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REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL HIGHWAYS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2025

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.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, 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

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Highways Authority set out on pages 1 to 58, which comprise of the statement of financial position as at 30 June, 2025, and the statement of 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, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya National Highways Authority 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 and comply with the Kenya Roads Act 2007 and the Public Finance Management Act, 2012

Basis for Qualified Opinion

1. Lack of Ownership Documents

The statement of financial position and as disclosed in Note 25 to the financial statements reflects an amount of Kshs.821,031,847,887 in respect of property, plant and equipment which includes a balance of Kshs.380,360,000 in respect of land assets. However, it was noted that two hundred and ninety-five (295) Road Camps occupied by the Authority are owned exclusively or jointly with other road agencies but are not formally vested to Kenya National Highways Authority.

Management explained that the process of resolving land ownership issues through the parent State Department for Roads and State Department for Land and Physical Planning is ongoing. The ownership of the Road Camps remain unresolved thereby exposing public land to illegal alienation or illegal occupation by informal settlers.

In the circumstances, fair value and completeness of assets balance of Kshs.821,031,847,887 could not be confirmed.

2. In accuracies in Motor Vehicle Balance

The statement of financial position and as disclosed in Note 25 to the financial statements reflects property, plant and equipment Net book value of Kshs.821,031,847,887. The balance includes motor vehicles balance of Kshs.111,847,801 but excludes an amount of Kshs.94,898,129 in respect of a Road Surface Profiler (RSP) Machine mounted on motor vehicle registration number KDR 343 P. The excluded amount related to supply, installation, testing, commissioning, training and maintenance of a Road Surface Profiler (RSP) Machine.

In the circumstances, accuracy and completeness of property, plant and equipment balances of Kshs.820,031,847,887 could not be confirmed.

3. Variances in Inter-Agencies Balances on Fuel Securitization

Note 6(b) to the financial statements includes an amount of Kshs.29,000,000,000 in respect of proceeds from the securitization facility by the Kenya Roads Board (KRB).

However, corroboration of the recorded balance maintained in the KRB financial statements reflects disbursement to the Authority balance of Kshs.31,585,994,307 resulting to an unexplained variance of Kshs.2,585,994,307.

Further, details of the pending bills that were earmarked for settlement through the proceeds from the securitization fund was not provided for audit and hence it was not possible to establish the extent of settlement of the pending bills with the proceeds.

In addition, there was no documentation to show the total identified pending bills for the Authority as at 31 December, 2024(cut off month) for settlement using the proceeds from securitization, and the balance to be settled upon full disbursement of the securitization proceeds.

In the circumstances, the accuracy and completeness of the funds from securitization balances could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya National Highways Authority 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 qualified opinion.

Emphasis of Matter

Uncertainty of the Going Concern

The statement of financial position reflects current assets and current liabilities balances of Kshs.41,013,668,677 and Kshs.82,506,413,708, respectively, resulting to a negative working capital balance of Kshs.41,492,745,031. The Authority is therefore technically insolvent and may not meet its obligation when fall due.

Further, I draw attention to Note 36 to the financial statement which discloses a contingent liability balance of Kshs.31,682,478,862 compared to Kshs.24,574,966,099 in the previous year 2023/2024 an increase of Kshs.7,107,512,763 or 29%. Crystallization of any of the events would impact negatively and worsen the Authorities working capital status thus adversely affecting its operations.

My opinion is not modified in respect of this matter.

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. Except for the effects of the matters described in the Basis for Qualified Opinion Section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior year audit, three issues were raised under Basis for Qualified Opinion and Emphasis of Matter. The issues include lack of ownership documents, Budgetary control performance and Uncertainty of going concern. Review of the issues during the 2024/205 audit revealed the issues remained unresolved.

Other Information

Management are responsible for the Other Information set out on page v to lxv which comprise of Key Authority's Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Director General, Statement of Performance against the Predetermined Objectives for the FY 2024/2025, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Deduction of Public Procurement Regulatory Authority Levy

Review of the expenditure records revealed that the Authority did not deduct the mandatory Public Procurement Regulatory Authority (PPRA) Levy from supplier payments during the year under review. This was contrary to paragraph 3(1) of the Public Procurement Capacity Building Levy Order,2023 that provides that there shall be paid a Levy by a supplier on all procurement contracts signed between the supplier and the procuring entity at the rate of zero point three per centum (0.3) of value of the signed contracts, exclusive of applicable taxes.

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

2. Avoidable Expenditure – Penalties and Interest

The statement of financial position and as disclosed in Note 27 to the financial statements reflects trade and other payables balance of Kshs.82,366,719,316. Review of records revealed that some payables have been outstanding for over 10 years, cumulatively attracting penalties amounting to Kshs.8,213,614,376 due to delayed settlement. The amount could have been avoided had the pending bills paid on time.

In the circumstance, value for money could not be realised in the use of public resources.

3. Avoidable Expenditure Incurred - Cost on Contract Termination

The Authority awarded a contract for construction of Nairobi-Nakuru-Mau Summit highway road works under Public Private Partnership (PPP) on 30 September, 2020 at a contract sum of Kshs.159,267,468,317. Review of records revealed that the contract was terminated before the Contractor had commenced the works resulting to termination cost of Kshs.7,315,850,525 that could have been avoided had proper planning and feasibility studies on the project been conducted before awarding the contract. Although Management provided a Report on Compensation Consequent upon Termination of the Project Agreement, Deed of Termination of the Project Agreement and payment vouchers, the contract document was not provided for audit review. The amounts were paid through the securitization of fuel levy which was meant to reduce the pending bills and pave way for a return to-work formula. No explanation on why the amount was charged on the securitization fund, while it did not constitute pending bills that were earmarked for discharge through the securitization facility.

In the circumstances, there was no value for money for the payment of Kshs.7,315,850,525.

4. Non-Compliance with the Third (1/3) Basic Salary Rule

Review of the Authority's payrolls revealed an average of one hundred and thirty-three officers earning less than a third of their basic salaries a month as shown below: -

Month	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan	Feb	March	April	May	June
No of Officers	132	139	136	149	152	147	75	129	134	133	136	147

Management explained that introduction of deductions from salaries by the Government which were not anticipated resulted to over commitment of salaries by the staff. This was contrary to Section C.1 (3) of the Public Service Commission (PSC) Human resource policies and procedures manual, 2016 that states that public officers shall not over-commit their salaries beyond two-thirds (2/3) of their basic salaries and that heads of human resource units shall ensure compliance.

In the circumstances, Management was in breach of the Human Resource policies,2016.

5. Delay in Projects Implementation

5.1 Ruiru-Tatu City-Kiambu (B115) Road Project -Nairobi Region

The above contract was awarded to a Contractor in March, 2023 at a contract sum of Kshs.506,854,814.24 for a period of 24 months inclusive of 6 months for the Defects Liability Period. Review of the project progress report revealed that the contract sum was revised upward to Kshs.609,357,916.22 and project period extended to twenty-nine (29) months. The Engineer attributed the variation to unforeseen reconstruction needs, suggesting that proper inventory was not done. Further, blockage of drainage system was noted at KM 1+800 due to heavy vegetation along the road. One of the structural works, box culvert at KM 10, guardrails and gabion protection works, were still outstanding despite a duration of twenty-six (26) months having elapsed.

This is an indication that works were behind schedule.

5.2. Mambo Leo-Miwani-Chemelil-Muhoroni-Kapsitet Kericho Junction Contract Lot I

The above contract was awarded to two companies on joint venture at contract sum of Kshs.5,194,524,145 for a period of 36 months effective from 26 June, 2021 and was expected to be completed on 21 September, 2024. However, the latest status report dated May, 2025 indicates that the work certified to date was Kshs.1,194,258,204 or 23% of the contract sum inclusive of Advance Payment of an amount of Kshs.899,535,888 already paid. The percentage of time elapsed was at 123% (or 1354 days) compared to physical works achieved of 15.2%.

Further, minimal activities were noted between KM 0000 and KM 2.0, and the contract period had lapsed. No extension of time to contractor and the consultant by the employer was provided for audit review.

In addition, the Authority has not acquired land on some sections of the project for instance along the Main Road while land where proposed roundabouts at Km 1+700 was to be constructed had not been acquired. With the slow pace of works, it was not visible when the project shall be realized.

5.3. Mambo Leo-Miwani-Chemelil-Muhoroni-Kapsitet Kericho Junction Contract Lot II

The above contract was awarded to two companies on a joint venture at a contract sum of Kshs.4,964,716,883.42 for a period of 36 months effective from 8 September, 2021. However, the status report dated July, 2025 indicates the work certified to date as Kshs.1,722,459,336 inclusive of Advance Payment out of which an amount of Kshs.1,388,971,988 had been paid resulting to an outstanding balance of Kshs.333,487,348. The percentage of time elapsed was at 127.2% (1394 days) compared to average physical work achieved of 11.68%. The two companies had achieved 8.32% and 3.36% respectively.

Further, the initial contract period had elapsed and the contractor was given an extension of two years. However, Performance Security had expired and had not been renewed. During field inspection conducted in the month of July 2025, one of the contractors was not on site and the section under the contractor, as per the contract had no activities. Although Management indicated that the section with no activities was handed over to the main contractor, no evidence of the handing-over was provided.

In addition, at KM 29+400 part of a cross culvert is hanging dangerously and threatening to cut off the road if not attended to urgently.

Delayed completion of projects denied the public benefits that could have accrued from completed projects.

6. Delay in Compensation of Land Acquired for Roads Expansion

Review of records revealed that the Authority acquired a parcel of land in Changamwe from Kenya Electricity Generation Company (KENGEN) for dualling of the Mombasa-Mariakani Road. The construction of the road rendered the staff houses in Changamwe temporarily unusable as they were disconnected from the sewer line, and a perimeter wall securing the property was also damaged. The two affected residential flats used to raise net rental income of Kshs.768,000 per year for the Company. However, despite several letters from KENGEN seeking compensation of an amount of Kshs.250,611,659, the Authority had not responded or settled the amounts due..

Failure, to settle obligations when due may attract penalties and interests resulting to loss of public funds.

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 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.

Responsibilities of the Management and the Board of Directors

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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority'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.

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 December, 2025