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REPORT

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TABLED
BY:

Hon George Mungara, MP
Deputy Speaker

THE AUDITOR-GENERAL

Randa Tihfer

ON

**MOMBASA SPECIAL ECONOMIC ZONE
DEVELOPMENT PROJECT (I) LOAN NO.KE-P35**

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

KENYA NATIONAL HIGHWAYS AUTHORITY



MINISTRY OF ROADS AND TRANSPORT



**PROJECT NAME: MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT
PROJECT (I)**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT LOAN NUMBER: KE – P35

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)**

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements For the financial year ended June 30, 2025

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025

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Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025

1. Acronyms and Definition of Terms

AIE	Authority to Incur Expenditure
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
Comparative FY	Financial year preceding the current financial year.
EIA	Environmental Impact Assessment
FY	Financial Year
GoK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
KeNHA	Kenya National Highways Authority
Kshs.	Kenya Shillings
TNT	National Treasury
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
SMART	Specific, Measurable, Achievable, Realistic and Time-bound

2. Project Information and Overall Performance

2.1 Name and registered office

Name: Mombasa Special Economic Zone Development Project

Objective: The objective of the Project is to enhance transportation capacity and stabilize the power supply conditions by constructing a berth, main road and electric facilities for the Mombasa Special Economic Zone which is located in Dongo Kundu. This will improve quality of life by creating job opportunities, bringing a variety of business opportunities, and improving living conditions for the community within the area.

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Jomo Kenyatta International Airport (JKIA)
Off Mazao Road
Nairobi, Kenya

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Kenya National Highways Authority
P.O. Box 49712-00100
Nairobi
Telephone: +254-20-495000
E-mail: dg@kenha.co.ke & Website: www.kenha.co.ke

2.2 Project Information

Project Start Date:	27 th February 2020
Project End Date:	27 th February 2029 (As per finance agreement)
Project Coordinators:	Eng. H. Gakuru – Director Development
	Eng. Clarence O. Karot – Deputy Director Special Projects
Project Sponsor:	Japan International Cooperation Agency (JICA) and Government of Kenya (GoK)

Mombasa Special Economic Zone Development Project (I)
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Project information and overall performance (continued)

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	KE-P35
Strategic goals of the project	The strategic goals of the project are as follows: (i) To enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance social economic development of the people at Dongo Kundu area
Summary of Project Strategies for achievement of strategic goals	The project management aims at implementation of the project in timely, efficient and effective manner.
Other important background information of the project	There are two components under this project that are being implemented by Kenya National Highways Authority (KeNHA). 1. Civil Engineering works for the construction of a main road to Dongo Kundu Special Economic Zone 2. Consultancy services for the civil engineering works
Current situation that the project was formed to intervene	The project was formed to intervene in the following area; (i) Enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance socio-economic development of the people living around Dongo Kundu area.
Project duration	The Project is for a duration of 40 months.

2.4 Bankers

Co-operative Bank Of Kenya Ltd
 Upper Hill Branch, Nairobi

2.5 Independent Auditor

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

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025

Project information and overall performance (continued)

2.6 Roles and Responsibilities

No	Names	Title designation	Key qualification	Responsibilities
1.	Eng. Henry Gakuru	Director-Development	Registered Civil Engineer	Project Implementation Team Leader
2.	Eng. Clarence O. Karot	Deputy Director-Special Projects	Registered Civil Engineer	Project Engineer
3.	Ms Levina Wanyoyi	Deputy Director-Supply Chain Management	Registered Member KISM	Project Procurement Specialist
4.	Mr. Walter Nyatwanga	Deputy Director-Environment & Social Interest	NEMA Lead Expert	Project Safeguards Specialist
5.	Mr Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist

2.7 Funding summary

The Project is for duration of 9 years with an approved budget of Japanese Yen 37,090,000,000 equivalent to Kshs. 33,887,278,500 by the donor component and an amount of Kshs.2,500,000 by GoK as highlighted in the table below.

A. Source of Funds

Source of funds	Development Partner Commitments		Amount received to date (30th June 2025)		Undrawn balance to date	
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
	JPY	Kshs	JPY	Kshs	JPY	Kshs
(i) Loan						
Japan International Cooperation (JICA)	37,090,000,000	33,887,278,500	80,965,260	73,973,910	37,009,034,740	33,813,304,590
(iii) Counterpart funds						
Government of Kenya	-	2,500,000	-	2,500,000	-	-
Total	37,090,000,000	33,889,778,500	80,965,260	76,473,910	37,009,034,740	33,813,304,590

Note: - Contract Exchange rate to JPY is Kshs. 0.9137

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements For the financial year ended June 30, 2025

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date (30th June 2025)		Cumulative amount paid to date (30th June 2025)		Unutilised balance to date (30th June 2025)	
	JPY	Kshs	JPY	Kshs	JPY	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
Japan International Cooperation (JICA)	80,965,260	73,973,910	80,965,260	73,973,910	-	-
(ii) Counterpart funds						
Government of Kenya	-	2,500,000	-	2,469,255	-	30,745
Total	80,965,260	76,473,910	80,965,260	76,443,165	-	30,745

2.8 Summary of Overall Project Performance:

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

BUDGET	2024/2025			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - Gok	-	-	0%	7,528,770	2,469,255	33%
Loan from Development Partners						
Japan International Cooperation (JICA)	82,042,030	-	0%	332,042,030	73,973,910	22%
Total	82,042,030	-	0%	339,570,800	76,443,165	30%

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

There was no physical progress as at 30th June 2025

i) Comment on value for money achievements.

- The project procurement process is conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- The authority (KeNHA) has put in place adequate checks & balances on appointment of the works supervision consultant who will oversee the project implementation on daily basis in consultation and subsequent approvals from the employer and the bank.

Mombasa Special Economic Zone Development Project (I)
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Project information and overall performance (continued)

- In addition to works supervision, the consultant will undertake design review before commencement of roads construction works to reduce uncertainties.
- Regular auditing of the project by Internal Auditors, External Auditors and Quality Assurance Departments.
- Project site review meetings by the Development Partners through supervision missions
- Monthly site meetings that involve the employer, the consultant and the contractor.

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

Financial Year	Budget	Actual	Percentage (%)
FY 2024/25	82,042,030	-	0%
FY 2023/24	5,028,770	-	0%
FY 2022/23	102,500,000	2,469,255	2%
FY 2021/22	150,000,000	73,973,910	49%
Total	339,570,800	76,443,165	23%

iv) Project Implementation challenges and recommendations.

Item No.	Project Implementation Challenges	Recommendations
1	The Covid 19 pandemic which caused initial delays in the procurement process. Lengthy approval process of the works contractor at the Attorney General Office and the National Treasury.	Continuos follow ups were recommended.
2	Reductions in GoK budgetary allocations	The Government provides timely and adequate budgetary provisions

2.9 Summary of Project Compliance:

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

3. Statement of Performance against Project's Predetermined Objectives

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012, requires that the Accounting Officer include a statement of Mombasa Special Economic Zone Development Project performance against predetermined objectives at the end of each financial year.

The key development objectives of the project are:

- i) To enhance transportation capacity & power supply stability at Dongo Kundu area
- ii) To enhance social economic development of the people at Dongo Kundu area.

Progress on 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 for reasons of tracking progress and performance measurement:

Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Mombasa Special Economic Zone Development Project (I)	To enhance transportation capacity & power supply stability at Dongo Kundu area	Improved accessibility to Dongo Kundu Special Economic Zone	Reduced travel time between SEZ and other parts of the country	Project at its initial preparation stage.
	Enhance social economic development of the people at Dongo Kundu area	Improved living standards of people living in Dongo Kundu.	Increased population access to social services.	Project at its initial preparation stage.

4. Environmental and Sustainability Reporting

The Mombasa Special Economic Zone Development Project (I) main focus is improving transportation infrastructure to enhance connectivity and efficiency. In terms of environmental and sustainability reporting, the strategy involves rigorous assessment and mitigation of environmental impacts throughout the project lifecycle.

1. Sustainability strategy and profile

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

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

2. Environmental performance

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

Environmental and Sustainability Reporting (Continued)

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

3. Employee welfare

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

4. Marketplace practices-

a) Responsible Supply chain and supplier relations-

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.

b) Responsible ethical practices

The Authority equally sensitizes staff on corruption and integrity.

c) Regulatory impact assessment

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

5. Community Engagements

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

Environmental and Sustainability Reporting (Continued)

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 are also encouraged to give back to society by participating in the Authority's corporate social responsibility projects. During the project execution, the Contractor is encouraged to offer employment opportunities to the locals as casuals, carry out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross-cutting issues.

***Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements For the financial year ended June 30, 2025***

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for the financial year ended on June 30, 2025.

This responsibility includes (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the project, (v) Selecting and applying appropriate accounting policies and (vi) Making accounting estimates that are reasonable in the circumstances.


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

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

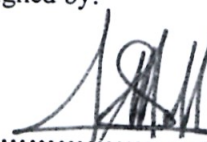
The Director General, KeNHA and the Project Implementation Team Leader confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the financial year under audit were used for the eligible purposes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

Approval of the Project Financial Statements

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



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



.....
Eng. Henry Gakuru
Director Development

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT (I) LOAN NO.KE-P35 FOR THE YEAR ENDED 30 JUNE, 2025 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying transitional IPSAS financial statements of Mombasa Special Economic Zone Development Project (I) set out on pages 1 to 18, which comprise of the statement of financial position as at 30 June, 2025, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement

Report of the Auditor-General on Mombasa Special Economic Zone Development Project (I) Loan No.KE-P35 for the year ended 30 June, 2025 - Kenya National Highways Authority

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

In my opinion, the transitional IPSAS financial statements present fairly, in all material respects, the financial position of Mombasa Special Economic Zone Development Project (I) as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) including the transitional provisions permitted under IPSAS 33 and comply with Financing Agreement No.KE-P35 between the Republic of Kenya and Japan International Cooperation Agency (JICA) dated 27 February, 2020 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 Mombasa Special Economic Zone Development Project (I) Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the prior year audit report, one issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. This includes delayed Project implementation. Review of the status during audit of the Project in 2024/2025 revealed that the matter remained unresolved.

Other Information

The Management is responsible for the Other Information set out on page iii to xii which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting

and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Delayed Project Commencement/Implementation

Paragraph 2.7 of the funding summary indicates that the project was to be implemented within nine (9) years from 27 February, 2020 with the targeted completion date of 27 February, 2029. The donor made a commitment of JPY 37,090,000,000 equivalent to Kshs.33,887,278,500. However, as at 30 June, 2025, with over five (5) years of the Project duration lapsed, only JPY 80,965,260 equivalent of Kshs.73,973,910 or 0.2% had been drawn leaving JPY 37,009,034,740 equivalent of Kshs.33,813,304,590 or 99.8% of Donor commitment undrawn.

The procurement for the works had been completed and awarded to a Japanese Corporation who was the single bidder but the contract has not been signed due to delay in clearance by the Attorney General, The National Treasury and JICA in respect to the financial clauses in the contract.

In the circumstances, the Project's duration has lapsed and the value for money may not be achieved.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern

them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by Financing Agreement No. KE-P35 between the Republic of Kenya and Japan International Cooperation Agency dated 27 February, 2020, 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 the Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Transitional International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free

Report of the Auditor-General on Mombasa Special Economic Zone Development Project (I) Loan No.KE-P35 for the year ended 30 June, 2025 - Kenya National Highways Authority

from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit


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

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the

effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

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

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


FCRA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 November, 2025

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025

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

	Notes	2024/2025
		Kshs
Revenue		
Revenue Transfers		-
Total revenue		-
Expenses		
Use of goods and services		-
Total expenses		-
Other gains/(losses)		
Gain/Loss on sale of assets		-
Gain/Loss on foreign exchange transactions		-
Impairment loss		-
Surplus/ (deficit)		-

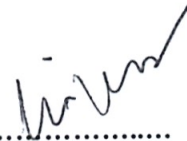
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



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



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



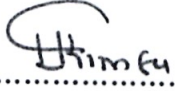
.....
CPA Isaac Kimani Karumba
Ag. Deputy Director (F&A)
ICPAK Member No. 3321

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025


8. Statement Financial Position as at 30th June 2025

	Notes	2024/2025	1 st July 2024
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	6	30,745	30,745
Receivables	7	73,973,910	73,973,910
Total Current Assets		74,004,655	74,004,655
Non-Current Assets			
Property, Plant and Equipment		-	-
Intangible Assets		-	-
Total Non- Current Assets		-	-
Total Assets (a)		74,004,655	74,004,655
Liabilities			
Current Liabilities			
Trade and Other Payables		-	-
Total Current Liabilities		-	-
Total Liabilities (b)		-	-
Net Assets (a-b)		74,004,655	74,004,655
Represented By:			
Capital Grants	7	73,973,910	73,973,910
Accumulated Surplus		30,745	30,745
Total Net Assets		74,004,655	74,004,655

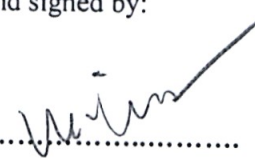
The financial statements were approved on 27 AUG 2025 and signed by:



Eng. Luka Kimeli
Ag. Director General



Eng. Henry Gakuru
Director -Development



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

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025

9. Statement of Changes in Net Assets

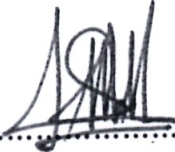
Description	Capital	Accumulated	Total
		Kshs	
As at 30 th June 2024 (Cash Basis)		30,745	30,745
Adjustments:			
Asset Recognition	73,973,910	-	73,973,910
Liabilities recognition	-	-	-
As at 1 st July 2024	73,973,910	30,745	74,004,655
Capital Grants received during the FY	-	-	-
Surplus/(Deficit) for the year	-	-	-
As at 30 th June 2025	73,973,910	30,745	74,004,655

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


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



Eng. Luka Kimeli
 Ag. Director General



Eng. Henry Gakuru
 Director -Development



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

Mombasa Special Economic Zone Development Project (I)
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10. Statement of Cashflow for the year ended 30th June 2025

Description	Note	2024/2025
		Kshs
Cashflow from operating activities		
Receipts		
Revenue Transfers		-
Total receipts		-
Payments		
Use of goods and services		-
Total payments		-
Net cash flow from operating activities		-
Cashflow from investing activities		
Acquisition of non-financial assets		-
Net cash flows from investing activities		-
Cash flow from financing activities		
		-
Net cash flow from financing activities		-
Net increase/Decrease in cash and cash equivalents		-
Cash and cash equivalent at 1st July 2024	6	30,745
Cash and cash equivalent at end June 2025	6	30,745

Mombasa Special Economic Zone Development Project (I)
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12. Notes to the Financial Statements

1. General Information

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

2. Statement of Compliance and Basis of Preparation

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

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

3. Adoption of New and Revised Standards

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

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 recognize, measure and present information on right of use assets and lease liabilities.</p> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2025

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

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
Budget Carry Overs from previous periods	-	-	-	30,745	(30,745)	0%
Receipts						
Revenue Transfers	20,000,000	20,000,000	-	-	-	0%
Proceeds from Loan - JICA	2,052,042,030	1,970,000,000	82,042,030	-	82,042,030	0%
Total Revenue	2,072,042,030	1,990,000,000	82,042,030	30,745	82,011,285	0%
Payments						
Use of goods and services						
Acquisition of non-financial assets	2,072,042,030	1,990,000,000	82,042,030	-	82,042,030	0%
				-		0%
Total Payments	2,072,042,030	1,990,000,000	82,042,030	-	82,042,030	0%
Surplus	-	-	-	30,745	(30,745)	0%

The changes between original and final budget is due to budget cuts. There were no direct payments during the FY.

Budget Reconciliation

Description of Particulars	Amount in Kshs
Actual Surplus Amounts as per the statement of Budget	30,745
1.	-
Closing Cash and Cash Equivalent as per the statement of Cash flows	30,745

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements For the financial year ended June 30, 2025

Standard	Effective date and impact:
IPSAS 45- Property Plant and Equipment	<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 recognized as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p> <p><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>
IPSAS 46 Measurement	<p>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 current operational value.</p> <p><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>

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

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><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>

Mombasa Special Economic Zone Development Project (I)
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Standard	Effective date and impact:
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><i>The Project does not expect these amendments to have a material impact on its operations or financial statements.</i></p>
IPSAS 49- Retirement Benefit Plans	<p>Applicable 1st January 2026</p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p> <p><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<p>Applicable 1st January 2027</p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:</p> <ol style="list-style-type: none"> 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><i>The project does not anticipate that the standard will have any impact on its operations and reporting.</i></p>

iii) Early adoption of standards

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

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Project and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realized in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

ii) Revenue from exchange transactions

Interest income

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

b) Budget information

The original budget for FY 2024/2025 was approved by the National Assembly on 28th January 2024. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals to conclude the final budget. Accordingly, the entity recorded additional appropriations following its approval.

The Project's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 5 under section 11 of these financial statements.

c) Property, plant and equipment

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

Notes to the financial statements (Continued)

Property, plant and equipment (Continued)

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

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

d) Leases

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

e) Intangible assets

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

f) Research and development costs

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

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

Notes to the financial statements (Continued)

Research and development costs (Continued)

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

g) Financial instruments

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

Financial assets

Classification

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

Subsequent measurement

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

Notes to the financial statements (Continued)

Amortized cost

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

Fair value through net assets/ equity

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

Fair value through surplus or deficit

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

Trade and other receivables

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

Impairment

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

Financial liabilities

Classification

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

h) Inventories

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

Notes to the financial statements (Continued)

Inventories (Continued)

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

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

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

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

Notes to the financial statements (Continued)

j) Nature and purpose of reserves

The Project creates and maintains reserves in terms of specific requirements. The Project maintains grants and surplus reserves. The grant reserves are exchequer and donor funds received from the Government and Development Partners for development of roads. The surplus reserve represents the surplus or deficit of Road maintenance contributions and other internally generated funds against road maintenance and operation expenses. The exchequer and Development partner funds are capitalized in the statement of financial position whereas Road maintenance contributions are expensed in the statement of financial performance. However, the portion of exchequer funds spent on non-capital items or project expenses is transferred to recurrent transfers and treated as recurrent government grants and expenditures accordingly.

k) Changes in accounting policies and estimates

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

l) Employee benefits

Retirement benefit plans

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

m) Foreign currency transactions

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

n) Borrowing costs

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

o) Related parties

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

Notes to the financial statements (Continued)

p) Service concession arrangements

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

q) Cash and cash equivalents

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

r) Subsequent events

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

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Project's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Project based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Project. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Project.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset

Provisions

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

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

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements For the financial year ended June 30, 2025

Notes to the financial statements (Continued)

6. Cash and Cash Equivalents

Description	2024/2025	1 st July 2024
	Kshs	Kshs
Cash in Bank	30,745	30,745
Cash on hand	-	-
Others	-	-
Total Cash and Cash Equivalents	30,745	30,745

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

Project Bank Accounts

Details	2024/2025	1 st July 2024
	Kshs	Kshs
Local Currency Accounts		
Co-operative Bank of Kenya [A/c No 01141160979900]	30,745	30,745
Others	-	-
Total local currency balances	30,745	30,745
Total bank account balances	30,745	30,745

7. Receivables

Description	2024/2025	1 st July 2024
	Kshs	Kshs
Counter Part Funding	-	-
Contractor's Advance payments	73,973,910	73,973,910
Other Receivables	-	-
Total Receivables*	73,973,910	73,973,910

*The Contractors advance payment is the total amount of capital grants as at 30 June 2025.

Ageing analysis for Receivables

Description	2024/2025		1 st July 2024	
	Kshs		Kshs	
	Current FY	% of the total	Comparative FY	% of the total
Less than 1 year	-	0%	-	%
Between 1- 2 years	-	%	-	%
Between 2-3 years	-	%	-	%
Over 3 years	73,973,910	100%	73,973,910	100%
Total (a+b)	73,973,910		73,973,910	

8. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of the *Entity*, holding 100% of the *Entity*'s equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Entity*, both domestic and external.

Other related parties include:

- i) Kenya Roads Board.

Description	2024/2025
	Kshs
Transactions with related parties	
a) Sales to related parties	
Others e.g. interest and bank charges	
Total	-
B) purchases from related parties	
Others	
Total	-
b) Grants /transfers from the government	
Grants from Kenya Roads Board	
Donations in kind	-
Total	-
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	-

9. Events after the Reporting Period

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

10. Ultimate And Holding Entity

The *Entity* is a State Corporation under the Ministry of Roads and Transport. Its ultimate parent is the Government of Kenya.

11. Currency

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

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13. Annexes

Annex 1. Prior Year Auditor-General's Recommendations

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

Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
931	<p>Basis for Opinion Other Matter Unresolved Prior Year Matters</p> <p>In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although Management had indicated the issues as resolved as at 30 June, 2024, no evidence was provided to support the position.</p>	<p>We note the audit observation.</p> <p>We wish to clarify that the Authority has appeared before the Public Accounts Committee and made its submissions on all matters raised by the Auditor General on the Project financial statements up to FY 2021/22.</p>	Not Resolved	FY 2024/2025
932	<p>Basis for Conclusion Delayed Project Implementation</p> <p>Review of financial records provided for audit revealed that the Government of Kenya (GoK) entered into financing agreement with Japan International Cooperation Agency (JICA) for the implementation of Mombasa Special Economic Zone Development Project at a donor commitment of ₦37,090,000,000 equivalent to Kshs.33,887,278,500 and GoK counterpart funds of Kshs.2,500,000 totalling to Kshs.33,889,778,500.</p> <p>According to the agreements signed on 27 February, 2020, the Project was to commence in October, 2020 with a contract duration of four (4) years and expected completion date of 31 December, 2024.</p>	<p>We note the audit observation.</p> <p>We agree that the project was to commence in October 2020 with an expected completion date of 31 December 2024. We, however, wish to clarify that the prolonged duration of the procurement process for the works contractor has caused the delays. The request for a "No Objection" to award the works contract from the National Treasury to the</p>	Not Resolved	Ongoing

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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
	<p>The statement of receipts and payments indicates that an accumulated amount of Kshs.76,443,165 had been incurred on the Project, which amounts to 0.2% of the total funding. However, out of the Project timelines of fifty (50) months, forty-seven (47) months or 94% of the Project time had lapsed. According to the Project brief for the month of September, 2024, the Project is in the procurement process for the main contractor with only procurement for the consultancy services concluded. In the circumstances, value for money of the funds spent could not be confirmed</p>	<p>Ministry of Roads and Transport was facilitated on 24 July 2025.</p> <p>We agree that Kshs.76,443,165 is recorded in the receipts and payments as having been incurred to date. We wish to clarify that the expenditure was incurred to facilitate operational costs in FY 2021/22 and FY 2022/23.</p>		



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



.....
Eng. Henry Gakuru
Director Development

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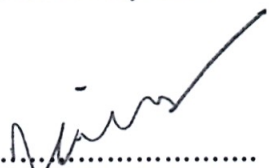
Annex 2 - Reconciliation of inter-entity transfers

Project Name:		Mombasa Special Economic Zone Development Project (I)		
Break down of transfers from the State Department of Ministry of Roads and Transport				
Government				
A. Counterpart funding		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			-	
			-	
		Total	-	
B. Direct payments		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			-	
		Total	-	
C. Others		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			-	
			-	
		Total	-	
		Total (A+B+C)	-	

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



Eng. Luka Kimeli
Ag. Director General



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

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Annex 3 – Fixed Asset Register

Asset class	Historical Cost b/f (Kshs) 2024/2025	Additions during the year (Kshs)	Disposals during the year (Kshs)	Transfers in/(out) during the year	Historical Cost c/f (Kshs) 2024/2025
Infrastructure Assets- Roads	-	-	-	-	-
Total	-	-	-	-	-

Annex 4 – Other support documents

- i. Bank Reconciliations statement as at 30th June 2025