydro Corporation of China entered into a commercial contract for upgrading of the Kibwezi – Mutomo-Kitui road as a precondition for receiving financing from the Export – Import Bank of China.</p> <p>In September 2016, the Government and Contractor, Sinohydro Corporation agreed on a 42-Month Contract to execute a revised scope of works as follows:</p> <ol style="list-style-type: none"> Engineering, procurement and Construction of Kibwezi – Kitui (145Kms) Road; Engineering, Procurement and Construction of Kabati – Migwani direction (16.7 Kms); Related Township Road Kibwezi Township Roads (3Kms), Ikutha Township Roads (3Kms), Mutomo Township Roads and Kitui Township Roads (8Kms) Kibwezi and Kitui Interchanges Rehabilitation of the Kitui –Kabati Road (12Kms) Kibwezi and Kitui Road Social Ammenities 		USD			Base Rate	Foreign Exchange Cost	Total Cost	%	USD	(USD)	A. Civil Works				Kibwezi – Mutomo – Kitui	85%	194,740,598.46	194,740,598.46	TOTAL		194,740,598.46	194,740,598.46
	USD																						
	Base Rate		Foreign Exchange Cost	Total Cost																			
	%	USD	(USD)																				
A. Civil Works																							
Kibwezi – Mutomo – Kitui	85%	194,740,598.46	194,740,598.46																				
TOTAL		194,740,598.46	194,740,598.46																				

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Project Information and Overall Performance (continued)

Areas that the Project was formed to intervene	The project was formed to intervene in the following areas: Upgrading to bitumen standard the Kibwezi-Mutomom-Kitui-Kabati-Migwani (A9/B64) Road is part of the Northern Corridor Transport Improvement Project. It will cater for through traffic from Mombasa via Kibwezi to Moyale and into Ethiopia on a friendly direct alignment with less steep slopes and reduces travel time by avoiding the need to pass through Nairobi. The sections from Isiolo to Marsabit and Moyale were recently completed and that between Kibwezi and Isiolo is the missing link of which the project road forms the first section.
Project duration	The project financing agreement started on 28th November 2016 and ended on 14 May 2022

2.4 Bankers

The following are the bankers for the project:

- i) Co-operative Bank of Kenya Ltd
Upper Hill Branch, Nairobi
Account Number: 01141160979900
- ii) National Bank of Kenya
Hill Park Branch, Nairobi
Account Number: 0100132733200
- iii) Kenya Commercial Bank
JKIA Branch

2.5 Independent Auditor

The Project is audited by:

The Auditor General

Office of the Auditor - General

P.O. Box 30084 – 00100 GPO, Nairobi

2.6 Roles and Responsibilities

No.	Names	Title Designation	Key qualification	Responsibilities
1	Eng. Henry Gakuru	Director, Development	Registered Engineer	Project Implementing Team Leader
2	Eng. Cleophas Makau	DD – Special Projects	Registered Engineer	Project Co-ordinator
3	Mr. W. Nyatwanga	DD (Environmental & Social)	Registered Environmental Specialist	Safeguard Specialist
4	CPA. Chanje Kera	DD – Finance & Accounts	Certified Public Accountant	Project Financial Management Specialist
5	Ms. Norah Odingo	Corporation Secretary / Deputy Director Legal Services	Member of LSK Advocate of the High Court of Kenya	Project Legal Specialist
6	Mr. Richard Kilel	AD – Supply Chain Services	Registered Member KISM	Project Procurement Specialist
7	Ms. Matilda Mwangi	Assistant Director, Human Resource Management	Registered Member IHRM	Project Human Resources Specialist

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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 five and half years with an approved loan of USD 194,740,598.46 equivalent to Kshs. 15,644,154,921 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitments		Amount received to date		Undrawn balance to date	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') – (B')
(i) Loan						
China Exim Bank	194,740,598	15,644,154,921	194,156,377	15,597,222,456	584,222	46,932,465
(ii) Counterpart Funds	-	9,429,914,473	-	6,172,143,983	-	3,257,770,490
Total	194,740,598	25,074,069,394	194,156,377	21,769,366,439	584,222	3,304,702,955

*The undrawn balance from the Development Partner was not utilized since the financing agreement lapsed in FY 2021/22 prior to project completion.

Note: - Contract Exchange rate to USD is Kshs. 80.3333.

The counterpart component costs include the cost of land acquisition, relocation of services and project operating costs hence exceeding the amount of USD 34,365,987.96 (Kshs 2,760,733,220.85 equivalent) stated in the loan agreement.

B. Application of Funds

Application of Funds	Amount received to 30th June 2025		Cumulative Amount paid to 30th June 2025		Unutilized balance to date	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') – (B')
(i) Loan						
China Exim Bank	194,156,377	15,597,222,456	194,156,377	15,597,222,456	-	-
(ii) Counterpart Funds	-	6,172,143,983	-	6,154,592,001	-	17,551,982
Total	194,156,377	21,769,366,439	194,156,377	21,751,814,457	-	17,551,982

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT**Annual Report and Financial Statements for the financial year ended June 30, 2025****Project Information and Overall Performance (continued)****2.8 Summary of Overall Project Performance:**

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

	FY 2024/2025			Cumulative		
	Actual	Budget	%	Actual	Budget	%
Counterpart Funds - Gok	2,435,868,385	2,470,420,367	99%	6,154,592,001	6,325,259,573	97%
Loan from External Development Partners	-	-	0%	15,597,222,456	18,530,000,000	84%
Total	2,435,868,385	2,470,420,367	99%	21,751,814,457	24,855,259,573	88%

Physical progress based on outputs, outcome and impacts since project commencement. The project physical progress is 99.9% of original scope and 29.6% for Addendum No. 3 Works

ii) Absorption rate for each year since the commencement of the project.

Financial Year	Budget	Actual	Percentage (%)
FY 2024/25	2,470,420,367	2,435,868,385	99%
FY 2023/24	125,258,930	115,376,930	92%
FY 2022/23	178,569,276	167,985,094	94%
FY 2021/22	490,000,000	43,718,465	9%
FY 2020/21	2,465,910,929	2,447,749,803	99%
FY 2019/20	6,992,325,635	5,861,085,986	84%
FY 2018/19	3,095,011,144	3,067,888,083	99%
FY 2017/18	2,153,125,000	2,079,270,943	97%
FY 2016/17	6,884,638,292	5,532,870,768	80%
TOTAL	24,855,259,573	21,751,814,457	88%

iii) Project Implementation Challenges

The main project implementation challenge is the lack of adequate GK funding arising from low GK counterpart budgetary provisions for timely settlement of the GK counterpart project costs. It is recommended that the Government provides adequate budgetary provisions for all projects in order to facilitate smooth projects implementation.

2.9 Summary of Project compliance: -

There were no reported cases of significant non-compliance with applicable laws and regulations, and essential external financing agreements/covenants in the financial year.

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’s agreement/ plan are to:

- a) Improvement of socio-economic status of Makueni and Kitui counties and the whole country at large.
- b) The road project will link Kitui and other counties and help boost tourism, mineral exploitation and transportation of agricultural produce and link the region to the Mombasa Port.
- c) Reduction of travel time and vehicle and vehicle maintenance and operation costs.
- d) The project (as part of the Mombasa – Isiolo-Addis Ababa Road Transportation Corridor) will strengthen and boost regional trade between Kenya, Ethiopia and South Sudan)
- f) Strengthen the Connection between Kenya’s three main regional transport corridors: Northern Corridor (A8), the Kenya – Ethiopia Corridor (A2) and Thika – Garissa - Liboi (A3)

Progress on the attainment of strategic development objectives

To implement and cascade the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic, and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified to track progress and performance measurement.

Below, we provide the progress on attaining the stated objectives:

Objective	Outcome	Indicator	Performance
Improvement of socio-economic status of Makueni and Kitui counties and the whole country at large	Improved socio-economic status of the two counties and the whole country at large	Socio Economic Status	Completion of 76% of the Road Project has contributed towards improvement of socio-economic status through job creation, trade facilitation and promotion of tourism
The project road will link Kitui and other counties and help boost tourism, mineral exploitation and transportation of agricultural produce, and link the region to the Mombasa Port.	Improved level of tourism, mineral exploitation and economic activities at large	Level of Economic Activity	completion of 76% of the Road Project has contributed towards improving the level of economic activity through job creation, trade facilitation and promotion of tourism

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT**Annual Report and Financial Statements for the financial year ended June 30, 2025**

Objective	Outcome	Indicator	Performance
Reduction of travel time and vehicle and vehicle maintenance and operation costs.	Reduced travel time and vehicle and vehicle maintenance and operation costs.	Reduced Travel Time	155 Kms of the project is completed, hence significantly reducing the travel time
Strengthen and boost regional trade between Kenya, Ethiopia and South Sudan)	Improved regional trade between Kenya, Ethiopia and South Sudan	Volume of trade between the three countries	155 Kms of the project is completed, hence significantly strengthening trade between the three neighbouring countries
Strengthen the Connection between Kenya's three main regional transport corridors: Northern Corridor (A8), the Kenya – Ethiopia Corridor (A2) and Thika – Garissa - Liboi (A3)	Improved connection between the road corridors	Ease of connection between the road corridors	155 Kms of the project is completed, hence facilitating the ease of connection between the road corridors

4. Environmental and Sustainability reporting

The Kibwezi – Mutomo – Kitui – Migwani Road Project 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.

i) Sustainability strategy and profile

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the attainment of peace and 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

ii) 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)

iii) 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.

iv) 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.

v) 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.

The Contractor has been involved in various CSR activities geared towards providing social amenities to the local residents through drilling of boreholes and construction of water kiosks along the project road, improvement of access roads and enhancing learning and playing environment in schools along the project road. 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.

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Environmental and Sustainability reporting (continued)

Some of the CSR Activities undertaken by the project includes:

S. No.	Organization/ Beneficiary	Nature of CSR	Amount (KES)
1	Kibwezi University	Levelling the yard for Kibwezi University	205,000
2	Kibwezi DCC Office	Construction of parking area with AC finishing	2,230,000
3	Mutomo Community at km	Grading and repairing of road and construction of Culvert	215,000
4	Kyoani Community at km	Improved existing dam and excavated new Wells	1,288,500
5	Kanzao Community, Mutomo,	Improvement of existing dam	330,000
6	Local Community at km	Grading and maintenance of existing road to waterpoint	205,000
7	Atongoi Pri. School, km	Cement and steel and levelling playground	254,800
8	Mutuni Community at km	Repair of existing road and construction of underground tank	1,272,800
9	UAE Sec. School at km	Grading and levelling of playing ground	203,000
10	Mutomo DCC Office	Grading and levelling of existing road	203,000
11	Local community at km	Construction of water dam for local community	780,000
12	Community at km	Construction of an earth dam	880,000
13	Community at km +	Construction of earth dam	1,180,000
14	Kwakilui Primary School	Set up road sign & bump and road construction for school	200,000
15	Km School	Erection of 700m fence for the school	600,000
16	Migwani Town	Grading and levelling of existing road and	300,000
17	km Quarry community	Grading and levelling of existing road (6 km)	200,000
18	Kwa-Kilui to Ilika Kambi Rd	Grading and levelling of existing road	6,000,000
19	Kwa Toma-Nzeeu River Road	Grading and levelling of existing road	1,000,000
20	Road from Nguuni Market	Grading and levelling of existing road	300,000
21	Ikutha Town	Construction Ikutha bus parking	6,637,026
22	Athi campsite	Water supply system	3,600,000
23	Ikutha Training center	Grading and levelling of existing compound	270,000
24	Kitui County Crusher Site	Bush Clearing and ground Levelling	270,000
25	Kwa Kilui Dispensary	Construction of Access Road	270,000
26	Kwa-Kilui / Ngunziu Borehole	Drilling, Casing and Equipping of the Borehole	2,225,000
27	Kwa Kethi – Mosa Borehole	Drilling, casing and equipping of the borehole	2,250,000
28	Kisasi – Kavisuni Road	Levelling and grading of the road section	4,338,380
29	Kyangi - Kwa Vonza Road	Repair and levelling, bumps and road signs	5,900,197
30	Kwa Vonza Jun-Mulutu Road	Repair and levelling, bumps and road signs	6,832,949
31	Kabati Borehole	Drilling, Casing and Equipping of Borehole	2,250,000
32	Tulia Earth dam	Construction of a 10,000 m3 dam at Tulia	50,000,000
33	Kitui Central- Majengo and Town	Grading of access road, bush clearing and desilting of Kalundu Dam	2,000,000
34	Chuluni-Nzambani Road Jntn.	Repair and levelling	200,000
35	Ithookwe Primary School	Construction materials of toilet and fence	210,000
36	Unyaa Primary School	Construction pump house and water house	540,000
37	Maselele Primary School	Fencing with Chain link and Angle line posts	600,000
38	Mutendea Community	Construction of the dam	1,350,000
39	Kitui St. John Eudes Centre	Access road to St. John Eudes Rehab. Centre	800,000
40	AIC Mutonguni Girls Sec.Sch.	Backfilling and levelling the on the school dormitory	200,000
41	Repair of the existing road from Kwa Kilui Crusher to Mulutu	Graveling, Levelling, trimming and compaction of the existing road	1,246,859
	Total Amount (KES)		109,837,510

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementing Team Leader are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the project for the financial year ended 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 Implementing 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 Project Implementing Team Leader are of the opinion that the Project 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 the Project's financial position as at that date. The Director General, KeNHA and the Project Implementing Team Leader further confirm that completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial Statements as well as on the adequacy of the systems of internal financial control.

The Director General, KeNHA and the Project Implementing 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 are 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 Project Implementing Team Leader on 27 AUG 2025 and signed by:



Eng. Luka Kimeli
Ag. Director General



Eng. Henry Gakuru
Director, Development

REPUBLIC OF KENYA

Phone: +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 UPGRADING OF KIBWEZI-MUTOMO-KITUI-MIGWANI ROAD PROJECT NO. BLA2016K001 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 the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure 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, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion 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 are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying transitional IPSAS financial statements of Upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project set out on pages 1 to 27, which comprise of

Report of the Auditor-General on Upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project No. BLA2016K001 for the year ended 30 June, 2025 - Kenya National Highways Authority

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, 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 Upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project 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 Basis) including the provisional provisions permitted under IPSAS 33 and comply with the Loan Agreement No. BLA2016K001 dated 28 November, 2016 between the Export-Import Bank of China and the Government of the Republic of Kenya and the Public Finance Management Act, 2012; and The National Treasury and Economic Planning Circular No.3 of 14 April, 2025.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Upgrading of the Kibwezi-Mutomo-Kitui-Migwani Road Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Long Outstanding Account Payables

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.1,949,071,920. However, review of payables schedule provided revealed that a balance of Kshs.598,583,365 remained unsettled for a long time some dating back to 2021 financial year. The Authority did not provide explanations on the measures put in place to facilitate payments.

Failure to settle pending bills when due may attract avoidable costs in form of interest and penalties charged on long overdue payables. Further, unsettled payables will distort budget of the subsequent year as it forms first charge.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the prior year audit report, three issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. These issues include non-compliance with public procurement and asset disposal Act, 2015, incomplete contract works and avoidable interest on delayed payments. Review of the status during audit of the project in 2024/2025 revealed that the matters remained unresolved.

Other Information

The Management is responsible for the Other Information set out on page ii to xiii which comprise of project information and overall performance, statement of performance against Project's predetermined objectives, environmental and sustainability reporting and statement of Project's Management responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project Management 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 and I am required to report that fact. I have nothing to report in this regard.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in 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 Interest on Delayed Payments

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.1,949,071,920. The balance includes an amount of Kshs.474,338,860 relating to interest on delayed payments which translates to 24% of the total outstanding payables. The Authority negotiated for interest payable waiver of an amount of Kshs.255,413,232 or 35% as supported by the interest waiver settlement agreement provided for audit. However, the balance of Kshs.474,338,860 relating to interest remained payable. This amount could have been avoided had the pending bills been paid on time.

In the circumstances, the value for money, would not be realized on interest payment.

2. Delayed Payments to Persons Affected by the Project (PAPs)

The statement of financial position and as disclosed in Note 9 to the financial statements reflects trade and other payables balance of Kshs.1,949,071,920 which included a balance Kshs.803,564,190 relating to payables in respect of persons affected by implementation of the project that has been outstanding for long. This was contrary to requirements of Land Act that states that for land acquired compulsorily, just compensation shall be paid promptly in full to all persons whose interests in the land have been determined.

In the circumstances, Management was in breach of the law.

3. Incomplete Contract Works

As previously reported, the Authority entered into a commercial contract with a Contractor at a contract sum of Kshs.18,505,888,139 on 09 February, 2011 for the Upgrading of Kibwezi-Mutomo-Kitui Road Project. Review of the contract documents reveal that on 20 September, 2016, the Authority and the Contractor executed Addendum 1 under the contract whereby the scope of works was increased without affecting the contract sum. This was at the request of the Authority due to drastic decrease in international oil prices, bitumen, steel and diesel by big margins. The increased scope of works included engineering, procurement and construction of Kabati-Migwani direction (16.7Km) road. Further, Management executed Addendum No.2 under the existing contract on 4 October, 2020 which also included the engineering, procurement and construction of Kabati-Migwani direction of a further (8.92Km) road. The additional works in Addendum 1 and 2 aggregated totals 25.62Km which is the distance between the two (2) towns.

Further, the Authority and the Contractor executed Addendum No.3 on 28 April ,2021 which revised the contract sum to Kshs.21,545,912,342.94, a variation of Kshs.3,141,024,203.86 from the original contract sum. The completion date was also extended from 15 February, 2022 to 14 May, 2023 and the scope of works was revised to include construction of 29.2 km section from Km 170+461.5 (end of Kibwezi – Mutomo-Kitui-Migwani Section) to Mbondoni (Junction with A3 Road), Ndolo's Corner Road (road

to DCC Office and Shopping Centre) 0.75 Km, Tulia Town Roads (to connect ACC Office and town to main road) 1.65Km, Migwani Town Roads (including access to DCC Office) 1.85 Km, Construction of 2 No. bridges at Km 153+354 and Km 159+821.

Physical inspection carried out on the section of the road on 29 September, 2025 revealed that the road works under Addendum No.3 were yet to be completed despite the extended time having lapsed. This was as a result of the suspension of works by the contractor, due to non-payment of certified works, in December 2021. At the time of inspection, the contractor had resumed works with machinery mobilization and labour confirmed on the site.

In the circumstance, delayed implementation of the project denied the public benefits that could have accrued from completed project.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by the Financing Agreement No. BLA2016K001 between the Republic of Kenya and Export-Import Bank of China Loan, I report, based on my audit, that:

As required by Agreement No. BLA2016K001, 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's financial statements are in agreement with the accounting records and returns.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the 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 57 of the Public Audit Act, 2015.

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

Those charged with governance are responsible for overseeing the 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(5) 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 58 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

26 November, 2025

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

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

	Notes	FY 2024-2025
		Kshs
Revenue		
Revenue Transfers	6	-
Miscellaneous Revenue		-
Total revenue		-
Expenses		
Employee costs		-
Use of goods and services		-
Depreciation and amortization expense		-
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
Total expenses		-
Other gains/(losses)		
Gain/Loss on sale of assets		-
Gain/Loss on foreign exchange transactions		-
Impairment loss		-
Surplus/ (deficit)		-

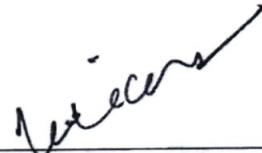
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



Eng. Luka Kimeli
 Ag. Director General



Eng. Henry Gakuru
 Director, Development



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


KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

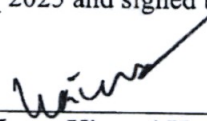
8. Statement of Financial Position as at 30th June 2025

	Note	FY 2024-2025	1 st July 2024
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	7	47,179,248	20,739,572
Total Current Assets		47,179,248	20,739,572
Non-Current Assets			
Property, Plant and Equipment	8	23,660,849,877	22,982,019,725
Total Non- Current Assets		23,660,849,877	22,982,019,725
Total Assets (a)		23,708,029,125	23,002,759,297
Liabilities			
Current Liabilities			
Trade and Other Payables	9	1,949,071,920	3,706,110,153
Third Party Deposits	10	29,627,266	273,390
Total Current Liabilities		1,978,699,186	3,706,383,543
Total Liabilities (b)		1,978,699,186	3,706,383,543
Net Assets (a-b)		21,729,329,939	19,296,375,754
Represented By:			
Capital Grants		21,729,329,939	19,296,375,754
Accumulated Surplus		-	-
Total Net Assets		21,729,329,939	19,296,375,754

The financial statements were approved on 27 AUG 2025 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

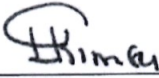
KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

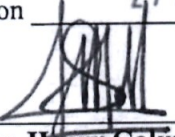
9. Statement of Changes in Net Assets

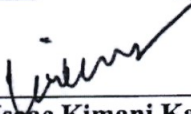
Description	Capital Grants	Accumulated Surplus	Total
	Kshs	Kshs	Kshs
As at 30 th June 2024 (Cash Basis)	-	20,466,182	20,466,182
Adjustments:			
Asset Recognition	22,982,019,725	-	22,982,019,725
Liabilities Recognition	(3,706,110,153)	-	(3,706,110,153)
PY Surplus re-classified to Capital Grants	20,466,182	(20,466,182)	-
As at 1st July 2024	19,296,375,754	-	19,296,375,754
Capital Grants received during the year	2,432,954,185	-	2,432,954,185
Surplus/(Deficit) for the year	-	-	-
As at 30th June 2025	21,729,329,939	-	21,729,329,939

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

The financial statements were approved on 27 AUG 2025 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

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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 2025
		Kshs
Cashflow from operating activities		
Receipts		
Revenue Transfers		-
Miscellaneous Revenue		-
Total receipts		-
Payments		
Employee costs		-
Use of goods and services		-
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
Total payments		-
Net cash flow from operating activities	11	-
Cashflow from investing activities		
Acquisition of non-financial assets		(2,406,514,509)
Proceeds from sale of Assets		-
Acquisition of Intangible assets		-
Net cash flows from investing activities		(2,406,514,509)
Cash flow from financing activities		
Capital transfers: GoK Counterpart funding		2,432,954,185
Capital transfers: Development Partner		-
Net cash flow from financing activities		2,432,954,185
Net increase/Decrease in cash and cash equivalents		26,439,676
Cash and cash equivalent at 1st July 2024	7	20,739,572
Cash and cash equivalent at end June 2025	7	47,179,248

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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 Variance	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
Budget Carry Overs from previous periods	-	-	-	20,466,182	(20,466,182)	100%
Receipts						
Transfers from Government entities	200,000,000	2,249,954,185	2,449,954,185	2,432,954,185	17,000,000	99%
Total Receipts	200,000,000	2,249,954,185	2,449,954,185	2,453,420,367	(3,466,182)	100%
Payments						
Use of goods and services				-		99%
Acquisition of non-financial assets	200,000,000	2,249,954,185	2,449,954,185	2,435,868,385	14,085,800	
Total Payments	200,000,000	2,249,954,185	2,449,954,185	2,435,868,385	14,085,800	99%
Surplus or Deficit	-	-	-	17,551,982	(17,551,982)	

Note: The significant budget utilization/performance differences in the last column are explained in Annex 4 to these financial statements.

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	17,551,982
1	Add: Retention balance as at 1st July 2024	273,390
2	Add: Retention held during the financial year	29,353,876
	Closing Cash and Cash Equivalent as per the statement of Cash flows	47,179,248

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

12. Notes to the Financial Statements

1. General Information

The Kenya National Highways Authority is established by and derives its authority and accountability from Roads Act 2007. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is the Management, development, rehabilitation and maintenance of national trunk road.

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 2025

3. Adoption of New and Revised Standards

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

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></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>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>
IPSAS 44: Non-Current Assets Held for Sale	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower</p>

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Standard	Effective date and impact:
<p>and Discontinued Operations</p>	<p>of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>
<p>IPSAS 45- Property Plant and Equipment</p>	<p>Applicable 1st January 2025</p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be 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.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>
<p>IPSAS 46 Measurement</p>	<p>Applicable 1st January 2025</p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> 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 related disclosures. <p>The standard also introduces a public sector specific measurement bases called the</p>

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Standard	Effective date and impact:
	<p>current operational value.</p> <p>The project does not anticipate that the standard will have any impact on its operations and reporting.</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:
IPSAS 47- Revenue	<p>Applicable 1st January 2026</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>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>
IPSAS 48- Transfer Expenses	<p>Applicable 1st January 2026</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>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>
IPSAS 49- Retirement	<p>Applicable 1st January 2026</p> <p>The objective is to prescribe the accounting and reporting requirements for the public</p>

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Standard	Effective date and impact:
Benefit Plans	<p>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>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>
<p>IPSAS 50: Exploration For & Evaluation of Mineral Resources</p>	<p><i>Applicable 1st January 2027</i></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"> i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. 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. 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. <p>The project does not anticipate that the standard will have any impact on its operations and reporting.</p>

iii) Early adoption of standards

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

ii) Revenue from exchange transactions

Interest income

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

b) Budget information

The original budget for FY 2024/2025 was approved by the National Assembly on 28th January 2024. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Project upon receiving the respective approvals to conclude the final budget. Accordingly, the Project recorded additional appropriations of **Kshs. 2,249,954,185** on the FY 2024/2025 budget following its approval. The Project's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 5 under section *II* of these financial statements.

Notes to the 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 Project recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus, or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Leases

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

e) Intangible assets

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

Notes to the financial statements

f) Research and development costs

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

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

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

g) Financial instruments

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

Financial assets

Classification

The Project classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity, or fair value through surplus and deficit on the basis of both the Project's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of

Notes to the financial statements

the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if

it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash

flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless the Project has made an irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

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

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.

Notes to the financial statements

Fair value through surplus or deficit

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

Trade and other receivables

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

Impairment

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

Financial liabilities

Classification

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

h) Inventories

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

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

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

Notes to the financial statements

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

i) Provisions

Provisions are recognized when the Project has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Project expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

Contingent assets

The Project does not recognize a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Project in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Project creates and maintains reserves in terms of specific requirements. The Project maintains grants and surplus reserves. The grant reserves are exchequer and development partner funds received from the Government and Development Partners for development of roads. The surplus reserve represents the surplus or deficit of internally generated funds against other project operation expenses and transfers. The exchequer and Development partner funds are capitalized in the statement of financial position. However, the portion of exchequer and development partner funds spent on non-capital items or project expenses is

Notes to the financial statements

transferred to recurrent transfers and treated as recurrent government and development partner grants and expenditures accordingly.

k) Changes in accounting policies and estimates

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

l) Employee benefits

Retirement benefit plans

The project does not employ project specific employees hence does not maintain Retirement benefit Plans.

m) Foreign currency transactions

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

n) Borrowing costs

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

o) Related parties

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

Notes to the financial statements

p) Service concession arrangements

The Project analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Project recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Project also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Project 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.

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Notes to the financial statements

The Project based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Project. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Project.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset
- Road Assets will be depreciated/amortized once the project is formally closed in accordance with the PFM regulations.

Provisions

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

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

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

6. Revenue Transfers

Description	FY 2024-2025
	KShs
Unconditional Transfers	
GoK Counter Part funding	2,432,954,185
Transfers from Development partners	-
Total Unconditional Transfers (a)	2,432,954,185
Conditional Transfers	
GoK Counter Part funding	-
Transfers from Development partners	-
Total Conditional Transfers (b)	-
Total Transfers for the Year (a + b)	2,432,954,185

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
GoK Counter Part funding	-	-	2,432,954,185	2,432,954,185
Total	-	-	2,432,954,185	2,432,954,185

7. Cash and Cash Equivalents

	2024/2025	1st July 2024
	Kshs	Kshs
Cash in Bank	47,179,248	20,739,572
Total Cash and Cash Equivalents	47,179,248	20,739,572

Project Bank Accounts

	2024/2025	1st July 2024
	Kshs	Kshs
National Bank of Kenya A/C No. 0100132733200	29,627,266	273,390
Co-operative Bank of Kenya Ltd A/C: '01141160979900	17,551,982	20,466,182
KCB Bank Revenue Account No.1274695775	-	-
Total	47,179,248	20,739,572

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2025***8. Property, Plant and Equipment**

Cost	Land	Capital Work in progress	Total
	Kshs	Kshs	Kshs
Depreciation rate			
As At 1 July 2024 (opening balances)	1,930,541,626	21,051,478,099	22,982,019,725
Additions	814,721,990	119,521,395	934,243,385
Disposals	-	-	-
Adjustments-Waived Interest on delayed payments	-	(255,413,232)	(255,413,232)
As at 30th June 2025	2,745,263,616	20,915,586,261	23,660,849,877
Depreciation and Impairment			
As at 1 July 2024	-	-	-
Depreciation charge for the year	-	-	-
Impairment loss	-	-	-
Transfers/ Adjustments	-	-	-
As At 30th June 2025	-	-	-
Net Book Values			
As at 1st July 2024	1,930,541,626	21,051,478,099	22,982,019,725
As at 30th June 2025	2,745,263,616	20,915,586,261	23,660,849,877

9. Trade and Other Payables – (Annex 5)

Description	FY 2024/25	1st July 2024		
	Kshs		Kshs	
Trade payables	1,949,071,920		3,706,110,153	
Total trade and other payables	1,949,071,920		3,706,110,153	
Ageing analysis: (Trade and other payables)	FY 2024/25	% of the Total	1st July 2024	% of the Total
Under one year	923,085,585	47%	436,920,486	12%
1-2 years	436,920,486	22%	17,704,500	0.5%
2-3 years	-	-	1,601,502,481	43%
Over 3 years	589,065,849	30%	1,649,982,686	45%
Total	1,949,071,919		3,706,110,153	

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2025***10. Third-Party Deposits**

Description	FY 2024-2025		1st July 2024	
	Kshs		Kshs	
Retention amount held by GoK	29,627,266		273,390	
Total	29,627,266		273,390	
	FY 2024 - 2025	% of the Total	1st July 2024	% of the Total
Ageing analysis:				
Under one year	29,353,876	99%	-	0%
1-2 years	-	0%	273,390	100%
2-3 years	273,390	1%	-	0%
Over 3 years	-	0%	-	0%
Total	29,627,266	100%	273,390	100%

11. Cash Generated from Operations

Description	FY 2024_2025
	Kshs
Surplus/Deficit for the year	-
Adjusted for:	
Depreciation	-
Non-cash grants received	-
Impairment	-
Gains and losses on disposal of assets	-
Working capital adjustments	
Increase in inventory	-
Increase in receivables	-
Increase in deferred income	-
Increase in payables	-
Increase in payments received in advance	-
Net cash flow from operating activities	-

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

12. 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.

Other related parties include:

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

Description	FY 2024/25
	Kshs
Transactions with related parties	
a) Sales to related parties	
Others (specify) e.g. interest and bank charges	-
Total	-
B) purchases from related parties	
Purchase of water from govt service providers	-
Rent expenses paid to govt agencies	-
Others (specify)	-
Total	-
b) Grants /transfers from the government	
Grants from national govt	2,432,954,185
Grants from county government	-
Donations in kind	-
Total	2,432,954,185
c) Expenses incurred on behalf of related party	
Payments of salaries and wages for employees	-
Payments for goods and services	-
Total	
d) Key management compensation	
Directors' emoluments	-
Compensation to key management	-
Total	2,432,954,185

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

13. Events after the Reporting Period

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

14. Ultimate and Holding Entity

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

15. Currency

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

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

13. Annexes

Annex 1 - Prior Year Auditor-General's Recommendations

Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
1	<p>Long Outstanding Account Payables Note 10 to the financial statements reflects pending accounts payable balance of Kshs.3,706,110,153 which comprise of additions for the year and payments during the year of Kshs.437,071,686 and Kshs.115,376,930 respectively. Further, the total payables balance of supply of services reduced from a balance of Kshs.75,016,624 in the previous year to Kshs.66,516,624 representing a reduction of Kshs.8,651,200 or 12%. The Authority did not provide an explanation on the measures put in place to facilitate payments of the outstanding certificates which have been raised for works done and the accrued interest if any, arising from delayed payments. The Project was therefore at risk of incurring additional interest costs due to continued delay in settlement of outstanding payables.</p>	<p>We note the audit observation that Note 10 to the financial statements reflects pending accounts payable balance of Kshs.3,706,110,153 which comprise of additions for the year and payments during the year of Kshs.437,071,686 and Kshs.115,376,930 respectively. We however wish to clarify that the delay in settling the pending accounts payable balance is as a result of inadequate GoK Budgetary allocations in the current as well as prior financial years and the lapse of the Financing Agreement prior to project completion. In FY 2024/25 however, the Project paid an amount of Kshs. 2,435,868,385 towards reduction of the pending bills. The Authority will continue liaising with the Parent Ministry and the National Treasury in an effort to secure additional budgetary provisions to settle the Pending Bills.</p>	Not Resolved	Ongoing
	<p>Other Matter Unresolved Prior Year Matters In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not provided an explanation on how the issues were resolved.</p>	<p>We note the audit observation. We however 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 and awaits invitation to appear before the committee on audit observations for FY 2023/24.</p>	Not Resolved	FY 2025/26

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

<p>Basis for Conclusion</p> <p>Non-Compliance with Public Procurement and Assets Disposal Act, 2015</p> <p>Review of project records revealed that KENHA on 28 April, 2021 executed Addendum 3 of the contract for Kibwezi-Mutomo-Kitui Road contract No.KeNHA 1469/2016 with a foreign contractor which varied upwards the project cost by an amount of Kshs.3,141,024,204 thereby revising the total contract sum from a balance of Kshs.18,404,888,139 to Kshs.21,545,912,343.</p> <p>The entire variation amount was to be funded by the Government of Kenya and paid in Kenya shillings. The revised scope of works included construction of 29.52Km section from end of Kibwezi-Mutomo-Kitui-Migwani Section to Mbondoni (Junction with A3 Road).</p> <p>Management has not explained why it carried out an upward variation of the contract for the upgrade of Kibwezi-Mutomo-Kitui-Migwani Section by an amount of Kshs.3,141,024,204 to Mbondoni without express authority of the National Treasury contrary to Section 53(8) and (9) of the Public Procurement and Disposal Act, 2015.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>We note the audit observation that on 28 April, 2021 the Authority executed Addendum 3 of the contract for Kibwezi-Mutomo-Kitui Road with a foreign contractor which varied upwards the project cost by an amount of Kshs.3,141,024,204 thereby revising the total contract sum from a balance of Kshs.18,404,888,139 to Kshs.21,545,912,343</p> <p>We however wish to clarify that the Authority through its parent Ministry requested for approval to construct Migwani to Mbondoni and additional funding amounting to Kshs. 3.77B to undertake the works. A copy of the letter was shared with the audit team for review during the audit process. We further clarify that The National Treasury in its response to China EXIM bank with a copy to the Cabinet Secretary, Ministry of Transport, Infrastructure, Housing, Urban Development and Public works committed to fund the additional works under Addendum No. 3. A copy of the letter was also shared with the audit team during the audit process.</p>		
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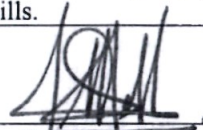
KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

	<p>Incomplete Contract Works</p> <p>As previously reported, the Kenya National Highways Authority (KENHA) entered into a commercial contract with a Foreign Contractor at a contract sum of Kshs.18,404,888,139 on 09 February, 2011 for the Upgrading of Kibwezi-Mutomo-Kitui Road Project. Review of the contract document revealed that on 20 September, 2016, KENHA and the Contractor executed Addendum 1 under the contract where the scope of works was increased under the existing contract sum of Kshs.18,404,888,139. This was at the request of KENHA due to drastic decrease in international oil prices bitumen, steel and diesel by big margins.</p> <p>The increased scope of works included Engineering, Procurement and Construction of Kabati-Migwani direction (16.7Km) road. Further, Management executed Addendum No. 2 under the existing contract on 4 October, 2020 which also included the Engineering, Procurement and Construction of Kabati-Migwani direction of a further (8.92Km) road. The additional works in Addendum 1 and 2 when aggregated totals 25.62Km which is the distance between the two (2) towns.</p> <p>However, physical verification carried out on the section of the road on 24 September, 2024 revealed that the road works terminated at 8Km to Migwani town. In addition, the contractor was not on site and the project works had stalled. In the circumstances, value for money spent on the Project could not be confirmed.</p>	<p>We note the audit observation that some section of the road stretch had not been worked on by the contractor.</p> <p>We however wish to clarify that in May 2018, the Contractor sought clarification on the scope of works pointing out that the length of the road to Migwani Market was 202 km and not 191.71 km as stipulated in the Contract agreement. The Employer subsequently appointed a committee which established the actual length of road stretch as 191.71 Kms and not 202 Kms indicated in the contract document. Subsequently, Contract Addendum No. 2 was executed to correct not only this road length but various other town roads within the original scope of works. A copy of the Addendum No. 2 was shared with the audit team during the audit process for review.</p>	<p>Not Resolved</p>	<p>FY 2025/26</p>
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KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

<p>Avoidable Interest on Delayed Payments</p> <p>As reported previously, the statement of receipts and payments reflects acquisition of assets amount of Kshs.115,225,730 which includes Kshs.99,691,520 on construction of roads as disclosed in Note 4 to the financial statements. The amount further includes Kshs.70,584,182 relating to interest payments, which arose from delayed payments to the contractor for the upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project.</p> <p>Further, Annex 4 to the financial statements reflects pending bills amount of Kshs.3,706,110,153 which includes unpaid interest on delayed payments totalling Kshs.543,630,272.</p> <p>Although Management attributes the delay in settling the bills to the financiers' requirement that the development partner portion could only be settled upon proof that GOK counterpart portion of each IPC had been settled, inadequate budgetary allocations in the current as well as prior financial years, delays in release of Exchequer funds which led to delays in processing of GOK counterpart portion and lapse of the Financing Agreement prior to project completion in 2024/2025 financial year.</p> <p>In the circumstances, the value for money spent on the Project may not be realized due to the continued escalation of interest payments which will have to be paid.</p>	<p>We note the audit observation that the project attracted interest on delayed payments.</p> <p>We however wish to clarify that that Interest on delayed payments is a contractual obligation provided for in the contract agreement which the Contractor opted to invoke as a result of delays in settling the pending bills.</p> <p>The delay in settling the bills is however as a result of:</p> <ol style="list-style-type: none"> The financiers' requirement that the development partner portion could only be settled upon proof that GoK counterpart portion of each IPC has been settled. Inadequate Budgetary allocations in the current as well as prior financial years. Delays in release of exchequer funds which led to delays in processing GoK counterpart portion. Lapse of the Financing Agreement prior to project completion. <p>In FY 2024/25 however, the Project paid an amount of Kshs. 2,435,868,385 towards reduction of the pending bills.</p> <p>The Authority will continue liaising with the Parent Ministry and the National Treasury in an effort to secure additional budgetary provisions to settle the Pending Bills.</p>		
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Eng. Luka Kimeli
Ag. Director General


Eng. Henry Gakuru
Director, Development

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Annex 2 - Reconciliation of Inter-Entity Transfers

Break down of Transfers from the State Department of Roads		
Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
a. Government Counterpart Funding		
06/05/2025	47,000,000	FY 2024/25
06/05/2025	5,000,000	FY 2024/25
Total	52,000,000	
b. Direct Payments		
Total	-	
c. Others		
Fuel Levy Funds		
06/05/2025	5,000,000	FY 2024/25
Total	5,000,000	
d. Annuity fund		
Total	-	
e. RMLF Securitization Bridge finance facility		
01/04/2025	2,375,954,185	FY 2024/25
Total	2,375,954,185	
TOTAL(a+b+c+d+e)	2,432,954,185	



Eng. Luka Kimeli
 Ag. Director General



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

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Annex 3 – Fixed Asset Register

Asset class	Historical Cost b/f Previous Year	Additions during the year	Disposals during the year	Transfers in/(out) during the year	Historical Cost c/f Current Year
	(KShs)	(KShs)	(KShs)	(KShs)	(KShs)
Construction of Roads	21,051,478,099	-135,891,838	-	-	20,915,586,261
Acquisition of Land	1,930,541,626	814,721,990	-	-	2,745,263,616
Total	22,982,019,725	678,830,152	-	-	23,660,849,877

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Annex 4 - Variance Explanations - Comparative Budget and Actual Amounts for Current FY

Receipts/Payments Item	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
	Kshs	Kshs	Kshs		
Budget Carry Overs from previous periods		20,466,182	(20,466,182)	100%	
Receipts					
Transfers from Government entities	2,449,954,185	2,432,954,185	17,000,000	99%	
Total Receipts	2,449,954,185	2,453,420,367	(3,466,182)	100%	
Payments					
Use of goods and services		-			
Acquisition of non-financial assets	2,449,954,185	2,435,868,385	14,085,800	99%	
Total Payments	2,449,954,185	2,435,868,385	14,085,800	99%	
Surplus or Deficit	-	17,551,982	(17,551,982)		

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Annex 5 - Analysis of Pending Bills

Supplier of Goods or Services	Date Invoiced	Original Amount	Amount Paid To-Date	Waived Interest on delayed payment	Outstanding Balance	Outstanding Balance	Comments
					FY 2024/2025	FY 2023/2024	
					Kshs	Kshs	
	b	a	c		d=a-c		
Construction of roads							
SINOHYDRO CORPORATION	30/03/2021	215,284,609	215,284,448	-	161	66,600,427	2-5 I
SINOHYDRO CORPORATION	01/09/2021	628,204,841	602,757,826	-	25,447,015	612,524,541	1
SINOHYDRO CORPORATION	23/12/2021	628,204,841	-	255,413,232	372,791,608	628,204,841	2
SINOHYDRO CORPORATION	17/11/2021	119,076,221	119,076,222	-	-	119,076,221	6-7 Interest
SINOHYDRO CORPORATION	02/03/2022	78,998,607	-	-	78,998,607	78,998,607	1- C'Reimbursement
SINOHYDRO CORPORATION	11/05/2022	76,762,772	-	-	76,762,772	76,762,772	VAT
SINOHYDRO CORPORATION	09/05/2022	4,414,992	4,059,056	-	355,936	4,414,992	8-Interest
SINOHYDRO CORPORATION	06/06/2022	55,214,664	28,271,538	-	26,943,127	26,943,127	9
SINOHYDRO CORPORATION	25/08/2023	16,781,427	-	-	16,781,427	16,781,427	IPC B VAT
SINOHYDRO CORPORATION	07/06/2024	409,533,889	-	-	409,533,889	409,533,889	1 &2-A Interest
SINOHYDRO CORPORATION	18/06/2024	6,096,690	-	-	6,096,690	6,096,690	Interest IPC 9
SINOHYDRO CORPORATION	18/06/2024	4,508,480	-	-	4,508,480	4,508,480	IPC No 1 &2A- Int
SINOHYDRO CORPORATION	19/11/2024	1,992,410	-	-	1,992,410	-	IPC 9-B
SINOHYDRO CORPORATION	19/11/2024	117,528,984	-	-	117,528,984	-	IPC 1 & 2-B
Total Construction of roads		2,362,603,428	969,449,089.84	255,413,232	1,137,741,106	2,050,446,014	
Acquisition of Land							
KENYA FOREST SERVICE	16/07/2021	5,765,256	5,765,256	-	-	5,765,256	Inv.68887
ACQUISITION OF LAND		2,739,498,360	1,935,934,170	-	803,564,190	1,583,382,259	
Total Acquisition of Land		2,745,263,616	1,941,699,426	-	803,564,190	1,589,147,515	
Supply of services							
APEC CONSORTIUM	12/10/2021	23,606,000	23,606,000	-	-	11,036,724	37
APEC CONSORTIUM	21/10/2021	5,901,500	-	-	5,901,500	5,901,500	38
APEC CONSORTIUM	09/11/2021	5,901,500	5,901,500	-	-	5,901,500	39

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2025

Supplier of Goods or Services	Date Invoiced	Original Amount	Amount Paid To-Date	Waived Interest on delayed payment	Outstanding Balance	Outstanding Balance	Comments
					FY 2024/2025	FY 2023/2024	
APEC CONSORTIUM	24/01/2022	7,479,100	7,479,100	-	-	7,479,100	41
APEC CONSORTIUM	04/03/2022	6,690,300	6,690,300	-	-	6,690,300	42
APEC CONSORTIUM	03/03/2022	5,901,500	5,901,500	-	-	5,901,500	43
APEC CONSORTIUM	05/05/2022	5,901,500	5,901,500	-	-	5,901,500	44
APEC CONSORTIUM	21/02/2023	17,704,500	15,839,376	-	1,865,124	17,704,500	45
Total Supply of services		79,085,900	71,319,276	-	7,766,624	66,516,624	
Grand Total		5,186,952,944	2,982,467,792	255,413,232	1,949,071,920	3,706,110,153	