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REPORT

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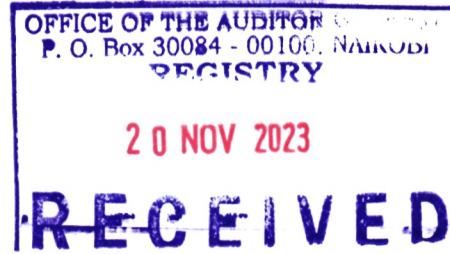
ON

**SUPPORT TO ROAD SECTOR POLICY: 10TH
EDF RURAL ROADS REHAHIBILITATION
PROJECT IN KENYA NO.KE/FED/023-571**

**FOR THE YEAR ENDED
30 JUNE, 2023**

KENYA RURAL ROADS AUTHORITY

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 07 DEC 2023 DAY: Thursday
TABLED BY: Hon Owen Bager, CBS, MP
Deputy majority leader
A. Shamba



**SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS REHABILITATION
PROJECT IN KENYA**

KENYA RURAL ROADS AUTHORITY

PROJECT GRANT/CREDIT No.: KE/FED/023-571



EUROPEAN UNION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2023

**Prepared in accordance with the Cash Basis of Accounting Method under the International
Public Sector Accounting Standards (IPSAS)**

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2023

**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2023**

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1. ACRONYMS AND GLOSSARY OF TERMS

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
Comparative FY	Financial year preceding the current financial year.
EU	European Union

2. PROJECT INFORMATION AND OVERALL PERFORMANCE

2.1 Name and registered office

Name

The project's official name is support for Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya

Objective

The key objective of the project is to support the Kenya Government's efforts to improve rural transport infrastructure through the Roads 2000 Maintenance Strategy as a key component of the economic recovery effort described in the national policy "Vision 2030".

Address

The project headquarters offices are Nairobi, Nairobi County, Kenya.

The address of its registered office is:

Kenya Rural Roads Authority
Barabara Plaza, Block B,
Airport South Road
P.O. Box 48151 – 00100 Nairobi.

Contacts: The following are the project contacts

Telephone: +254 711 851103

E-mail: dg@kerra.go.ke

Website: www.kerra.go.ke

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2023

2.2 Project Information

Project Start Date:	The project start date is 10th September, 2012
Project End Date:	The project end date is 9th September, 2024
Project Manager:	The project manager is Eng. S. N. Mwangi
Project Accountant	The project Accountant is CPA Pauline Kahwai
Project Sponsor:	The project sponsors are, the Government of Kenya (GOK) with a 31% contribution, and the European Commission, the Delegation of the European Union in Kenya with a 69% contribution.

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Kenya Rural Roads Authority which falls under the State Department for Roads and Infrastructure, Ministry of Roads and Transport.
Project number	KE/FED/023 – 571
Strategic goals of the project	<p>The overall objective of the project is to support the Kenya’s Government’s efforts to improve rural transport infrastructure through the Roads 2000 Maintenance Strategy as a key component of the economic recovery effort described in the national policy “<i>Vision 2030</i>”.</p> <p>The project’s specific purpose is as follows: -</p> <ul style="list-style-type: none"> (i) To introduce low volume paved road construction using an optimum mix of labour-intensive methods and equipment to address the maintenance backlog on the rural road network, improve durability and create jobs. (ii) To enhance skills and capacity of local contractors, increase knowledge and experience in the use of local materials in road construction works. <p>The overall goals are: -</p> <ul style="list-style-type: none"> (i) Upgrading of approximately 99Km of priority rural road links in 5 agricultural counties of the Eastern region of Kenya to durable low sealed pavement standard.

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	<ul style="list-style-type: none"> (ii) Capacity building for the Authority staff and local contractors in labour intensive construction of roads using innovative techniques and locally available local materials. (iii) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations
<p>Achievement of strategic goals</p>	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) Provide contract management to ensure upgrading of the link roads to low volume seal standard. (ii) Ensure locals population gain direct employment to uplift their economic wellbeing. (iii) Support capacity building for local contractor especially in Roads 2000- maintenance strategy.

Challenges Encountered in executing the project:

- i) There were Financial constraints faced by Lot 5 contractors, who were not able to consistently mobilize sufficient manpower due to non-paid wages. This is with the exception of Lot 3 who substantially completed works in July 2019.
- ii) The Contractor Lot 1 & Lot 2 abandoned sites before completions & instituted litigation & arbitration cases against the contracting Authority Culminating in eventual termination of works. The matter is awaiting the High court's Decision in regards to an arbitration Award.
- iii) The new Contracts faced initial -delay in release of advance payment.

Other important background information of the project	<p>The project Formulation Study was undertaken from November 2011 up to December 2012. It was executed on behalf of the KeRRA by COWI A/S Consultants of Denmark.</p> <p>The initial Study centred on a total of 1,463 Km across the 5 Regions, 654 Km of which were rehabilitated using EC Stabex Funds under Phase 2.</p> <p>The final listing following a detailed cost Benefit Assessment was whittled down to the final adopted listing of roads, as presented below. Tender Documents were prepared in July 2012, amended and reproduced in December 2012 by COWI A/S of Denmark.</p> <p>Following the preparation of Contract Documents in 2012 by COWI A/S, amendments were subsequently made (provision of Horizontal & Vertical alignment) to the documents by KeRRA prior to the Tender Launch.</p> <p>The roads comprise Class D and E type routes described in the Kenyan Road Design Manual Part I as:</p> <p>Class D Roads that link locally important centres to either each other or to a centre of higher importance or to a higher-class Road.</p> <p>Class E Roads that link to minor centres.</p> <p>The project intervention area is geographically spread across the upper and lower Eastern Region of Kenya across 5 Regions under 5 No project. Locations and noted in the following Table.</p> <table border="1"> <thead> <tr> <th>Lot No</th> <th>Region/County</th> <th>Road No</th> <th>Km</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>Lot 1</td> <td>Embu</td> <td>D470</td> <td>10.5</td> <td>Kyeni – Kathanjire – Karurumo Rd</td> </tr> <tr> <td>Lot 2</td> <td>Tharaka/Nithi</td> <td>D472</td> <td>29.2</td> <td>Chuka – Kaanwa – Kareni Rd</td> </tr> <tr> <td rowspan="2">Lot 3</td> <td rowspan="2">Meru</td> <td>E773</td> <td>5.5</td> <td>Ndurumo – Kathirune – Giaki Rd</td> </tr> <tr> <td>R24</td> <td>18.2</td> <td>Giaki – Birikene Miamponi – Rd</td> </tr> <tr> <td rowspan="2">Lot 4</td> <td rowspan="2">Machakos</td> <td>E480</td> <td>5.8</td> <td>Kivandini – Kango Rd</td> </tr> <tr> <td>E477</td> <td>10.1</td> <td>Kango-Kakalia – Kali Rd</td> </tr> <tr> <td>Lot 5</td> <td>Makueni</td> <td>D515</td> <td>20.5</td> <td>Katuaa – Kee – Nunguni Rd</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th colspan="2">CONTRACT SUM</th> <th colspan="2">NEW CONTRACTED</th> </tr> </thead> <tbody> <tr> <td>LOT 1</td> <td>231,570,571.00</td> <td></td> <td>162,399,327.20</td> </tr> <tr> <td rowspan="3">LOT 2</td> <td rowspan="3">537,264,086.70</td> <td></td> <td>233,196,528.40</td> </tr> <tr> <td></td> <td>221,386,000.00</td> </tr> <tr> <td></td> <td>174,343,899.40</td> </tr> <tr> <td>LOT 3</td> <td>695,023,763.80</td> <td></td> <td></td> </tr> <tr> <td>LOT 4</td> <td>377,939,319.85</td> <td></td> <td></td> </tr> <tr> <td>LOT 5</td> <td>362,001,255.00</td> <td></td> <td></td> </tr> <tr> <td>TOTAL</td> <td></td> <td></td> <td>Ksh.2,203,798,996 & 791,325,755</td> </tr> </tbody> </table> <p>Total Length 99.0Km</p> <p>The works contracts commencement orders were issued in September 2015 and the Contractors had previously confirmed a commencement date of 5th October 2015 across the five individual Lots.</p> <p>The summary is noted below:</p>	Lot No	Region/County	Road No	Km	Description	Lot 1	Embu	D470	10.5	Kyeni – Kathanjire – Karurumo Rd	Lot 2	Tharaka/Nithi	D472	29.2	Chuka – Kaanwa – Kareni Rd	Lot 3	Meru	E773	5.5	Ndurumo – Kathirune – Giaki Rd	R24	18.2	Giaki – Birikene Miamponi – Rd	Lot 4	Machakos	E480	5.8	Kivandini – Kango Rd	E477	10.1	Kango-Kakalia – Kali Rd	Lot 5	Makueni	D515	20.5	Katuaa – Kee – Nunguni Rd	CONTRACT SUM		NEW CONTRACTED		LOT 1	231,570,571.00		162,399,327.20	LOT 2	537,264,086.70		233,196,528.40		221,386,000.00		174,343,899.40	LOT 3	695,023,763.80			LOT 4	377,939,319.85			LOT 5	362,001,255.00			TOTAL			Ksh.2,203,798,996 & 791,325,755
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	Lot 1	10.5Km	Westbuild General Contractors Ltd (Terminated) Awarded to Markline Civil & Allied Works Ltd.
	Lot 2	29.2Km	Westbuild Genaral Contractors Ltd (Terminated) New Tender spilit to 3 Lots. Awarded to 1. Asset Construction Ltd (8.4Km) 2. Elikar Enterprises Ltd (9.2Km) 3. Nariana Enterprises Ltd (11.6Km)
	Lot 4 & 5	36.4Km	Coastal Kenya Enterprises Ltd
	Lots 1-5	99.0Km	Total Length
Current situation that the project was formed to intervene	<p>The project was formed to intervene in the following areas:</p> <ul style="list-style-type: none"> i. Upgrade rural link roads to low volume seal standard ii. Create local employment and increased house hold income. iii. Enhance skills and capacity of Local Contractors 		
Project duration	<p>The project started on 10th September 2012 and is expected to run until 9th September, 2025</p>		

**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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2.4 Bankers

The following are the bankers for the current year:

- (i) KCB Kenya Ltd.
- (ii) NCBA Bank Kenya Ltd.

2.5 Auditors

The project is audited by:

The Auditor General

Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100 Nairobi Kenya

2.6 Roles and Responsibilities

The table below indicates the roles and responsibility of personnel who are involved in the project implementation.

Names	Title designation	Key qualification	Responsibilities
Eng. Philemon K. Kandie dg@kerra.go.ke philemon.kandie@kerra.go.ke +254 0777851103,0207807600	Director General	BSc Hons, P. Eng., MIEK, MSc. MBS.	Accounting Officer
Eng. Enoch K. Ariga dpde@kerra.go.ke Enock.ariga@kerra.go.ke +254 0777851103,0207807602	Director (Planning, Design & Environment)	BSc Hons, P. Eng., MIEK, MA (Planning)	Supervisor
Eng. Samuel N. Mwangi dpde@kerra.go.ke samuel.mwangi@kerra.go.ke +254 0777851103,0207807602	Project Manager	BSc MIEK, R. Eng.	Coordinator of the Program Activities
CPA Pauline N.Kahwai dcs@kerra.go.ke pauline.kahwai@kerra.go.ke +254 0777851103,0207807601	Project Accountant	BCom, CPA(K), ICPAK, MSc (Fin.)	Accountant, support the project team regarding compliance, payments and reports.

**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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2.7 Funding summary

The Project is for duration of 11 years from 2012 to 2024 with an approved budget of Euro 20,000,000 equivalent to KShs. 2,161,800,000 as highlighted in the table below: Also, the funds usage reflects a Variation for a structure in place.

Below is the funding summary:

A. Source of Funds

Source of Funds	Donor Commitment		Amount Received as at 30th June 2023	Cumulative Amount as at 30th June 2023		Undrawn Balance as at 30th June 2023	
	Euros (A)	Kshs (A')		Euros (B)	Kshs (B')	Euros (A)-(B)	Kshs (A')-(B')
GRANT SUMMARY							
(i) Grant European Commission	14,850,000	1,605,136,500	17,858,503	1,930,325,568	(3,008,503)	(325,189,068)	
Total Grants	14,850,000	1,605,136,500	17,858,503	1,930,325,568	(3,008,503)	(325,189,068)	
COUNTERPART FUNDS							
(ii) Counterpart Funds							
Government of Kenya	5,150,000	556,663,500	6,152,503	665,024,020	(1,002,503)	(108,360,520)	
Total GoK Counterpart	5,150,000	556,663,500	6,152,503	665,024,020	(1,002,503)	(108,360,520)	
Total Funding Summary	20,000,000	2,161,800,000	24,011,006	2,595,349,588	(4,011,006)	(433,549,588)	
1 EUR = 100.00KES							

1.The Consultants service was varied from 1,600,000 to 2,175,000.

2.The Lot 3 contract (Ndururumo-Giaki-Miamponi) Varied from Kes 499,365,944 to Kes 695,023,763. variation.

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APPLICATION FUNDS

Application of funds	Amount received to date – (30 th June 2023)		Cumulative Amount paid to date – (30 th June 2023)	Unutilised balance to date (30 th June 2023)	
	Donor currency (A)	Kshs (A')		Donor currency (A)-(B)	Kshs (A')-(B')
(i) Grant					
European Union	17,858,503	1,930,325,568	1,930,325,568	0.00	-
(ii) Counterpart funds					
Government of Kenya	6,152,503	665,024,020	664,932,308	843	91,712
Total	24,011,006	2,595,349,588	2,595,257,876	843	91,712

2.8 Summary of Overall Project Performance:

- i) During the financial year 2022/2023, the project utilised 75% of its allocated budget, the effect is only in the EU component.
- ii) Physical progress based on outputs, outcomes and impacts since project commencement,
- iii) Comment on value-for-money achievements,
- iv) The absorption rate for the project over the years has been:

Year	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/2020	FY 2020/21	FY 2021/22	FY 2022/23
Absorption rate	52%	68%	41%	88%	54%	13%	75%

2.9 Summary of Project Compliance:

The Programme has ensured that all the activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed. The project has therefore fully complied with both the financing agreement and other statutory requirements.

3. STATEMENT OF PERFORMANCE AGAINST PROJECT’S PREDETRMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the National Government entity’s performance against predetermined objectives.

The key development objectives of the project’s agreement/ plan are:

- a) Upgrading of approximately 99Km of priority rural road links in 5 agricultural counties of the Eastern region of Kenya to durable low sealed pavement standard.
- b) Capacity building for the Authority staff and local contractors in labour intensive construction of roads using innovative techniques and locally available local materials.
- c) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations

Progress on attainment of Strategic development objectives

Project	Objective	Outcome	Indicator	Performance
Public Works, Roads & Transport	To develop and maintain roads and storm water drainage to global standards	Increased efficient transportation of people, goods and services	% of motorable and passable roads within the rural areas	In FY 22/23 we increased motorable and passable roads by 68%. 67Km of the 99Km has been upgraded to LVS

4. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The 10th EDF Rural Roads Rehabilitation Project in Kenya Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

a) Sustainability strategy and profile

The integration environmental and social concerns in the implementation strategy of the project will enhance environmental practices amongst all stakeholders. This will ultimately enhance sustainable development of the project. The proposed project will enhance the social-economic well-being of the local community as well as the whole country.

b) Environmental performance

The Authority's Board and Management recognize that there is no country that is not experiencing drastic effects of environmental degradation and climate change as a result of unsustainable development practices. Overall, The Authority recognizes the provisions in the Constitution, of the right to a clean and healthy environment to every person, and the right to have the environment protected for the benefit of present and future generations through legislative and other measures. The Authority therefore has committed to cooperate with various State organs and other persons to strive towards protecting and conserving the environment, and ensure ecologically sustainable development and use of natural resources. The Authority acknowledges that its various operations have potential impacts on the environment. It is therefore the Authority's commitment to conserve natural resources, maximize eco-efficiency, reduce waste and climate change impacts, and prevent pollution throughout its operations. The Authority has an Environmental and Social Sustainability Policy which was formulated to conform to the prevailing Government strategies as highlighted in the National Environment Policy. In accordance with the Policy, the Performance Contracting guidelines and the requirements of the Environmental Management and Coordination Act, the Authority has implemented various activities with an aim to mitigate against water, air, noise and other forms of pollution, promote environmental protection and conservation through stakeholder partnerships, and also contribute towards the Presidential directive on tree planting.

c) Employee welfare

The project employs both technical and non-technical staff from the project local area. It's only the technical staff where the expertise is not found in the community that the project employs externally. The employees are engaged through competitive public recruitment at the local county administrative

centres. The employees are remunerated as guided by the most current gazetted wages in the Collative Bargaining Agreement.

The project has offered several internships and attachments to students who have completed their courses and those continuing with their studies respectively. The Authority has a Human Resource Manual which guides compliance with all labour laws and international treaties.

d) Market place practices-

i) Responsible Supply chain and supplier relations-

The project consultant and contractor were procured through open tender making the procurement competitive. The organisation has sustained payments of all obligations arising out of the two contracts. However, payments have faced some challenges due to lengthy disbursement and insufficient exchequer releases

ii) Responsible ethical practices

The internal audit department has been organising trainings through Ethics and anticorruption commission (EACC) for the staff to create awareness among staff and stakeholders.

iii) Regulatory impact assessment

The project is adhering to all statutory and regulatory requirements. This is through complying with all statutes and regulations and filing the required documents. Further, all grievances raised are addressed as promptly as possible.

e) Community Engagements

The project does not have a direct CSR component. However, the community benefits through outreach programme for HIV/AIDS and Road Safety from well researched experts.

5. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project in Kenya are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2023.

This responsibility includes

- a) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period.
- b) Maintaining proper accounting records, which disclose with reasonable accuracy at any time.
- c) Financial position of the project.
- d) 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.
- e) Safeguarding the assets of the project.
- f) Selecting and applying appropriate accounting policies.
- g) Making accounting estimates that are reasonable in the circumstances.

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2023, and of the Project's financial position as at that date. They further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project 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.

**Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2023**

Approval of the Project financial statements

The Project financial statements were approved The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project on 28th September, 2023 and signed by them.



Deputy Director (F& A)

CPA Matilida Wakere Ita

ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi

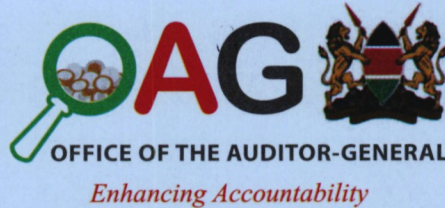


Director General

Eng. Philemon K. Kandie MBS

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS REHAHABILITATION PROJECT IN KENYA NO.KE/FED/023-571 FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA RURAL ROADS AUTHORITY

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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 Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya set out on pages 1 to 25, which

Report of the Auditor-General on Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya No.KE/FED/023-571 for the year ended 30 June, 2023 - Kenya Rural Roads Authority

comprise of the statement of financial assets and liabilities as at 30 June, 2023, the statement of receipts and payments, 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 effect 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 Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and the Public Finance Management Act, 2012 and comply with the Financing Agreement No. KE/FED/023-571 dated 10 September, 2022 between the European Commission and the Government of the Republic of Kenya.

Basis for Qualified Opinion

1. Irregular Expenditure

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects road works expenditure totalling Kshs.85,173,021 which was paid to three Contractors. However, review of documents revealed that the payments were made before the Contractor furnished the Authority with performance guarantee and before the submitted approval of programme of works was approved by the supervisor. This was contrary to Article 46.3 (b) and Article 46.3 (e) of the contract which states that no pre-financing shall be granted until performance guarantee is provided and approval of the Programme of implementation of tasks by the supervisor is done.

In the circumstances, accuracy and propriety of the payment totalling Kshs.85,173,021 could not be confirmed.

2. Non-Disclosure of Retention and Deposits Money

Note 5(d) to the financial statements reflects deposits and retention amounts totalling Kshs.35,173,631. However, the amount is not reflected in the statement of financial assets as accounts payables. Further, review of payment vouchers, bank statements and schedules provided revealed that the Authority failed to disclose retention payment made to a Contractor during the year amounting to Kshs.8,631,307.

In the circumstances, the accuracy and completeness of the retention balance of Kshs.35,173,631 could not be confirmed.

3. Funding Summary

The statement of receipts and payments reflects cumulative receipts totalling Kshs.2,510,152,801 while the project information and overall performance under funding summary reflects total cumulative funding summary cumulative amount totalling Kshs.2,595,349,588 resulting in a variance of Kshs.85,196,787 which has not been explained.

In the circumstances, accuracy and completeness of the financial statements could not be confirmed.

4. Inaccuracies in the Statement of Cashflows

The statement of cashflows reflects cash and cash equivalents at the end of the year of Kshs.91,712 while the recalculated balance is a negative of Kshs.(88,207,499) resulting to an unexplained variance of Kshs.(88,299,211)

In the circumstances, the completeness and accuracy of the statement of cashflows could not be confirmed.

5. Unsupported Prior Year Adjustments

The statement of financial assets and the statement of cashflows reflects prior year adjustment balance of Kshs.23,766. However, the supporting documents were not provided for audit review.

In the circumstances, accuracy and completeness of the prior year adjustment balance of Kshs.23,766 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Contingent Liability

As disclosed in Annex 4 to the financial statements, a contingent liability exists from a court case involving an amount of Kshs.642,516,239 in respect to a Contractor who moved to court after a contract was terminated with effect from 7 June, 2022. The Contractor was seeking orders of the High Court restraining the Authority and the Ministry from terminating the contract for a Project. The case is pending in court.

My opinion is not modified in respect of the matter.

Key Audit Matters

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

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, Management has not indicated how each of the issues raised in the previous year

Auditor-General's report, was resolved, including the information required under the prescribed reporting format.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.150,000,000 and Kshs.113,207,753 respectively, resulting to an under-funding of Kshs.36,792,247 or 25% of the approved budget. Similarly, the Project expended an amount of Kshs.113,219,328 against an approved budget of Kshs.150,000,000 resulting to an under-expenditure of Kshs.36,780,672 or 25% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Lack of Itemised Budget

The budget presented for audit did not disclose details and itemization per component which hindered the assessment of financial performance and resource allocation within the Authority. This was contrary to International Public Sector Accounting Standards (IPSAS) 24 which provides guidance on how budgetary information should be presented and disclosed, including the itemization of budgetary amounts.

In the circumstances, Management did not comply with provisions of the International Public Sector Accounting Standards in budget preparation.

2. Delays in Project Implementation

2.1 Construction of Chuka - Kaanwa Road

Review of Project documents revealed that the Authority awarded a contract for construction of Chuka - Kaanwa Road to a Contractor at a contract sum of Kshs.233,196,528. The project was for one (1) year beginning on 7 September, 2022 and was expected to be completed by 7 September, 2023. However, physical verification carried out on 6 November, 2023 revealed that the project was still ongoing and the Contractor was still on site despite no extension granted by the Authority.

In the circumstances, value for money to be realized from the expenditure totalling Kshs.233,196,528 incurred on the Project could not be confirmed.

2.2 Delay in Construction of Kaanwa – Wakathite Road

The contract for the construction of Kaanwa - Wakathite Road was awarded to a Contractor at a contract sum of Kshs.221,386,000 on 7 September, 2022 for a one (1) year period to be completed on 7 September, 2023. However, physical verification carried out on 7 November, 2023 revealed that the project was incomplete and the Contractor was not on site.

In the circumstances, value for money to be realized from the expenditure totalling Kshs.221,386,000 incurred on the Project could not be confirmed.

2.3 Delay in Construction of Wakathite – Kareni Road

The contract was awarded to a Contractor at a contract sum of Kshs.174,343,899 on 8 August, 2022 and was expected to complete on 7 September, 2023. However, physical verification which was carried out on 6 November, 2023 revealed that the project was still ongoing and the Contractor was still on site despite no extension granted by the Authority.

In the circumstances, value for money to be realized from the expenditure totalling Kshs.174,343,899 incurred on the Project could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires 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 are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the European Commission, 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 not been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Project or 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how the entity 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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 and weakness 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 addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, 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 accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls 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 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Project policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gatungu, CBS
AUDITOR-GENERAL

Nairobi

20 November, 2023

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7. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2023.

Description	Note	FY 2023/2024			FY 2021/2022	Cumulative to Date
		payments controlled by the entity	Receipts and payments Made by third parties	Total		
		Kshs	Kshs	Kshs	Kshs	Kshs
RECEIPTS						
Receipts from Government of Kenya	1	25,000,000	-	25,000,000	30,000,000	665,000,000
Proceeds from Domestic and Foreign Grants	2	-	85,173,021	85,173,021	-	1,930,325,568
Interest Earned		254	-	254	-	254
Total Receipts		25,000,254	85,173,021	25,000,254	30,000,000	2,595,325,822
PAYMENTS						
Consultancy		-	-	-	-	317,388,963
Other operating costs	3	11,156	-	11,156	49,212	725,089
Road Works Expenditure	4	28,034,732	85,173,021	28,034,732	31,608,770	2,277,143,824
Prior Adjustment NCBA Bank		-	-	-	-	(23,766)
Total Payments		28,045,888	85,173,021	28,045,888	31,657,982	2,595,234,110
Surplus/Deficit		(3,045,628)	-	(3,045,628)	(1,657,982)	91,712

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

Mwaka

Deputy Director (F & A)

CPA Matilda Wakere Ita

ICPAK Member Number: 5469

Samuel N. Mwangi

Project Coordinator

Eng. Samuel N. Mwangi

Philemon K. Kandie

Director General


Eng. Philemon K. Kandie MBS


Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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8. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2023

Description	Note	2022/2023	2021/2022
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5	91,712	3,114,000
Total Cash Equivalents		91,712	3,114,000
REPRESENTED BY			
Fund balance brought forward	6	3,113,580	4,771,562
Surplus/Deficit for the year		(3,045,634)	(1,657,982)
Prior Adjustment		23,766	
Net Financial Position		91,712	3,113,580

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on **27th September, 2023** and signed by:


Deputy Director (F & A)
 CPA Matilda Wakere Ita
 ICPAK Member Number: 5469


Project Coordinator
 Eng. Samuel N. Mwangi


Director General
 Eng. Philemon K. Kandie MBS

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9. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2023

Description	Note	2022/2023	2021/2022
		Kshs	Kshs
Cash flow from operating activities			
Transfer from Government Entities	1	25,000,000	30,000,000
Proceeds from domestic and foreign grants	2	85,173,021	44,794,887
Interest earned		254	-
Payments for operating activities			
Road Works Expenditure		(113,218,909)	76,403,657
Net Cash flow from operating activities		(3,045,634)	(1,657,982)
Cash flow from borrowing activities			
Proceeds from foreign borrowings		-	-
Net Cash flow from borrowing activities		-	-
Net increase in cash and cash equivalents		(3,045,634)	(1,657,982)
Cash and cash equivalents at the beginning of the year		3,113,580	4,771,561
Prior Year Adjustment		23,766	
Cash and cash equivalents at the end of the	5	91,712	3,113,580

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on **27th September, 2023** and signed by:



Deputy Director (F & A)

CPA Matilda Wakere Ita
ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi



Director General

Eng. Philemon Kandie MBS

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
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**10. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR
 THE YEAR ENDED 30TH JUNE,2023**

Consolidated	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget Utilisation Variance	% of Utilisation
	A	B	C=a+b	D	E=c-d	F=d/c%
Receipts/Payment Item						
RECEIPTS						
Receipts from Government of Kenya	50,000,000	-	50,000,000	28,034,732	21,965,268	56%
Proceeds from Domestic and Foreign Grants	100,000,000	-	100,000,000	85,173,021	14,826,979	85%
Total receipts	150,000,000	-	150,000,000	113,207,753	36,792,247	75%
						0%
PAYMENTS						0%
Consultancy services	-	-	-	-	-	0%
Road works	149,500,000	-	149,500,000	113,207,753	36,292,247	76%
Operating costs	500,000	-	500,000	11,575	488,425	2%
Total Payments	150,000,000	-	150,000,000	113,219,328	36,780,672	75%

Note: The significant budget utilisation/performance differences in the last column are explained in Annex 1 to these financial statements.



Deputy Director (F & A)

CPA Matilda Wakere Ita
 ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi



Director General

Eng. Philemon K. Kandie MBS

11. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

b) Reporting entity

The financial statements are for the 10th EDF Rural Roads Rehabilitation Project in Kenya. Kenya under the State Department for Roads Ministry of Roads and Transport. The financial statements are for the reporting entity (Project The 10th EDF Rural Roads Rehabilitation Project in Kenya) as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

d) Recognition of receipts

The improvement of Rural Roads and Market Infrastructure in Western Kenya recognises all receipts from the various sources when the event occurs, and the related cash has actually been received.

i) Transfers from the Exchequer

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

ii) External Assistance

External assistance is monies received through grants and loans from multilateral and bilateral development partners.

Significant Accounting Policies (Continued)

iii) Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements at the time associated cash is received.

iv) Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

v) Proceeds from borrowing

Borrowing includes external loans acquired by the Project or any other debt the Project may take and will be treated on cash basis and recognized as a receipt during the year they were received.

vi) Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary.

e) Recognition of payments

The Project recognises all payments when the event occurs, and the related cash has actually been paid out by the Project.

i) Compensation to employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

Significant Accounting Policies (Continued)

ii) Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

iii) Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incur and paid for.

iv) Repayment of borrowing (principal amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

v) Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

f) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

Significant Accounting Policies (Continued)

g) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

h) Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

i) Imprests and Advances

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

j) Contingent Liability

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

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Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

- iv) The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. The Contractor Lot 1 & Lot 2 abandoned sites before completions & instituted litigation & arbitration cases against the contracting Authority Culminating in eventual termination of works. The matter is awaiting the High court's Decision in regards to an arbitration Award. Claim under the litigation amounts to Ksh.642,516,239.33 inclusive of taxes. **Annex 5** of this financial statement is a register of the contingent liabilities in the year.

k) Contingent Asset

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

l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

Significant Accounting Policies (Continued)

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been *included in an annex to these financial statements*.

n) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments. And are disclosed in the payment to third parties' column in the statement of receipts and payments.

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the past dates of the transactions as per the agreement terms and condition. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

Significant Accounting Policies (Continued)

p) Comparative figures

Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

q) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2023.

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). Explanations and details of these prior period adjustments are presented.

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12. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

	2022/2023	2021/2022	Cumulative to-date (from inception)
	KShs	KShs	
<i>Counterpart funding through Ministry of Transport and Infrastructure</i>			
Counterpart funds	25,000,000	30,000,000	665,000,000
Total	25,000,000	30,000,000	665,000,000

2. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Total amount in		Cumulative to-date
				KShs		
				2022/2023	2021/2022	
	Euro	KShs	KShs	KShs	KShs	
Grants Received from Bilateral Donors (Foreign Governments)						-
The European union	851,730	-	85,173,021	44,794,887		1,845,152,547
Total	851,730	-	85,173,021	44,794,887		1,845,152,547

During the year ended 30th June 2023 we received grants from donors as detailed in the table below:

3. OTHER OPERATING COSTS

Description	FY 2022/2023	FY 2021/2022
	kshs	kshs
Bank charges	11,576	49,212
Total	11,576	49,212

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. ROADWORKS EXPENDITURE

Description	2022/23			
	Payments made by the Entity	Payments made by third parties	Total Payments	Cumulative to-date
	KShs	KShs	KShs	KShs
Construction of roads	28,034,732	85,173,021	113,207,753	2,191,970,804
Total	28,034,732	85,173,021	113,207,753	2,191,970,804

5. CASH AND CASH EQUIVALENTS

The project has One(1) number of project accounts spread within the project implementation area as listed below and no foreign currency designated accounts managed by the National Treasury:

5. A Bank Accounts

Project Bank Accounts

	2022/23	2021/22
	KShs	KShs
Local Currency Accounts		
Kenya Commercial Bank[A/c No. 1179736370.....]	67,693	3,113,580
1737850074	24,020	
Total bank account balances	91,712	3,113,580

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 C Cash equivalents (short-term deposits)

	2021/22	2021/22
	KShs	KShs
Bank accounts (Note 8.13A)	91,712	3,113,580
Cash in hand (Note 8. 13B)	-	-
Cash equivalents (short-term deposits) (Note 8.13C)	-	-
Total	91,712	3,113,580

5 d DEPOSITS & RETENTION

Description	2022-2023	2021-2022
	Kshs	Kshs
Deposits & Retentions	35,173,631	43,804,938
Total	35,173,631	43,804,938

6. FUND BALANCE BROUGHT FORWARD

	2022-23	2021-22
	KShs	KShs
Bank accounts	3,113,580	4,771,562
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Total	3,113,580	4,771,562

OTHER IMPORTANT DISCLOSURES

1. (a) EXTERNAL ASSISTANCE

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Description	2022-2023	2021-2022
	Kshs	Kshs
External assistance received as grants	85,173,021	44,794,887
Total	85,173,021	44,794,887

OTHER IMPORTANT DISCLOSURES (Continued)

d. non-monetary external assistance

Description	FY 2022-2023	FY 2021-2022
	Kshs	Kshs
Roadworks	85,173,023	44,794,887
Services	-	-
Total	85,173,023	44,794,887

e Purpose and use of external assistance

Payments Made by Third P	FY 2022-2023	FY 2021-2022
	Kshs	Kshs
Construction of roads	85,173,023	44,794,887
Supervision consultancy services	-	-
TOTAL	85,173,023	44,794,887

f. External Assistance paid by Third Parties on behalf of the Entity by Source

Description	FY 2022-2023	FY 2021-2022
	Kshs	Kshs
National government	-	-
Multilateral donors	85,173,021	44,794,887
Total	85,173,021	44,794,887

2. ACCOUNTS PAYABLES

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Description	2022-2023	2021-2022	2021-22
	Kshs	Kshs	Kshs
Retention	153,710,319	159,292,037	159,292,037
Total	153,710,319	159,292,037	159,292,037

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PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

All the Audit issues 2021/22 were resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	All the Audit issues/Observations for the FY 2021/2022 were resolved.	N/A	N/A	N/A
1. Accuracy and presentation of the financial reports & statements			Resolved	
1. Lack of an environmental impact assessment report	A review of payment vouchers and project files for the Support to road policy: 10th EDF Rural roads rehabilitation project in Kenya: Lot 4(Kivandini-Kango-Kakalia- Kali road) & 5 (Katuaa-Kee-Nunguni	An ESIA study was undertaken in 2014 by M/s Norken International Consultants for the all the project roads under the 10 th EDF Programme. NEMA approved the reports for Lot 4 and Lot 5 and issued the Authority License Numbers NEMA/EIA/PSL/1576 and NEMA/EIA/PSL/1568	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	road) revealed that no environmental impact assessment was done and no approval from NEMA was issued for the 2 projects	The ESIA reports have been shared with the Auditors. The NEMA license is attached herein, Annex 1		
1. Lack of HIV/AIDS awareness publicity by the Contractor	Audit inspection carried out at the contractor's site for LOT 5 on 14/10/2022 revealed that the contractor had not taken steps to make his workers and the general public aware about HIV/AIDS and best practices to keep themselves safe at the back drop of rising HIV/AIDS infections in	The Contractor intermittently undertook HIV awareness and prevention activities on site over the project implementation. The contractor provided HIV awareness banners and stickers. However, the Contractor failed to submit the requisite reports to warrant payments.	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	the region. However, the contractor has not been paid the portion of the contract amounting to Kshs. 720,000.			
1. Unaccounted for expenditure	In the financial period under review, the authority transferred funds amounting to kshs. 5,520,000 as an Authority to Incur Expenditure (AIE) vide AIE no. 20284 on 30 th August 2021. The accounting officer failed to provide request for the funding from the	The Management notes that the said expenditure was undertaken for emergency road works repairs for Lot 1 (Kyezi – Kathanjura – Karurumo Road). Following abandonment of the site by the contractor in March 2019, the condition of the road had greatly deteriorated and immediate intervention measures were thus necessary. The Regional Director requested the Director General for an AIE to improve the condition of the road. The requisitions, BoQ and	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>regional office, a breakdown of the expenditure items the funds were meant to be used for as well as expenditure returns supporting the payments.</p> <p>It is also not clear why the authority opted to divert funds meant for the roads projects for regional office running expenses</p>	<p>expenditure returns are attached herein, Annex 2</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Retention monies	<p>Note 7 to the financial statements reflects retention amount of Kshs. 156,502,602. However, the actual retention due to this contractor from the combined retentions from GOK and donor is Kshs. 161,171,999 to resulting unreconciled variance of Kshs. 4,669,397. See the table below:</p>	<p>Further, the retention ledger provided reflects an amount of Kshs.159,292,037 resulting to a variance of Kshs. 1,879,961.</p>	<p>Party</p> <p>GOK</p> <p>Donor</p> <p>Resolved</p>	<p>Amount (Kshs)</p> <p>47,367,595</p> <p>113,804,404</p> <p>161,171,998</p>
Projects inspection	The Kenya Rural Roads Authority awarded	a)On drifts; the edge marker posts to indicate and mark		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>tender for construction of 15.9 Km Kivandini-Kango-Kakalia-Kali road in Machakos County to Coastal Kenya Enterprises Ltd at a contract sum of Kshs. 301,251,357. Audit inspection carried on 13th October, 2022 revealed that following anomalies:</p> <ul style="list-style-type: none"> - the various drifts constructed along the road lacked guard rails and other 	<p>dangerous levels during flooding will be erected</p> <p>b) Road marking works are on-going, 5Kms have been completed to-date</p> <p>c) Protection works, road furniture are being undertaken during the defects liability period,</p> <p>d) Removal of huge rocks close to the edge of the carriageway was not part of the scope of works given the project implementation was under mainly labour-intensive methods of construction. The removal of the rock boulders will require blasting activities. The Authority will plan, budget and take the initiative to remove the rock boulders bordering the road along this section under maintenance operations.</p>	<p>Resolved</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>markings to show the width and depth of water during rain seasons.</p> <ul style="list-style-type: none"> - Road marking were partially done up to 5 Kms - Protection works and road furniture were not done - The entire stretch lacked speed bumps and locals had 			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>resorted to erecting informal ones thus posing risk to road users</p> <p>- A big rock was protruding on one side of the road leading to Ikiwe drift, which has caused fatal accident in the past leading to loss of lives. The contractor did not uproot or</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	push or carry out any specific works on rock to avert accidents.			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Lot 5	<p>The Kenya Rural Roads Authority awarded tender for construction of 20.5 Km Katuaa – Kee - Nunguni road in Makueni County to Coastal Kenya Enterprises Ltd at a contract sum of Kshs. 362,001,255. Audit inspection carried on 13th October,2022 revealed that following anomalies:</p> <ul style="list-style-type: none"> - Approximately only 10 Kms had been done. 	<p>The contractor is expected to complete the remaining 10.5Km by June 2023. Financial challenges and delayed payments on IPC No. 16 has caused the contractor to intermittently work. Road furniture and protective works are part of the scope of works and have been instructed to the contractor.</p> <p>The Authority would like to thank the Office of the Auditor General for the cooperation extended during the audit.</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>However, road protection and furniture.</p> <p>- The contractor was not on site casting doubt on whether the remaining works would be completed in the near future.</p>			



Director General



Project Coordinator

Date

Date

13. ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Description	Final Budget Kshs a	Actual on comparable basis Kshs b	Utilisation Variance Kshs c=a-b	% of Utilisation d=b/a%	Comments on variance
RECEIPTS					
Receipts from Government of Kenya	50,000,000	28,034,732	21,965,268	56%	Funds received from GoK were fully utilized
Proceeds from Domestic and Foreign Grants	100,000,000	85,173,021	14,826,979	85%	Due to ongoing litigation on Lot 1 and 2 contracts, they could not be effectively terminated to enable repackaging and re- tender.
Total receipts	150,000,000	113,207,753	36,792,247		
PAYMENTS					
Consultancy services	-	-	-	0%	Low utilization attributable to the expiration of the consultant's contract during the course of the financial year.
Road works	149,500,000	113,207,753	36,292,247	76%	Attributable to slow progress of works in Lot 5 and the termination of Lot 1 and Lot 2.
Operating costs	500,000	11,576	488,424	2%	These costs are largely dependent on the project's level of activity. The low levels of activity in the projects translated to low operating costs.
Total Payments	150,000,000	113,219,329	36,780,671	75%	

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ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

PROJECT NAME:				
Break down of Transfers from the State Department for Roads				
a. Government Counterpart				
Funding				
	Bank Statement Date		Amount (KShs)	Indicate the FY to which the amounts relate
	11/10/2022		25,000,000	FY-2022/23
	Total		25,000,000	
b. Direct Payments				
	Bank Statement Date		Amount (KShs)	Indicate the FY to which the amounts relate
	Total			FY-2022/23
c. Others				
	Bank Statement Date		Amount (KShs)	Indicate the FY to which the amounts relate
			0	
			0	
	Total		0	
	TOTAL (a+b+c)		25,000,000	

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ANNEX 3A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Amount Paid To-Date	Outstanding Balance 2022/23	Outstanding Balance 2021/22	Comments
	a	c	d=a-c		
Construction of civil works					
1. NARIANA ENTERPRISES LIMITED	16,022,500	11,600,000	4,422,500	-	The balance will be cleared FY.22/23
2.NARIANA ENTERPRISES LIMITED	16,680,510	-	16,680,510	-	The balance will be cleared FY.22/23
2. Asset Construction Ltd	12,401,162	-	12,401,162	-	The balance will be cleared FY.22/23
Sub-Total		11,600,000	33,504,172		
Grand Total	45,104,172				

ANNEX 4 CONTINGENT LIABILITY REGISTER

Description	Remarks
Westbuild Contractors Ltd	High court Appeal
Cost awaiting determination	Ksh.642,516,239.33 inclusive of 16% VAT

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APPENDICES

i. Bank Reconciliations statement as at 30th June 2023