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DATE: 06 DEC 2023 DAY: WEDNESDAY
TABLED BY: HON. OWEN BATA, MP
DEPUTY MAJORITY LEADER
FINLAY

OF

THE AUDITOR-GENERAL

ON

**DUALLING OF MAGONGO ROAD (A109L):
PHASE II (FIDIC EPC/TURNKEY BASED)**

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

**KENYA NATIONAL HIGHWAYS
AUTHORITY**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

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MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

**PROJECT NAME: DUALING OF MAGONGO ROAD (A109L): PHASE II (FIDIC
EPC/TURKEY BASED)**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT GRANT/CREDIT NUMBER.....N/A.....

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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



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I. Acronyms and Glossary of Terms

CPA	Certified Public Accountant
EIA	Environmental Impact Assessment
EPC	Engineering, Procurement & Construction
ESIA	Environmental Social Impact Assessment
ESMP	Environment & Social Management Plan
FIDIC	International Federation of Consulting Engineers
FY	Financial Year
GK	Government of Kenya
HIV	Human Immunodeficiency Virus
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
ICB	International Competitive Bidding
KeNHA	Kenya National Highways Authority
KISM	Kenya Institute of Supplies and Management
Kshs.	Kenya Shillings
MDAs	Ministries Departments & Agencies
M&E	Monitoring & Evaluation
NEMA	National Environment Management Authority
PAPs	Project Affected Persons
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
PWDs	Persons Living with Disabilities
RAP	Resettlement Action Plan
SIA	Social Impact Assessments
SDG	Sustainable Development Goals
SMART	Specific, Measurable, Achievable, Realistic & Time Bound
TMEA	Trade Mark East Africa
TNT	The National Treasury
USD	United States Dollar

2. Project Information and Overall Performance

2.1 Name and registered office

Dualling of Magongo Road (A109L): Phase II (FIDIC/TURNKEY BASED)

Objective:

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

Address: Barabara Plaza
Jomo Kenyatta International Airport (JKIA) off Mazao Road
Nairobi Kenya

Contacts:

Director General
Kenya National Highways Authority
Po Box 49712-00100
Nairobi
Telephone: (254) 020 495000
E-mail: dg@Kenha.co.ke
Website: www.kenha.co.ke

2.2 Project Information

Project Start Date:	April, 2018
Project End Date:	February, 2023
Project Engineer	Eng. Kevin Nyabuto
Project Sponsor:	1. Trade Mark East Africa (TMEA) 2. Government of Kenya (GK)

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the State Department for Roads
Project number	N/A
Strategic goals of the project	The strategic goals of the project are as follows: (i) Improve cargo off take from the port (ii) Reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport. (iii) Enhance social economic development of the people around the project area.
Achievement of	The project management aims to achieve the strategic goals through

strategic goals	implementation of the project in a timely, efficient and effective
Other important background information of the project	1. The project is jointly financed by Trade Mark East Africa and The Government of Kenya (GK). In the financing TMEA contribution is 32% while GK contribution is 68%
Project duration	The Project is for a duration of 60 months made up of 24 months for design and construction and 36 months for defects notification period.

2.4 Bankers

Co-operative Bank of Kenya
Upper Hill Branch
Po Box
Nairobi.

National Bank of Kenya
Hill Branch
P.O Box
Nairobi.

2.5 Independent Auditor

The project is audited by the Office of the Auditor-General

2.6 Roles and Responsibilities

List of the people working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng. Henry Galuru	Director-Development	Registered Engineer	Project Implementation Team Leader
Eng. Kevin Nyabuto	Deputy Director-Special Projects	Registered Engineer	Project Engineer
Mr. Walter Nyatwang'a	Deputy Director-Environment & Social Interests	NEMA Lead Expert, Member EIK	Project Environmental Safeguards Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Advocate of the High Court of Kenya	Project Legal Specialist
Mr. Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist
Mr. Richard Kilel	Assistant Director-Supply Chain Management	Member, KISM	Project Procurement Specialist

Project Information and Overall Performance (Continued)

2.7 Funding summary

The Project was for duration of 5 years from April, 2018 to March, 2023 with an approved budget of USD 10,886,121 equivalent to Kshs. 1,100,042,519 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2023)		Undrawn balance to date (30.06.2023)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)- (B)	(A')- (B')
(i) Grant						
TMEA	11,785,982	1,190,973,504	11,785,982	1,190,973,504	-	-
(ii) Counterpart funds						
Government of Kenya	-	-	24,129,172	2,438,252,784	-	-
Total	11,785,982	1,190,973,504	35,915,154	3,629,226,288	-	-

B. Application of Funds

Application of funds	Amount received to date - (30.06.2023)		Cumulative Amount paid to date - (30.06.2023)		Unutilised balance to date - (30.06.2023)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)- (B)	(A')-(B')
(i) Grant						
TradeMark East Africa (TMEA)	11,785,982	1,190,973,504	11,785,982	1,190,973,504	-	-
(ii) Counterpart funds						
Government of Kenya (GK)	-	2,438,252,784	-	2,390,946,376	-	47,306,408
Total	11,785,982	3,629,226,288	11,785,982	3,581,919,880	-	47,306,408

Project Information and Overall Performance (Continued)

2.8 Summary of Overall Project Performance:

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

Budget	FY 2022/2023			Cumulative	
	Budget	Actual	%	Budget	Actual
Counterpart Funds - GK	228,247,155	205,372,141	90%	2,844,789,820	2,415,000,000
Grants from External Partners					
TMEA	-	1,550,000,000	100%	1,550,000,000	1,190,000,000
Total	228,247,155	205,372,141	90%	4,394,789,820	3,606,000,000

(ii) Physical progress based on outputs, outcome and impacts since project commencement

As at 30th June, 2023, the physical progress of works was 90%. Time elapsed is 62 months 126.1%

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

Financial Year	Budget	Actual	Percentage
FY 2022/23	228,247,155	205,372,141	90%
FY 2021/22	385,000,000	168,930,487	44%
FY 2020/21	1,736,349,015	1,307,460,750	75%
FY 2019/20	1,857,693,650	1,801,562,526	97%
FY 2018/19	150,000,000	121,509,136	81%
FY 2017/18	37,500,000	346,234	0.9%
Total	4,394,789,820	3,606,351,274	82%

(iv) Comment on value for money achievements.

- The project procurement process was conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- The authority (KeNHA) had put in place adequate checks & balances on appointment of the works supervision consultant who oversees the project implementation on daily basis in consultation and subsequent approvals from the employer and the bank.
- In addition to works supervision, the consultant undertook design review prior to commencement of roads construction works to reduce uncertainties.
- Regular auditing of the project by Internal Auditors, External Auditors and Quality Assurance Departments.
- Project site review meetings by the Development and Supervision through supervision meetings.
- Monthly site meetings that involve the employer, the consultant and the contractor.

Project Information and Overall Performance (Continued)

2.9 Summary of Project Compliance:

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

3. Statement of Performance Against Project's Predetermined Objectives

Introduction

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

The key development objectives of the project are:

- a) To improve cargo off take from the port of Mombasa
- b) To reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport
- c) To enhance social economic development of the people around the project area

Progress on attainment of Strategic development objectives

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

Below we provide the progress on attaining the stated objectives:

Objective	Outcome	Indicator	Performance
To improve cargo off take from the port	Reduced travel time between Mombasa and Malaba	Increased volume of Import Export trade handled at the port of Mombasa.	Improved cargo movement out of the Port of Mombasa
To reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container	Reduced congestion in Mombasa town.	Increased volume of Import Export trade handled at the port of Mombasa.	Improvement of traffic movement at intersections

Objective	Outcome	Indicator	Performance
terminal and Moi International Airport			
To enhance social economic development of the people around the project area	Improved air quality along the project road hence improved health among communities along the project road.	Reduced CO ₂ concentration along the project road as a result of reduced traffic congestion	Trade volumes have increased along the project road as a result of ease of access to business premises.

4. Environmental and Sustainability Reporting

Dualling of Magongo Road (A109L) exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

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

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

2. Environmental performance

The Authority is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact

Environmental and Sustainability Reporting (Continued)

Assessment (EIA) Audits, carries out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

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

3. Employee welfare

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

4. Market place practices

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

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

Further, the Authority endeavours to honour its contractors and vendors payments through paying within the set payment timelines in the contracts and agreements.

5. Community Engagements

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The

Environmental and Sustainability Reporting (Continued)

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

During the project execution, the Contractor continued to offer employment opportunities to the locals as casuals. The Contractor also carried out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

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

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) 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: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

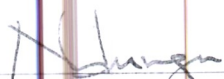
The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.


The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) 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. The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/TURNKEY BASED) 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, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) on 29 SEP 2023 and signed by them.


Eng. Kungu Ndungu
Director General

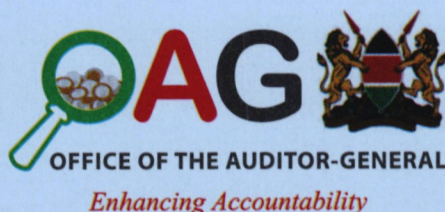

Eng. Henry Gakuru
Ag. Director-Development


CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279



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

REPORT OF THE AUDITOR-GENERAL ON DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC EPC/TURNKEY BASED) FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure that the 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 Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) set out on pages 1 to 26, which comprise

Report of the Auditor-General on Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) for the year ended 30 June, 2023 - Kenya National Highways Authority

of the statement of financial assets as at 30 June, 2023 and the statement of receipts and payments, statement of cash flows and the 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) 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 comply with the Financing Agreement between Trade Mark East Africa (TMEA) and the Republic of Kenya dated 24 November, 2010 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unsupported Expenditure - Acquisition of Non-Financial Assets

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.202,665,451 as disclosed in Note 4 to the financial statements. Review of records revealed that the balance includes an amount of Kshs.24,431,394 in respect of retention amounts for the year under review. However, Management did not provide any evidence including the copies of interim payment certificates (IPCs) in support of the amount of Kshs.24,431,394.

In addition, Note 8 to the financial statements reflects change in retention (payments) amount of Kshs.48,568,108. However, review of records provided by Management revealed that the Project released Kshs.72,999,502 retention money during the year under review thus resulting in an unexplained variance of Kshs.24,431,394. Management did not provide any evidence including the copies of interim payment certificates (IPCs) in support of the retention money paid during the financial year.

In the circumstances, the accuracy and completeness of the acquisition of non-financial assets amount of Kshs.202,665,451 and the retentions paid during the year of Kshs.48,568,108 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) 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

1. Pending Bills

Note 1 of other important disclosures on pending accounts payable and Annex 4 to the financial statements reflect a balance of Kshs.1,640,595,404 in respect of pending bills. The balance includes amounts of Kshs.289,385,425, Kshs.1,319,320,454 and Kshs.31,889,525 in relation to construction and civil works, land compensation and supply of services respectively. As reported in the previous years, Management has explained commitment to liaise with The National Treasury to obtain adequate budgetary allocation to secure prompt payment of the pending bills. Failure to settle bills during the year in which they relate adversely affects the provisions of the subsequent year to which they have to be the first charge.

2. Contingent Liabilities

Annex 6 to the financial statements on contingent liabilities register reflects an amount of Kshs.2,851,043,577 in respect of a claim for extension of time including associated cost that may be payable to the main contractor of the project's road works. Although Management has disclosed that the claim is yet to be determined, it represents a possible cost to the Project which could have been avoided if the project was delivered within the agreed timelines.

My opinion is not modified on the effects of the above matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not given any explanation on how the issues were resolved.

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 else has come to my attention to cause me to believe that public resources have been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregular Variation of Contract Sum

Review of the contract agreement for consultancy services for supervision of the project dated 11 June, 2018, revealed that the contract had an initial contract sum of Kshs.97,326,900. Over the past five (5) years, the contract sum has increased to Kshs.133,048,929 translating to an increase of Kshs.35,722,029 or 37% of the original contract sum which exceeds the 15% threshold set in the law by 22%. Management did not provide any approval or justification for the contract sum variation.

This is contrary to Section 139(4)(b) of the Public Procurement and Assets Disposal Act, 2015 which states that for the purposes of this Section, any variation of a contract shall only be considered after twelve months from the date of signing the contract and shall only be considered if the following are satisfied - that the quantity variation for goods and services does not exceed fifteen per cent (15%) of the original contract quantity.

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

2. Delay in Completion of the Project

As previously reported, the Project commenced on 1 May, 2018 for a period of 24 months ending 1 May, 2020. The contractor was later awarded an interim extension of time of 933 days (54.79 months) revising the completion date to 20 November, 2022. However, the project stalled in November, 2021 as evidenced by the project briefs of August, 2022 and July, 2023 which revealed that the project progress remained at 86%. Also, the last Interim Payment Certificate (IPC) No.9 was raised in December, 2021. As at July, 2023 the time elapsed was 113.16% against a progress of 86.44% yet there was no evidence of any other extension of time.

Further, audit inspection carried out on the road project revealed that there are sections of the road where the works cannot proceed due to failure of the Authority to compensate land owners which included the left-hand side from Km 0+965 to Km 1+300 on the main carriage way and service lane as well as at Km 0+000 to 0+500 on the left- and right-hand side at the Bomu link road.

In the circumstances, the delay in completion will undermine the objectives for which the project was meant to achieve and therefore the value for money on this project could not be confirmed.

3. Additional Claims and Charges for the Road Project

Review of records revealed that the contractor has been awarded claims totalling Kshs.234,278,477 as detailed below:

Details	Amount (Kshs)
Variation of Price 1	82,997,367
Interest on Delayed Payments 1	47,539,042
Variation of Price 2	80,591,658
Interest on Delayed Payments 2	23,150,410
Total	234,278,477

The project has therefore incurred an additional and avoidable cost of Kshs.234,278,477 due to cost variations and delays in payments for the contract.

Further, review of the Project briefs dated 25 July, 2023 revealed that the contractor had made a prolongation cost claim of Kshs.3,497,747,818, which is approximately 142% of the initial civil works project cost of Kshs.2,464,287,937. The claim was still under evaluation at the time of the audit in October, 2023.

In addition, during the year under review, the Project consultants raised eleven (11) monthly fee notes for the supervision of the project with a total amount of Kshs 33,678,674. However, there was no value for money for the above fee notes totalling to Kshs.33,678,674 as the road project had stalled as evidenced by the progress reports reviewed during the audit, and therefore there was no supervision or contract administration works.

In the circumstances, the Project risks the loss of public funds due to avoidable costs arising from failure by Management to meet its obligations as per the contract agreement.

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.

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 overall 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 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 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

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 control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 control would not necessarily disclose all matters in the internal control 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 control 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 control 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the 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 control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to 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 Gathungu, CBS
AUDITOR-GENERAL

Nairobi


17 November, 2023


*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2023*


7. Statement of Receipts and Payments for the period ended 30th June 2023

	Note	FY 2022/23			FY 2021/22			Cumulative to Date
		Receipts & Payments Controlled by the Entity	Payments Made by Third Parties	Total	Receipts & Payments Controlled by the Entity	Payments Made by Third Parties	Total	
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
Receipts								
Transfer from Government entities	1	228,247,155	-	228,247,155	5,000,000	-	5,000,000	2,438,252,784
Grants from external development partners	2	-	-	-	-	90,930,985	90,930,985	1,190,973,504
Total Receipts		228,247,155	-	228,247,155	5,000,000	90,930,985	95,930,985	3,629,226,288
Payments								
Purchase of goods and services	3	2,706,690	-	2,706,690	-	-	-	28,299,757
Acquisition of non-financial assets	4	202,665,451	-	202,665,451	5,000,000	90,930,985	95,930,985	3,578,051,517
Total Payments		205,372,141	-	205,372,141	5,000,000	90,930,985	95,930,985	3,606,351,274
Surplus/Deficit		22,875,014	-	22,875,014	-	-	-	22,875,014

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


Eng. Kungu Ndungu
Director General

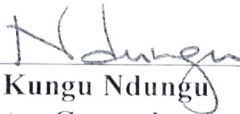

Eng. Henry Gakuru
Ag. Director-Development



CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

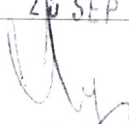
8. Statement of Financial Assets as at 30th June 2023

Description	Note	FY 2022/23	FY 2021/22
		Kshs	Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	5A	47,306,408	72,999,502
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
Total Cash and Cash Equivalents		47,306,408	72,999,502
Accounts Receivables		-	-
Total Financial Assets		47,306,408	72,999,502
Financial Liabilities			
Payables- Deposits and Retentions	6	24,431,394	72,999,502
Net Assets		22,875,014	-
Represented By:			
Fund balance b/fwd	7	-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		22,875,014	-
Net Financial Position		22,875,014	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 26 SEP 2023 and signed by:


 Eng. Kungu Ndungu
 Director General

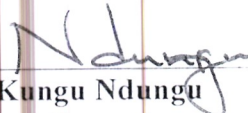

 Eng. Henry Gakuru
 Ag. Director-Development


 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279

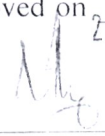
9. Statement of Cashflow for the year ended 30th June 2023

Description	Note	FY 2022/2023 Kshs	FY 2021/2022 Kshs
Cashflow from operating activities			
Receipts			
Transfer from Government entities	1	228,247,155	5,000,000
Proceeds from domestic and foreign grants	2	-	90,930,985
Miscellaneous receipts		-	-
Total Receipts		228,247,155	95,930,985
Payments			
Purchase of goods and services	3	(2,706,690)	-
Total Payments		(2,706,690)	-
Net receipts/(payments)		225,540,465	95,930,985
Adjustments during the year			
Increase/(decrease) in accounts payables	8	(48,568,108)	8,690,882
Net cash flow from operating activities		176,972,357	104,621,867
Cashflow from investing activities			
Acquisition of Assets	4	(202,665,451)	(95,930,985)
Net cash flows from Investing Activities		(202,665,451)	(95,930,985)
Cashflow from financing activities			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
Net Increase in Cash and Cash Equivalents		(25,693,094)	8,690,882
Cash and cash equivalent at BEGINNING of the year	5	72,999,502	64,308,620
Cash and cash equivalent at END of the year	5	47,306,408	72,999,502

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 26 SEP 2023 and signed by:


Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Director-Development


CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

10. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30th June 2023

Receipts/Payments	Receipts/Payments Item	Original Budget		Actual Comparison		Budget	Actual on	Budget	Actual on	Budget
		a	b	b	d	Utilization	Comparable Basis	Utilization	Difference	
		a	b	b	d	c-a	b-a	d	d	%
Receipts	Receipts									
Transfer from Government entities	Transfer from Government	200,000,000	98,247,155	156,000,000	17,158,247,153	228,247,155	228,247,155	100%		
Total Receipts	Total Receipts	200,000,000	98,247,155	156,000,000	17,158,247,153	228,247,155	228,247,155	100%		
Payments	Payments									
Purchase of goods and services	Purchase of goods and services		130,000,000		98,247,155	228,247,155	2,706,690		22,875,000	
Acquisition of non-financial assets	Acquisition of non-financial assets				202,665,451		202,665,451			
Total Payments	Total Payments	130,000,000	98,247,155	202,665,451	228,247,155	285,372,141	22,875,000		(22,875,000)	
Surplus/Deficit	Surplus/Deficit									

Note: The significant budget utilization/performance differences in the last column are detailed in Annex 2 to these financial statements.

Eng. Kungu Ndungu
 Director General

Eng. Henry Gakuru
 Director-General

CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. ICPAK Member No.

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 Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) under Kenya National Highways Authority. The financial statements are for the reporting entity's Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) as required by Section 81 of the PFM Act, 2012.

(c) Reporting currency

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

(d) Recognition of receipts

Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

i) Transfers from the Exchequer

Transfer from Exchequer is to be 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 received through grants and loans from multilateral and bilateral development partners.

These include appropriate amounts and related 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 on-going 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.

• Compensation of employees

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

• 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.

• Interest on borrowing

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

• 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.

Significant Accounting Policies (Continued)

- **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 the Authority 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.

(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

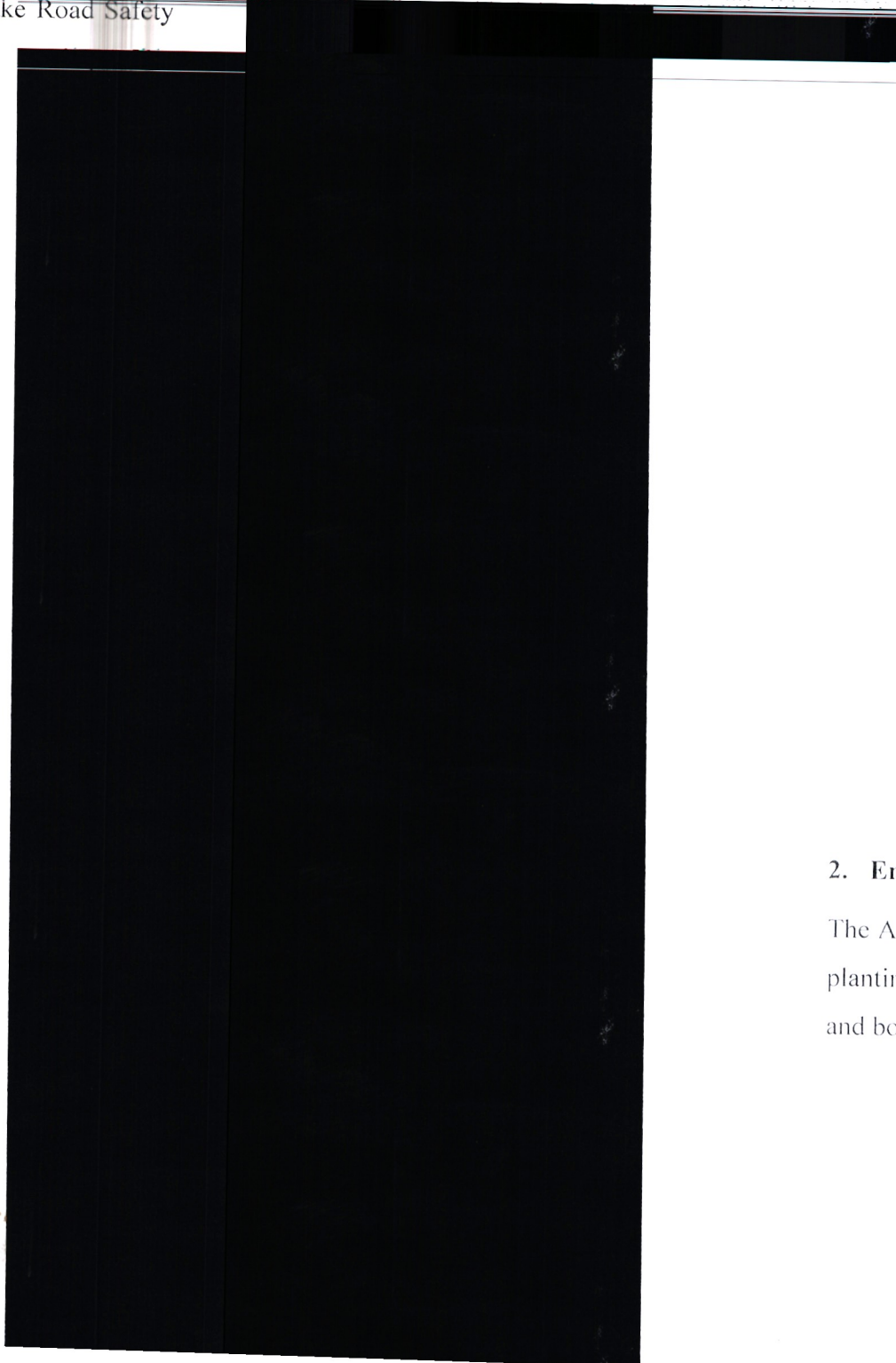
For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments 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.

...the financial statements, unless the possibility of an outflow of resources in the future is remote.

(k) **Contingent Assets**

...Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) does not have any contingent assets.

undertake Road Safety



- a) *Good he*
- Audits to identify accident bla
- road safety education to reduce
- b) *Gender Equality (SDG 5):* The
- in project and programmes by
- procurement and recruitment;
- c) *Industry, innovation and infr*
- reliable, sustainable and resil
- infrastructure to support econo
- affordable and equitable access
- d) *Sustainable cities and commun*
- paved road network to hitherto
- access to high speed and all – w
- e) *Climate action (SDG 13):* The
- development through enviro
- compliance with National Envi
- in all development projects

2. Environmental performance

The Authority is working towards ensuring en
planting exercises, implementation of road be
and borrow pits after construction works, unde

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 dates of the transactions. 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.

(p) Comparative figures

Where necessary comparative figures for the previous financial year 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 end with a significant impact on the financial statements for the year ended June 30, 2023.

Significant Accounting Policies (Continued)

(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 in note 9 of these financial statements.

12. Notes to the Financial Statements

1. Transfers from Government Entities

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

Description	FY 2022/23	FY 2021/22	Cumulative
	Kshs	Kshs	to-date
Counterpart funding through Ministry of Roads & Transport			
Counterpart funds Quarter 1	18,750,000	5,000,000	104,704,939
Counterpart funds Quarter 2	-	-	696,988,507
Counterpart funds Quarter 3	53,035,047	-	502,186,750
Counterpart funds Quarter 4	-	-	977,910,480
Total (See Annex 3)	71,785,047	5,000,000	2,281,790,676
<i>Other transfers from government entities</i>			
Road Maintenance Levy Fund	41,250,000	-	41,250,000
Annuity Fund	115,212,108	-	115,212,108
Total	228,247,155	5,000,000	2,438,252,784

2. Proceeds from Foreign Grants

During the 12 months to 30 June 2023 we received grants from donors as detailed in the table below:

Name of Donor	Amount received in donor currency	Grants received in cash	Grants received as direct payment	Total Amount in Kshs	Total Amount in Kshs	Cumulative to date Kshs
				FY 2022/23	FY 2021/22	
	USD	Kshs	Kshs	Kshs	Kshs	
Grants Received from Multilateral Donors						
Trademark East Africa (TMEA)	-	-	-	-	90,930,985	1,190,973,504
Total			-	-	90,930,985	1,190,973,504

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Description	FY 2022/23			FY 2021/22	Cumulative to Date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic Travel & Subsistence	2,706,690	-	2,706,690	-	27,665,398
Hospitality Supplies & Services	-	-	-	-	221,448
Printing, Adverts & Information Supplies	-	-	-	-	412,911
Total	2,706,690	-	2,706,690	-	28,299,757

4. Acquisition of Non-Financial Assets

Description	FY 2022/23			FY 2021/22	Cumulative to-date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Research, Studies, Project Preparation, Design & Supervision	24,665,316	-	24,665,316	25,452,985	133,048,929
Construction of Roads	158,000,135	-	158,000,135	65,478,000	2,068,074,768
Acquisition of Land	20,000,000	-	20,000,000	5,000,000	1,376,927,820
Total	202,665,451	-	202,665,451	95,930,985	3,578,051,517

5. Cash and Cash Equivalents Carried Forward

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Bank accounts (Note 5A)	47,306,408	72,999,502
Total	47,306,408	72,999,502

Notes to the Financial Statements (Continued)

5A Bank Accounts

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Local Currency Accounts		
National Bank of Kenya Ltd. [A/c No. 0100132733200]	24,431,394	72,999,502
Co-operative Bank of Kenya [A/c No. 01141160979900]	22,875,014	-
Total bank account balances	47,306,408	72,999,502

6. Accounts Payables - Retentions

Description	FY 2022/23		FY 2021/22	
	Kshs		Kshs	
Retentions	24,431,394		72,999,502	
Total	24,431,394		72,999,502	
Ageing analysis:	FY 2022/23	% of the Total	FY 2021/22	% of the total
Under one year	24,431,394	100%	8,690,882	12%
1-2 years	-	-	22,570,746	31%
2-3 years	-	-	41,737,874	57%
Over 3 years	-	-	-	0%
Total	24,431,394	100%	72,999,502	100%

7. Fund Balance Brought Forward

	FY 2022/23	FY 2021/22
	Kshs	Kshs
Bank accounts	-	-
Total	-	-

8. Changes in Accounts Payable - Retentions

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Retentions as at 1 st July	72,999,502	64,308,620
Closing Retention as at 30 th June	24,431,394	72,999,502
Change in Retention	(48,568,108)	8,690,882

Notes to the Financial Statements (Continued)

9. Prior Year Adjustment

Description	Balance b/f FY 2021/2022 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2021/2022
	Kshs	Kshs	Kshs
Acquisition of non-financial assets (Cumulative to date)*	3,302,386,564	72,999,502	3,375,386,066
Land Compensation Pending Bills Brought Forward**	1,345,628,499	(6,308,045)	1,339,320,454
Fixed Assets Register*	3,302,386,564	72,999,502	3,375,386,066

*Adjustment relates to change in accounting for withheld retentions. Withheld retention initially were not included as part of the Acquisition of non-financial assets when withheld but are now being included.

**Adjustment relates to prior year error noted in pending bills balances

Other Important Disclosures

1. Pending Bills (See Annex 4)

Description	Balance b/f FY 2021/2022	Additions for the year	Paid during the year	Balance c/f FY 2022/23
	Kshs	Kshs	Kshs	Kshs
Construction of civil works	447,385,526	34	158,000,135	289,385,425
Lands Compensation	1,339,320,454	0	20,000,000	1,319,320,454
Supply of services	17,715,072	38,839,769	24,665,316	31,889,525
Total	1,804,421,052	38,839,803	202,665,451	1,640,595,404

2. External Assistance

a) External assistance relating to loans and grants

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
External assistance received as grants	-	90,930,985
Total	-	90,930,985

b) Undrawn external assistance

Description	Purpose for which the undrawn external assistance may be used	FY 2021/2022	FY 2020/2021
		Kshs	Kshs
Undrawn external assistance - grants	Consultancy services, Goods & Services	-	-
Total		-	-

Grant amount exhausted

c) Classes of providers of external assistance

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Multilateral donors	-	90,930,985
Total	-	90,930,985

External assistance for road construction works, design & supervision consultancy services.

Other important disclosures (Continued)

d) Purpose and use of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Acquisition of Assets	-	90,930,985
Total	-	90,930,985

e) External Assistance paid by Third Parties on behalf of the Entity by Source

This relates to external assistance paid directly by third parties to settle obligations on behalf of the entity

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Multilateral donors	-	90,930,985
Total	-	90,930,985

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13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><u>Basis of Qualified Opinion</u></p> <p>Inaccurate Comparative Balances</p> <p>The financial statements reflect a comparative Nil opening fund balance in the current financial year while the closing fund balance in the 2020/2021 financial year was Kshs 8,690,882. The movement in the balance has neither been explained nor reconciled.</p>	<p>As explained during the audit, this amount was received from the Exchequer in FY 2020/21 but was not transferred to the retention account hence reported as a surplus in FY 2020/21. In FY 2021/22 the amount was transferred to the retention account hence reported as Financial Assets (Bank Balances as per Note 5A) as well as Financial Liabilities (Payables – Deposits and Retentions as per Note 6) in accordance with the revised reporting template as issued by Public Sector Accounting Standards Board (PSASB).</p>	Resolved	Resolved

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2	<p>Variance in Disclosed Retention</p> <p>The interim payment certificate number 8 issued on 1 July, 2021 and paid on 10 June, 2022 indicate the total retention amount to date as Kshs 93,015,748 while the financial statements reflect an amount of Kshs 72,999,502 resulting to the unreconciled variance of Kshs 20,016,246.</p>	<p>We wish to clarify that Kshs 20,016,246 represent outstanding retention amounts on IPC 6-8 yet to be transferred to retention account. These amounts are reported as pending bills in Annex 3 of the Annual Report and Financial Statements.</p>	Resolved	Resolved
1	<p>Other Matter</p> <p>Budgetary Control and Performance</p> <p>The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs 385,000,000 and Kshs 95,930,985 respectively, resulting to an underfunding of Kshs 287,069,015 or 75%. Similarly, Kshs. 95,930,985 was spent no the Project against an approved budget of Kshs 385,000,000 resulting to under expenditure of Kshs. 289,069,015 or 75%.</p>	<p>As correctly noted, the Authority was able to realize only Kshs 95,930,985 out of the Kshs 385,000,000 budget due to the disruption of contractor's sequence of works as the contractor could not access the right of way to facilitate construction.</p> <p>Further, huge pending bill on land acquisition is attributed to inadequate GK budget provisions coupled with delayed release of exchequer funds.</p>	Continuous	Continuous

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<u>Basis for Conclusion</u>			
<p>Failure to Budget to Pending Bills</p> <p>Note 12 to the financial statements – other important disclosures and the corresponding analysis at annex 3, reflects pending bills of Kshs. 1,810,729,098. These pending bills are made up of Kshs 17,715,072 relating to consultancy services, Kshs 447,385,527 relating to civil works and Kshs 1,356,927,820 for land compensation.</p>	<p>In FY 2021/22 the Authority had an initial GK development budget for the project of Kshs 150,000,000 which was later reduced to Kshs 75,000,000 (50% reduction). However, the Authority only managed to receive Kshs 5,000,000 which was prioritized for payment of land compensation pending bills as this was the main concern for the delay in the progress of works.</p> <p>In FY 2022/23 the Authority through the parent ministry managed to secure GK budgetary allocation of Kshs 208,010,769 for the project which has been utilized to reduce the pending bills.</p> <p>The Authority will endeavor to allocate an adequate budget, subject to provided ceilings in subsequent Financial Years to further reduce the pending bills.</p>	<p>Not resolved</p>	<p>Continuous</p>

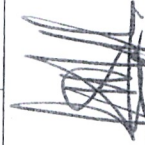
*Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
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<p>2</p>	<p>Delay in Completion of the Project</p> <p>As previously reported, the Project commenced on 1 May, 23018 for a period of twenty-four (24) Months ending 1 May, 2020. The contractor was later granted extension of time which revised the expected completion date to 20 August, 2021. However, according to the project implementation briefs of 1 August 2022 the works were still ongoing with an overall progress of approximate 86% and time covered of fifty to (52) months or 131% of the projected time. There was no evidence any further extension of the contract period. Further, according to the contractor's claim No. 14 of 30 June, 2022 the delay attracted prolongation claim of Kshs 2,851,043,577 which is approximately 118% of the initial project contract sum of Kshs 2,420,327,630. The claim is yet to be evaluated by the Management who attribute the delay to inadequate budgetary allocation and disruption of the contractor's sequence of work arising from the long time taken by the National Land Commission to compensate the Project Affected Persons (PAPs).</p>	<p>Delay in completion of this project has majorly been occasioned by delays in provision of right of way to the contractor. This is due to inadequate GK budgetary allocations coupled with delays in exchequer releases to facilitate prompt payment for land acquisitions and relocation of services.</p> <p>The Authority continues to closely monitor the project through regular site meetings to ensure the project's completion is expedited</p>	<p>Not resolved</p> <p>Continuous</p>
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Eng. Kungu Ndungu
 Director General

26 SEP 2023

Date



Eng. Henry Gakuru
 Director-Development

26 SEP 2023

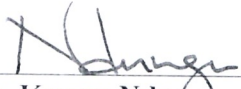
Date

Annex 2: Variance Explanations - Comparative Budget and Actual Amounts for FY 2022-2023

	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Government of Kenya	228,247,155	228,247,155	-	100%	
External financing	-	-	-	-	
Total receipts	228,247,155	228,247,155	-	100%	
Payments					
Purchase of goods and services	228,247,155	2,706,690	22,875,014	90%	
Acquisition of non-financial assets		202,372,141			
Total payments	228,247,155	205,372,141	22,875,014	90%	


Annex 3: Reconciliation of Inter-Entity Transfers

Project Name		Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)		
Break down of Transfers from the State Department of Roads				
a. Government Counterpart Funding				
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
		30-Sep-22	18,750,000	FY 2022/23
		10-Feb-23	53,035,047	FY 2022/23
	Total		71,785,047	
b. Others				
			<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
	Road Maintenance Levy Fund	17-Nov-22	13,750,000	FY 2022/23
	Road Maintenance Levy Fund	3-Mar-23	13,750,000	FY 2022/23
	Road Maintenance Levy Fund	30-Mar-23	13,750,000	FY 2022/23
	Annuity Fund	25-May-23	115,212,108	FY 2022/23
	Total		228,247,155	


Eng. Kungu Ndungu
Director General

26 SEP 2023

Date


CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

26 SEP 2023

Date

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Annex 4: Analysis of Pending Bills

Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2023	2022	
	a	b	c	d=a-c		
Consultancy Services						
Multiscope	3,736,065	07.12.2020	3,736,065	-	458,815	FN 26
Multiscope	3,004,875	07.12.2020	3,004,875	-	369,020	FN 27
Multiscope	3,004,873	07.12.2020	3,004,873	-	368,528	FN 28
Multiscope	2,606,211	07.12.2020	2,606,211	-	320,061	FN 29
Multiscope	3,444,922	16.08.2021	3,444,922	-	3,444,922	FN 30
Multiscope	2,978,201	16.08.2021	2,978,201	-	410,786	FN 31
Multiscope	2,915,219	16.08.2021	2,915,219	-	402,099	FN 32
Multiscope	2,921,889	16.08.2021	2,921,889	-	403,019	FN 33
Multiscope	1,384,245	16.08.2021	1,384,245	-	1,384,245	FN 34
Multiscope	3,041,114	27.09.2021	3,041,114	-	419,464	FN 35
Multiscope	3,057,447	27.09.2021	3,057,447	-	421,717	FN 36
Multiscope	3,034,688	27.09.2021	3,034,688	-	418,578	FN 37
Multiscope	3,078,362	31.10.2021	3,078,362	-	424,602	FN 38
Multiscope	2,429,446	04.11.2021	2,429,446	-	335,096	FN 39
Multiscope	3,034,189	09.11.2021	3,034,189	-	418,509	FN 40
Multiscope	3,034,908	11.11.2021	3,034,908	-	418,608	FN 41
Multiscope	3,035,047	23.12.2021	3,035,047	-	3,035,047	FN 42
Multiscope	1,212,200	22.02.2022	1,212,200	-	1,212,200	FN 43
Multiscope	3,049,756	22.02.2022	3,049,756	-	3,049,756	FN 44
Multiscope	3,034,514	29.05.2023	1,789,149	1,245,365	-	FN 48
Multiscope	3,032,785	29.05.2023	-	3,032,785	-	FN 49
Multiscope	3,032,089	29.05.2023	-	3,032,089	-	FN 50
Multiscope	3,037,205	29.05.2023	-	3,037,205	-	FN 51
Multiscope	3,034,490	01.06.2023	-	3,034,490	-	FN 52
Multiscope	3,035,569	01.06.2023	-	3,035,569	-	FN 53
Multiscope	3,037,634	01.06.2023	-	3,037,634	-	FN 54
Multiscope	3,241,098	01.06.2023	-	3,241,098	-	FN 55
Multiscope	3,035,511	01.06.2023	-	3,035,511	-	FN 56
Multiscope	3,035,865	01.06.2023	-	3,035,865	-	FN 60
Multiscope	3,121,914	01.06.2023	-	3,121,914	-	FN 61
Sub-total	87,682,331		55,792,806	31,889,525	17,715,072	
Civil Works						

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Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
China Wu Yi	82,997,367	29.10.2020	-	82,997,367	82,997,367	VoP 1
China Wu Yi	163,727,001	01.01.2021	163,727,001	-	32,601,748	lpc 6
China Wu Yi	98,622,714	29.01.2021	98,622,714	-	19,638,055	lpc 7
China Wu Yi	47,539,042	23.06.2022	-	47,539,042	47,539,042	1-Int
China Wu Yi	80,591,658	23.06.2022	-	80,591,658	80,591,658	VoP 2
China Wu Yi	103,481,715	29.07.2021	103,481,715	-	38,003,714	lpc 8
China Wu Yi	23,150,410	23.06.2022	-	23,150,410	23,150,410	2-Int
China Wu Yi	122,863,533	23.12.2021	67,756,584	55,106,949	122,863,533	lpc 9
Sub-total	722,973,439		433,588,014	289,385,425	447,385,526	
Land Compensation	2,696,248,274	30.06.2019	1,376,927,820	1,319,320,454	1,339,320,454	
Grand-Total	3,506,904,044		1,866,308,640	1,640,595,404	1,804,421,052	

Annex 5: Summary of Fixed Asset Register

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KSh)	(KSh)	(KSh)	(KSh)
	2022/23	2022/23	2022/23	2023
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Land	1,356,927,820	20,000,000	-	1,376,927,820
Construction of Roads	2,018,458,246	182,665,451	-	2,201,123,697
Total	3,375,386,066	202,665,451	-	3,578,051,517

Annex 6 – Contingent Liabilities Register

	Nature of contingent liability	Payable to	Estimated Amount Kshs	Expected date of payment	Remarks
1	Claim for extension of time plus associated costs	China Wu Yi Co. Ltd,	2,851,043,577	Claim is yet to be determined	Claim is yet to be determined.