

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

DATE: 28 FEB 2024

DAY:
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BY
OF
CLERK AT
THE TABLE

Hon Naomi Wago, MP
Deputy Majority Whip
M.W.O

THE AUDITOR-GENERAL

ON

AFD - ASAL RURAL ROADS PROJECT

**FOR THE FOURTEEN MONTHS
PERIOD ENDED 30 JUNE, 2023**

KENYA RURAL ROADS AUTHORITY

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

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ASAL RURAL ROADS PROJECT

KENYA RURAL ROADS AUTHORITY

PROJECT GRANT/CREDIT NUMBER: CKE 117 01 H & CKE 1117 02 J

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)

AFD - ASAL Rural Roads Project
Report and Financial Statements for fourteen Months Period ended June 30, 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.

2. PROJECT INFORMATION AND OVERALL PERFORMANCE

2.1 Name and registered office

Name

Objective

The key objective of the project is building climate resistant infrastructure to mitigate the impact of drought and floods and to improve livelihoods and reinforcing food security in the 6 ASAL Regions (Laikipia, Meru, Tharaka Nithi, Isiolo, Samburu and Marsabit)

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

P.O. Box: 48151 – 00100 Nairobi

Telephone: +254 711 851103

E-mail: dg@kerra.go.ke

Website: www.kerra.go.ke

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	The project start date is 2nd October, 2020
Project End Date:	The project end date is 1st October, 2026
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), the Delegation of the European Union in Kenya and the Agence Francaise De Developpement (AFD)

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the implementation by the Kenya Rural Roads Authority (KeRRA) which falls under the State Department for Roads, Ministry of Roads and Transport.
Project number	CKE 1117
Strategic goals of the project	<p>The strategic goals of the project are as follows:</p> <ul style="list-style-type: none"> (i) Ensure that communities in the ASAL regions secure access to local socio-economic social services and to the main road network to increase their resilience to drought and other effects of climate change including improved food security; (ii) Stimulate investment and growth, lower the cost of doing business, and improve the security and stability of the region; and (iii) Promote the integration of the ASALs with the rest of Kenya and the wider region.

<p>Summary of Project Strategies for 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) Construction of about 831 km of road to all weather standards. This comprises of 106km of low volume seal and 725km of gravel roads; ii) Job creation for the local population since the construction will use labour based methods; (iii) Strengthening the managerial, administrative and technical capacities for road planning, procurement, supervision and monitoring of road maintenance and climate proofing of the relevant Road Agencies and Project Counties through training and capacity building; (iv) Additional knowledge to contractors and staff of the consulting companies on labour based technology in the design, construction and maintenance roads; and Environmental protection and management of natural resources within the focal area.
<p>Other important background information of the project</p>	<p>ASAL areas have the lowest development indicators and the highest incidence of poverty in Kenya. The Vision 2030 Development Strategy for Northern Kenya and other Arid Lands aims to improve infrastructure in ASAL areas in order to reduce vulnerability to drought by increasing access to markets and basic services.</p> <p>To achieve this, the Government of Kenya in January 2016 requested AFD and EU to consider supporting a Climate Proofed Rural Roads Project in some selected ASAL regions in Kenya.</p> <p>Six (6) Counties were selected to benefit from this initial round of financing. They include; Laikipia, Isiolo, Marsabit, Samburu, Meru, Tharaka Nithi.</p>

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<p>Areas that the project was formed to intervene</p>	<p>The project was formed to intervene in the following problems/gaps:</p> <ul style="list-style-type: none"> (i) Job creation for the local population through the use of labour based methods in construction; (ii) Strengthening the managerial, administrative and technical capacities for road planning, procurement, supervision and monitoring of road maintenance of the relevant Road Agencies and Project Counties through training and capacity building; (iii) Additional knowledge to contractors and staff of the consulting companies on labour based technology in the design, construction and maintenance of roads; and environmental protection and management of natural resources within the focal area.
<p>Project duration</p>	<p>Six (6) Years</p>

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

- (i) Kenya Commercial Bank Ltd
- (ii) Co-operative Bank of Kenya Ltd

2.5 Independent Auditor

The project is audited by the Auditor General Office

2.6 Roles and Responsibilities

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 Hons, 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	<i>BCom, CPA(K), ICPAK, MSc (Fin.)</i>	Accountant, support the project team regarding compliance, payments and reports.

2.7 Funding summary

The Project is for duration of 6 years from 2020 to 2026 with an approved financing plan of Euro 8,600,000 directly to G.O.K and EUR 750,000 managed directly by AFD.

AFD - ASAL Rural Roads Project
Report and Financial Statements for fourteen Months Period ended June 30, 2023

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30 th June, 2023)		Undrawn balance to date 30th June,2023	
	<i>Donor currency (EUROS)</i>	<i>KShs</i>	<i>Donor currency (EUROS)</i>	<i>KShs</i>	<i>Donor currency (EUROS)</i>	<i>KShs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
Grant						
(i) AfD Grant	24,066,667	3,616,979,383	75,028	9,007,910	23,991,639	3,607,971,474
Loan Summary						
(ii) AfD Loan	59,800,000	8,987,342,000	312,328	37,498,076	59,487,672	8,949,843,924
Total	83,866,667	12,604,321,383	387,356	46,505,985	83,479,311	12,557,815,398
(iii) Counter Part funds						
Government of Kenya	21,948,000	3,298,564,920	352,368	52,957,356	21,595,632	3,245,607,564
Miscellaneous Receipts	-	-	-	-	-	-
Total	105,814,667	15,902,886,303	739,724	99,463,342	105,074,943	15,803,422,962
Exchange Rate	1Euro =KES150.29/120.06					

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date (30th June 2023)		Cumulative Amount paid to date – (30th June 2023)		Unutilised balance to date 30th June 2023	
	<i>Donor currency(Euro)</i>	<i>Kshs</i>	<i>Donor currency(Euro)</i>	<i>Kshs</i>	<i>Donor currency(Euro)</i>	<i>Kshs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant					-	-
AFD	75,028	9,007,910	75,028	9,007,910	-	-
(ii) Loan Summary					-	-
AFD Loan	312,328	37,498,076	312,328	37,498,076	-	-
	387,356	46,505,985	387,356	46,505,985	-	-
i(ii) Counterpart funds						
Government of Kenya	352,368	52,957,356	(34,510)	(5,186,581)	386,878	47,770,775
Miscellaneous Receipts	-	-	-	-	-	-
Total	739,724	99,463,342	352,846	41,319,404	386,878	47,770,775

Exchange Rate 1Euro =KES150.29/120.06

2.8 Project information and overall performance (continued)

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 to:

- a) Link administrative towns and villages.
- b) Expand and integrate the road network with the capital Nairobi.
- c) Contribute to economic and social development of the area.

Year	2022/2023
Absorption	11%

2.9 Summary of Project Compliance

The Project has ensured that all the activities comply with 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 PREDETERMINED OBJECTIVES

The Director General Kenya Rural Roads Authority and the **Project Coordinator** for **AFD-ASAL project** 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 (period) 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.
- (vi) Making accounting estimates that are reasonable in the circumstances.

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 to:

- d) Boost Agriculture in Kenya, for food provision.
- e) Sustainability of cash flow in food production by enhancing road networks.
- f) Change of traditional culture to create employment in the modern world.
- g) Social economic development in BETA -Bottom Up Economic Transformation.
- h) Reduce of Rural-Urban Migration by enhancing road networks to promote devolution.

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.

*AFD - ASAL Rural Roads Project
Report and Financial Statements for fourteen Months Period ended June 30, 2023*

Below we provide the progress on attaining the stated objectives

Project	Objective	Outcome	Indicator	Performance

4. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

This is a new Project which has not progressed.

5. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the Ministry of Roads and Transport the Project Coordinator for AFD ASAL) 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 Principal Secretary for the Ministry of Roads and Transport the Project Coordinator for Climate Proof AFD ASAL 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 Principal Secretary for the Ministry of Roads and Transport the Project Coordinator for Climate Proof AFD ASAL 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. The Principal Secretary for Ministry of Roads and Transport and the Project Coordinator for Climate Proof AFD ASAL project 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 Principal Secretary for the Ministry of Roads and Transport and the Project Coordinator for ASAL-AFD 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.

AFD - ASAL Rural Roads Project

Report and Financial Statements for fourteen Months Period ended June 30, 2023

Approval of the Project Financial Statements

The Project financial statements were approved by the Principal Secretary for the Ministry of Roads and Transport the Project Coordinator for Climate Proof AFD ASAL project on _____ 2023 and signed by:



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



Project Coordinator
Eng. S.N Mwangi



Director General
Eng. Philemon Kandie MBS

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON AFD - ASAL RURAL ROADS PROJECT FOR THE FOURTEEN MONTHS PERIOD 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

Opinion

I have audited the accompanying financial statements of AFD - ASAL Rural Roads Project set out on pages 1 to 19, which comprise of the statement of financial assets as at

Report of the Auditor-General on AFD - ASAL Rural Roads Project for the Fourteen months period ended 30 June, 2023 - Kenya Rural Roads Authority

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, the financial statements present fairly, the financial position of AFD - ASAL Rural Roads Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreements No. CKE 1117 01 H & CKE 1117 02 J dated 2 October, 2020 between Agence Française De Développement (AFD) and the Government of the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis of Kshs.913,457,356 and Kshs.99,463,342 respectively resulting in an under-funding of Kshs.813,994,014 or 89% of the budget. Similarly, the statement reflects final expenditure budget and actual amounts on comparable basis of Kshs.46,329,425 and Kshs.5,186,581 respectively, resulting in an under-expenditure of Kshs.41,142,844 or 89% of the budget.

Further, the statement reflects total budgeted receipts of Kshs.913,457,356 against total budgeted expenditure of Kshs.46,329,425 resulting to an explained budget unbalance of Kshs.867,127,931.

The under-funding and under-performance affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

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.

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, I confirm that, nothing 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

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 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 Financing Agreement, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue 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 noncompliance. 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's 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 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.




FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


05 December, 2023

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

Description	Note	Receipts and payments controlled by the entity FY 2022-23	Payments made by third parties FY 2022-23	Cumulative to-date (From inception)
		Kshs.	Kshs.	Kshs.
Receipts				
Transfer from Government entities	1	52,957,356	-	52,957,356
Proceeds from domestic and foreign grants	2	-	9,007,910	9,007,910
Loan from external development partners	3	-	37,498,076	37,498,076
Interest Income		-	-	-
Total receipts		52,957,356	46,505,985	99,463,342
Payments				
Compensation to employees	4	538,400	-	538,400
Tender Evaluation	5	70,000	-	70,000
Road Works	6	3,556,251	-	3,556,251
Interviews & Conferences	5	1,008,700	-	1,008,700
Purchase of goods & services		-	-	-
Other grants and transfers /payments	3	-	46,505,985	46,505,985
Bank Charges	5	13,230	-	13,230
Total payments		5,186,581	46,505,985	51,692,567
Surplus/ (deficit)		47,770,775	-	47,770,775


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


Project Coordinator
 Eng. S. N Mwangi


Director General
 Eng. Philemon Kandie MBS

8. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2023

Description	Note	FY 2022/23
		Kshs
Financial Assets		-
Cash and Cash equivalents		-
Bank Balances	8	47,770,775
Miscellaneous receipts		-
Cash equivalents (Short-term deposits)		-
Total Cash and Cash equivalents		47,770,775
Imprests and Advances		-
Total Financial Assets		47,770,775
Financial Liabilities		-
Net Assets		47,770,775
Represented By		-
Surplus/(Deficit) for the Year		47,770,775
Net Financial Position		47,770,775

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. S. N Mwangi



Director General
 Eng. Philemon Kandie MBS

9. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2023

Description	Notes	FY 2022-2023
		Kshs
Cashflow from operating activities		
Receipts		
Transfer from government entities	1	52,957,356
Proceeds from domestic and foreign grants	2	9,007,910
Loan from external development partners	3	37,498,076
Miscellaneous receipts		-
Total receipts		99,463,342
Payments from Operating expences		
Compensation of employees	4	(538,400)
Tender Evaluation	5	(70,000)
Interviews & Conferences	5	(1,008,700)
Purchase of goods & services		-
Other grants and transfers /payments		-
Bank charges and others	5	(13,230)
Total Payments		(1,630,330)
Net cash flow from operating activities		97,833,011
Cashflow from investing activities		
Road Works	6	(3,556,251)
Net cash flows from investing activities		94,276,760
Cash flow from financing activities		-
Proceeds from foreign borrowings	3	(46,505,985)
Net increase in cash and cash equivalent		47,770,775
Cash and cash equivalent at beginning of the year		-
Cash and cash equivalent at end of the year		47,770,775

AFD - ASAL Rural Roads Project

Report and Financial Statements for fourteen Months Period ended June 30, 2023

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 2023 and signed by:



Deputy Director (F&A)

CPA Matilda Wakere Ita

ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel Mwangi



Director General

Eng. Philemon Kandie MBS

10. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR YEAR ENDED

30TH JUNE 2023

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	103,500,000	(66,042,644)	37,457,356	37,457,356	(0)	100%
Proceeds from domestic and foreign grants	450,000,000	(440,992,090)	450,000,000	9,007,910	440,992,090	2%
Proceeds from borrowings	426,000,000	(388,501,924.00)	426,000,000	37,498,076	388,501,924	9%
Total Receipts	979,500,000	(895,536,658.00)	913,457,356	83,963,342	829,494,014	9%
Payments		-		-		0%
Compensation of employees	10,000,000	(9,461,600.00)	10,000,000	538,400	9,461,600	5%
Tender Evaluation	829,425	(759,425.00)	829,425	70,000	759,425	8%
Road Works	30,000,000	(26,443,749.00)	30,000,000	3,556,251	26,443,749	12%
Interviews & Conferences	5,000,000	(3,991,300.00)	5,000,000	1,008,700	3,991,300	20%
Petty cash & conferences	400,000	(400,000.00)	400,000	-	400,000	0%
Bank Charges and others	100,000	(92,650.00)	100,000	13,230	86,770	0%
Total Payments	46,329,425	(41,148,724.00)	46,329,425	5,186,581	41,142,844	11%
Surplus or Deficit		-				

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 Climate Proof Project AFD-ASAL under the State Department for Roads. The financial statements are for the reporting entity Climate Proof Project AFD-ASAL 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

Climate Proof AFD ASAL recognises all receipts from the various sources when the event occurs, and the related cash has 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.

Significant Accounting Policies (continued)

ii) External Assistance

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

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 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.

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.

Significant Accounting Policies (continued)

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.

vi) 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.

f) 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.

Significant Accounting Policies (Continued)

g) 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.

h) 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.

i) Contingent Liabilities

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.

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

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. Annex 6 of this financial statement is a register of the contingent liabilities in the year.

Significant Accounting Policies (Continued)

j) Contingent Assets

(The 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 KeRRA 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.

k) 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.

l) 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.*

Significant Accounting Policies (Continued)

m) 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.

n) 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.

o) 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.

p) 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.

q) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There is no Prior adjustment.

12. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from Government entities

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

Description	FY 2022-2023	Cumulative to-date (from inception)
	Kshs	Kshs
<i>Counterpart funding through Ministry of Roads & Transport</i>		
Counterpart funds Quarter 1	52,957,356	52,957,356
Counterpart funds Quarter 2	-	-
Counterpart funds Quarter 3	-	-
Counterpart funds Quarter 4	-	-
Total (See Annex 3)	52,957,356	52,957,356

Notes to the Financial Statements (Continued)

2. Proceeds From Domestic and Foreign Grants

During the financial period to 30 June 2023, we received grants from donors as detailed in the table below:

Name of Donor	FY 2022-23			FY 2022-23		Cumulative to date
	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Grants received in kind	Total Amount	
		Kshs	Kshs	Kshs	Kshs	
Grants Received from Bilateral Donors (Foreign Governments)	75,028.40	-	9,007,910	-	-	9,007,910
Total	75,028.40	-	9,007,910	-	-	9,007,910

Notes to the Financial Statements (Continued)

3. Loan from External Development Partners

During the financial period to 30 June 2023, we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Description	FY-2022-23				FY-2022-23	Cumulative to date
	Name of Donor	Amount in loan currency	Loans received in actual amount	Loans received as direct payment*	Total amount in Kshs	
	Euro	Kshs	Kshs	Kshs	Kshs	Kshs
ASAL(AFD)	311,653	-	37,498,076	37,498,076	-	37,498,076
Total	311,653	-	37,498,076	37,498,076	-	37,498,076

4. Compensation of Employees

Description	FY-2022-2023			FY-2022-2023	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Basic salaries of permanent employees	-	-	-	-	-
Basic wages of temporary employees	538,400	-	-	-	538,400
Personal allowances paid as part of salary	-	-	-	-	-
Personal allowances paid as reimbursements	-	-	-	-	-
Total	538,400	-	-	-	538,400

Notes to the Financial Statements (Continued)

5. Other Operating Expenses

Description	FY 2022-23		FY 2022-23	Cumulative to- date
	Payments made in Cash	Payments made by third parties	Total payments	
	Kshs	Kshs	Kshs	
Utilities, supplies and services	-	-	-	-
Tender Evaluation	70,000.00	-	-	70,000
Bank charges & others	32,550	-	-	13,230
Interview, & Conferences	1,008,700	-	-	1,008,700
Total	1,111,250	-	-	1,091,930

Notes to the Financial Statements (Continued)

6. Roadworks

Description	FY-2022-23		FY 2022-23	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	
	Kshs.	Kshs.	Kshs	Kshs
Construction of roads	3,556,251	-	-	3,556,251
Construction of civil works		-	-	
Total	3,556,251	-	-	3,556,251

Notes to the Financial Statements (Continued)

7. Cash and Cash equivalents

Details	FY -2022-23
	Kshs
Foreign Currency Accounts	-
Central Bank of Kenya [A/c No.....]	-
Kenya Commercial Bank [A/c No1119722381	45,957,849
Kenya Commercial Bank [A/c No1285504070	1,812,926
Kenya Commercial Bank 1115508210	-
Total	47,770,775

Bank Accounts

8. Project Bank Accounts

Details	FY -2022-23
	Kshs
Foreign Currency Accounts	-
Central Bank of Kenya [A/c No.....]	-
Kenya Commercial Bank [A/c No1119722381	45,957,849
Kenya Commercial Bank [A/c No1285504070	1,812,926
Kenya Commercial Bank 1115508210	-
Total	47,770,775



Deputy Director
CPA Matilda Wakere Ita
ICPAK Member Number: 5469



Project Coordinator
Eng. S. N Mwangi



Director General
Eng. Philemon Kandie MBS

PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITORS RECOMMENDATIONS

- There were no audited Financial statements in the last financial year 2021/2022
- AFD/ASAL is a new donor funding project

Reference No on the External Audit Report	Issues/Observations from the Auditor	Management Comments	Status (Resolved Not resolved)	Time Frame
N/A	N/A	N/A	N/A	N/A

*AFD - ASAL Rural Roads Project
Report and Financial Statements for fourteen Months Period ended June 30, 2023*

Annex 2: Variance explanations - Comparative Budget and Actual amounts for Current 2022-23

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	103,500,000	(66,042,644)	37,457,356	37,457,356	(0)	100%
Proceeds from domestic and foreign grants	450,000,000	(440,992,090)	450,000,000	9,007,910	440,992,090	2%
Proceeds from borrowings	426,000,000	(388,501,924.00)	426,000,000	37,498,076	388,501,924	9%
Total Receipts	979,500,000	(895,536,658.00)	913,457,356	83,963,342	829,494,014	9%
Payments		-		-		0%
Compensation of employees	10,000,000	(9,461,600.00)	10,000,000	538,400	9,461,600	5%
Tender Evaluation	829,425	(759,425.00)	829,425	70,000	759,425	8%
Road Works	30,000,000	(26,443,749.00)	30,000,000	3,556,251	26,443,749	12%
Interviews & Conferences	5,000,000	(3,991,300.00)	5,000,000	1,008,700	3,991,300	20%
Petty cash & conferences	400,000	(400,000.00)	400,000	-	400,000	0%
Bank Charges and others	100,000	(92,650.00)	100,000	13,230	86,770	0%
Total Payments	46,329,425	(41,148,724.00)	46,329,425	5,186,581	41,142,844	11%

*AFD - ASAL Rural Roads Project
Report and Financial Statements for fourteen Months Period ended June 30, 2023*

Annex 3: Reconciliation of inter-entity transfers

Description	Project Name: ASAL -AFD			
	Break down of transfers from the State Department of Roads			
a. Government Counterpart funding				
	Bank Statement D	Amount (Kshs)		FY 2022-23
		52,957,356		
		-		
		-		
	Total	52,957,356		
B. Direct payments				
	Bank Statement	Amount (Kshs)		FY 2022-23
		9,007,910		
	Total	9,007,910		
C. Others				
	Bank Statement Date	Amount (Kshs)		FY 2022-23
		37,498,076		
		-		
	Total			
	Total (A+B+C)	99,463,342		

9: Other Support Documents

i. Bank Reconciliations statement as at 30th June 2023



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