

REPUBLIC OF KENYA



Enhancing Accountability



REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

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TABLED BY: *h*

CLERK-AT-THE-TABLE: *S. Kalawa*

OF THE AUDITOR-GENERAL

ON

PARLIAMENT OF KENYA LIBRARY

**SUPPORT TO ROAD SECTOR POLICY 10TH
EDF RURAL ROADS REHABILITATION
PROJECT IN KENYA
(AGREEMENT NO.KE/FED/023-571)**

**FOR THE YEAR ENDED
30 JUNE, 2021**

KENYA RURAL ROADS AUTHORITY

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY
- 7 DEC. 2021
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**Project Name: SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS
REHABILITATION PROJECT IN KENYA**

Implementing Entity: KENYA RURAL ROADS AUTHORITY

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



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2021

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

*10th EDF Rural Roads Rehabilitation Project Project
Reports and Financial Statements
For the financial year ended June 30, 2021*

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name

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

Objective

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

Address

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

The address of its registered office is:

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

Contacts: The following are the project contacts

Telephone: +254 (20) 7807600 - 5

E-mail: kerra@kerra.go.ke/dg@kerra.go.ke

Website: www.kerra.go.ke

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.2 Project Information

| | |
|----------------------------|--|
| Project Start Date: | The project start date is 10th September, 2012 |
| Project End Date: | The project end date is 9th September, 2023 |
| Project Manager: | The project manager is Eng. S. N. Mwangi |
| Project Sponsor: | The project sponsors are, the Government of Kenya (GoK) with a 31% contribution, and the European Commission, the Delegation of the European Union in Kenya with a 69% contribution. |

1.3 Project Overview

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

**10th EDF Rural Roads Rehabilitation Project Project
Reports and Financial Statements
or the financial year ended June 30, 2021**

| | |
|--------------------------------|---|
| | <p>intensive construction of roads using innovative techniques and locally available local materials.</p> <p>(iii) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations</p> |
| Achievement of strategic goals | <p>The project management aims to achieve the goals through the following means:</p> <p>(i) Provide contract management to ensure upgrading of the link roads to low volume seal standard</p> <p>(ii) Ensure locals population gain direct employment to uplift their economic wellbeing</p> <p>(iii) Support capacity building for local contractor especially in Roads 200-maintenance strategy</p> |

Challenges Encountered in executing the project:

Equipment down time across all lots leading to low productivity.

There were mobilization challenges for sufficient manpower resource by contractors during the period with a number of Contractor's staff strikes. This is with the exception of Lot 3 who substantially completed works in July 2019.

The Contractor Lot 1 and 2 did not resume works. He abandoned site before completion and instituted litigation against the authority culminating in eventual termination of works.

The COVID-19 Pandemic caused a general slow down to the hearing of the two cases.

10th EDF Rural Roads Rehabilitation Project Project
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| <p>Other important background information of the project</p> | <p>The project Formulation Study was undertaken from November 2011 up to December 2012. It was executed on behalf of the KeRRA by COWI A/S Consultants of Denmark.</p> <p>The initial Study centred on a total of 1,463 Km across the 5 Regions, 654 Km of which were rehabilitated using EC Stabex Funds under Phase 2.</p> <p>The final listing following a detailed cost Benefit Assessment was whittled down to the final adopted listing of roads, as presented below. Tender Documents were prepared in July 2012, amended and reproduced in December 2012 by COWI A/S of Denmark.</p> <p>Following the preparation of Contract Documents in 2012 by COWI A/S, amendments were subsequently made (provision of Horizontal & Vertical alignment) to the documents by KeRRA prior to the Tender Launch.</p> <p>The roads comprise Class D and E type routes described in the Kenyan Road Design Manual Part I as:</p> <p>Class D Roads that link locally important centres to either each other or to a centre of higher importance or to a higher class Road.</p> <p>Class E Roads that link to minor centres.</p> <p>The project intervention area is geographically spread across the upper and lower Eastern Province across 5 Regions under 5 No project Locations and noted in the following Table.</p> <table border="1"> <thead> <tr> <th>Lot No</th> <th>Region/County</th> <th>Road No</th> <th>Km</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>Lot 1</td> <td>Embu</td> <td>D470</td> <td>10.2</td> <td>Kyeni – Kathanjure – Karurumo Rd</td> </tr> <tr> <td>Lot 2</td> <td>Tharaka/Nithi</td> <td>D472</td> <td>28.7</td> <td>Chuka – Kaanwa – Kareni Rd</td> </tr> <tr> <td rowspan="2">Lot 3</td> <td rowspan="2">Meru</td> <td>E773</td> <td>5.5</td> <td>Ndurumo – Kathirune – Giaki Rd</td> </tr> <tr> <td>R24</td> <td>18.2</td> <td>Giaki – Birikene Miamponi – Rd</td> </tr> <tr> <td rowspan="2">Lot 4</td> <td rowspan="2">Machakos</td> <td>E480</td> <td>5.8</td> <td>Kivandini – Kango Rd</td> </tr> <tr> <td>E477</td> <td>10.1</td> <td>Kango-Kakalia – Kali Rd</td> </tr> <tr> <td>Lot 5</td> <td>Makueni</td> <td>D515</td> <td>20.5</td> <td>Katuaa – Kee – Nunguni Rd</td> </tr> </tbody> </table> <p>Total Length 99.0Km</p> <p>The works contracts commencement orders were issued in September 2015 and the Contractors had previously confirmed a commencement date of 5th October 2015 across the five individual Lots.</p> | Lot No | Region/County | Road No | Km | Description | Lot 1 | Embu | D470 | 10.2 | Kyeni – Kathanjure – Karurumo Rd | Lot 2 | Tharaka/Nithi | D472 | 28.7 | Chuka – Kaanwa – Kareni Rd | Lot 3 | Meru | E773 | 5.5 | Ndurumo – Kathirune – Giaki Rd | R24 | 18.2 | Giaki – Birikene Miamponi – Rd | Lot 4 | Machakos | E480 | 5.8 | Kivandini – Kango Rd | E477 | 10.1 | Kango-Kakalia – Kali Rd | Lot 5 | Makueni | D515 | 20.5 | Katuaa – Kee – Nunguni Rd |
|--|--|---------|---------------|----------------------------------|----|-------------|-------|------|------|------|----------------------------------|-------|---------------|------|------|----------------------------|-------|------|------|-----|--------------------------------|-----|------|--------------------------------|-------|----------|------|-----|----------------------|------|------|-------------------------|-------|---------|------|------|---------------------------|
| Lot No | Region/County | Road No | Km | Description | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lot 1 | Embu | D470 | 10.2 | Kyeni – Kathanjure – Karurumo Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lot 2 | Tharaka/Nithi | D472 | 28.7 | Chuka – Kaanwa – Kareni Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lot 3 | Meru | E773 | 5.5 | Ndurumo – Kathirune – Giaki Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | R24 | 18.2 | Giaki – Birikene Miamponi – Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lot 4 | Machakos | E480 | 5.8 | Kivandini – Kango Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | E477 | 10.1 | Kango-Kakalia – Kali Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lot 5 | Makueni | D515 | 20.5 | Katuaa – Kee – Nunguni Rd | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

10th EDF Rural Roads Rehabilitation Project Project
Reports and Financial Statements
for the financial year ended June 30, 2021

| | | | |
|--|---|---------------|-----------------------------------|
| | The summary is noted below: | | |
| | Lot 1 & 2 | 38.9Km | Westbuild General Contractors Ltd |
| | Lot 3 | 23.7Km | Nariana Kabuito Joint Venture |
| | Lot 4 & 5 | 36.4Km | Coastal Kenya Enterprises Ltd |
| | Lots 1-5 | 99.0Km | Total Length |
| Current situation that the project was formed to intervene | <p>The project was formed to intervene in the following areas:</p> <ul style="list-style-type: none"> (i) Upgrade rural link roads to low volume seal standard (ii) Create local employment | | |
| Project duration | The project started on 10th September 2012 and is expected to run until 9th September, 2023 | | |

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.4 Bankers

The following are the bankers for the current year:

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

1.5 Auditors

The project is audited by:

The Auditor General

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

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

| Names | Title designation | Key qualification | Responsibilities |
|----------------------------|--|---|--|
| Eng. Philemon K. Kandie | Director General | BSc Hons, P. Eng, MIEK, Msc. | Accounting Officer |
| Eng. Enoch K. Ariga | Director (Planning, Design & Environment) | BSc Hons, P. Eng., MIEK, MA (Planning) | Supervisor |
| Eng. Samuel N. Mwangi | Project Manager | <i>BSc MIEK, R.Eng</i> | Coordinator of the Program Activities |

1.7 Funding summary

The Project is for duration of 11 years from 2012 to 2023 with an approved budget of Euro 20,000,000 equivalent to KShs. 2,161,800,000 as highlighted in the table below:

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

Below is the funding summary:

A. Source of Funds

| Source of Funds | Donor Commitment | | Amount Received as at 30th June 2021 | | Undrawn Balance as at 30th June 2021 | |
|----------------------------------|-------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|
| | Euros (A) | Kshs (A') | Euros (B) | Kshs (B') | Euros (A)-(B) | Kshs (A')-(B') |
| | | | | | | |
| GRANT SUMMARY | | | | | | |
| Grant European Commission | 14,850,000 | 1,605,136,500 | 16,656,098 | 1,800,357,660 | (1,806,098) | (195,221,160) |
| Total Grants | 14,850,000 | 1,605,136,500 | 16,656,098 | 1,800,357,660 | (1,806,098) | (195,221,160) |
| | | | | | | |
| LOAN SUMMARY | | | | | | |
| COUNTERPART FUNDS SUMMARY | | | | | | |
| (iii) Counterpart Funds | | | | | - | - |
| Government of Kenya | 5,150,000 | 556,663,500 | 5,643,445 | 610,000,000 | (493,445) | (53,336,500) |
| Total GoK Counterpart | 5,150,000 | 556,663,500 | 5,643,445 | 610,000,000 | (493,445) | (53,336,500) |
| | | | | | | |
| Total Funding Summary | 20,000,000 | 2,161,800,000 | 22,299,544 | 2,410,357,660 | (2,299,544) | (248,557,660) |

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

B. Application of Funds

| Application of funds | Amount received to date – (30 th June 2021) | | Cumulative Amount paid to date – (30 th June 2021) | Unutilised balance to date (30th June 2021) | |
|---------------------------|--|----------------------|--|--|-------------------|
| | Donor currency(Euros) (A) | Kshs (A') | | Donor currency(Euros) (A)-(B) | Kshs (A')-(B') |
| (i) Grant | | | | | |
| European Union | 16,656,098 | 1,800,357,660 | 1,800,357,660 | - | - |
| (ii) Counterpart funds | | | | | |
| Government of Kenya | 5,643,445 | 610,000,000 | 605,228,438 | 43,836 | 4,771,562 |
| Total | 22,299,544 | 2,410,357,660 | 2,405,586,098 | 43,836 | 4,771,562 |

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.8 Summary of Overall Project Performance:

- i) During the financial year 2020/2021, the project utilised 54% of its allocated budget.
- ii) Physical progress based on outputs, outcomes and impacts since project commencement,
- iii) Comment on value-for-money achievements,
- iv) The absorption rate for the project over the years has been:

| Year | FY 2015/16 | FY 2016/17 | FY 2017/18 | FY 2018/2019 | FY 2019/20 |
|------------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| Absorption rate | 58% | 52% | 68% | 41% | 88% |

1.9 Summary of Project Compliance:

The Programme has ensured that all the activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed.

The project has therefore fully complied with both the financing agreement and other statutory requirements.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Introduction

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

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

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

Progress on attainment of Strategic development objectives

| Project | Objective | Outcome | Indicator | Performance |
|---------------------------------|--|--|--|--|
| Public Works, Roads & Transport | To develop and maintain roads and storm water drainage to global standards | Increased efficient transportation of people, goods and services | % of motorable and passable roads within the rural areas | In FY 20/21 we increased motorable and passable roads by 63%. 62.7Km of the 99Km has been upgraded to LVS |

3. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General Kenya Rural Roads Authority and the *Project Coordinator* for the 10th EDF Rural Roads Rehabilitation Project in Kenya are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2021.

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 (v) Making accounting estimates that are reasonable in the circumstances.

The Director General Kenya Rural Roads Authority and the *Project Coordinator* for the 10th EDF Rural Roads Rehabilitation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General Kenya Rural Roads Authority and the *Project Coordinator* for the 10th EDF Rural Roads Rehabilitation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2021, and of the Project's financial position as at that date. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation 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 Director General Kenya Rural Roads Authority and the *Project Coordinator* for the 10th EDF Rural Roads Rehabilitation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the

financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

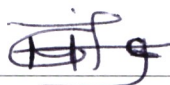
Approval of the Project financial statements

The Project financial statements were approved The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project on **29th September, 2021** and signed by them.



Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Samuel N. Mwangi



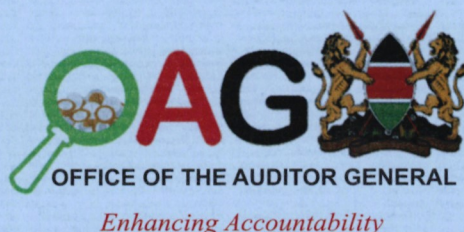
Director of Corporate Services

CPA Dan Manyasi

ICPAK Member Number: 6407

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SUPPORT TO ROAD SECTOR POLICY 10TH EDF RURAL ROADS REHABILITATION PROJECT IN KENYA (AGREEMENT NO.KE/FED/023-571) FOR THE YEAR ENDED 30 JUNE, 2021 - 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, gazetted 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 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 control, 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 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 Support to Roads Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya Agreement NO.KE/FED/023-571 set out on pages 1 to 18, which comprise the statement of financial assets as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparative 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, in all material respects, the financial position of Support to Roads Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya as at 30 June, 2021, 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 NO.KE/FED/023-571 signed on 10 September, 2012 between the European Commission and the Republic of Kenya and the Public Finance Management Act, 2012.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Support to Roads Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya 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.

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

Budget Control and Performance

The statement of comparative budget and actual amounts reflects an approved receipts budget of Kshs.404,900,000 against actual amount of Kshs.147,809,147 resulting in a shortfall in receipts of Kshs.257,090,853. Similarly, overall, the Project under-spent its budget amount by Kshs.185,351,341. The under expenditure mainly occurred under the components related to consultancy at Kshs.104,836,892 and road works at Kshs.80,422,071 and operating costs at Kshs.92,379.

In view of the above under expenditure, the Project's targets and objectives for the year under review may not have been achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Abandoned Works

1.1. Lot 1: Kyeni – Kathanjure - Karurumo Road Works

The contract for construction of Lot 1 in respect of Kyeni-Kathanjure-Karurumo Road was awarded to a Contractor on 5 October, 2015. The contract sum was Kshs.231,570,571 covering 10.2 km. The project completion date was revised to 19 December, 2017 (An additional 216 days), leading to delayed project implementation. However, the project was abandoned and subsequently terminated on 8 June, 2021. As at the time of termination, the Contractor had been paid accumulated payments amounting to Kshs.172,117,546 being 74% of the contract price. Records provided in respect of the Project indicate that a no objection letter was done to EU, to allow a negotiated procedure to procure new contractors for the works following the early termination of the contractor. There was no evidence whether a new contractor had been procured as at the time of the audit.

1.2. Lot 2: Chuka- Kaanwa -Kareni Road

Kaanwa-Kareni Road Project was awarded to a contractor on 5 October, 2015. The contract sum was Kshs.537,264,086 covering 28 km. Records provided for audit indicate that the contractor has been paid accumulated payments amounting to Kshs.231,022,802 being 42% of the contract price as at 30 June, 2021. The project initial completion period was two (2) years but a revised completion date of 10 June, 2019 was agreed upon. However, the project was abandoned and subsequently terminated with effect from 8 June, 2021. Information provided indicate that a no objection was done to Financier to allow use of negotiated procedure to procure new contractors for the works following the early termination of the contract. There was no evidence as to whether a new contractor had been procured as at the time of the audit.

1.3. Lot 5: Katuaa-Kee-Nunguni Road (20.5 km)-Makueni County

The Authority awarded tender to a local contractor for construction of 20.5 Km Katuaa-Kee-Nunguni Road in Makueni County at a contract sum of Kshs.362,001,255. Physical verification on the road works conducted in October, 2021 indicated that the

contractor had completed 9.7 Km of 20.5 Km road to asphalt concrete which is 47% of the contract having been paid a total of Kshs.255,314,503 equivalent to 70% of the contract sum. The project is therefore behind schedule and the funds are almost exhausted as the revised contract period had elapsed.

In addition, physical verification of the road indicated that there are cracks on some sections of the road, approximately 1 Km which could be attributed to poor workmanship or failed asphalt concrete mix. It was also noted that trial section of about 200M failed near Kee Market and the section had not been done by the time of verification. The asphalt concrete surfacing was not continuous as there were gaps in some sections of the road and the contractor was not on site and no work was going on. Money on these Projects have not been achieved.

In review of foregoing, value for money on these roads have not been achieved.

2. Vacation of Site by the Consultant

Review of Project's documents indicated that consultancy and supervisory services provider vacated the site as per letter Ref No:KeRRA/03/5/VOL.1/(2497). The letter emphasized that this was due to exhaustion of funds despite the fact that the works had not been concluded as some were still outstanding.

This situation could adversely impact on the quality of work done by the contractors.

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 governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the European Commission, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to sustain 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 the Project 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 review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal 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 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 the Management.

- Conclude on the appropriateness of the 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 the 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

16 December, 2021

5. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021.

| Note | FY 2020/2021 | | FY 2019/2020 | | Cumulative to Date |
|---|--|---|--|---|----------------------|
| | Receipts and payments controlled by the entity | Receipts and payments Made by third parties | Receipts and payments controlled by the entity | Receipts and payments Made by third parties | |
| | Kshs | | Kshs | | Kshs |
| RECEIPTS | | | | | |
| Receipts from Government of Kenya | 30,000,000 | - | | | 610,000,000 |
| Proceeds from Domestic and Foreign Grants | | 117,809,147 | | 232,898,577 | 1,800,357,660 |
| Total Receipts | 30,000,000 | 117,809,147 | | 232,898,577 | 2,410,357,660 |
| PAYMENTS | | | | | |
| Consultancy | - | 15,163,108 | | 83,926,064 | 317,388,963 |
| Other operating costs | 7,621 | | 81,887 | | 664,722 |
| Road Works Expenditure | 101,731,890 | 102,646,038 | 81,407,450 | 148,972,513 | 2,087,532,414 |
| Total Payments | 101,739,511 | 117,809,146 | 81,489,338 | 232,898,577 | 2,405,586,099 |
| Surplus/Deficit | | 1 | (81,489,338) | | 4,771,561 |

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



Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Samuel N. Mwangi



Director Corporate Services

CPA Dan Manyasi

ICPAK Member Number: 6407

(IPASAS 1.3.24 requires an entity to separately disclose third party payments separately on the statement of receipts and payments. These are payments made by development partners directly on behalf of the entity. In recognising these transactions, the receipts must be equal to the payments made and therefore there is no surplus or deficit.)

*10th EDF Rural Roads Rehabilitation Project Project
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for the financial year ended June 30, 2021*

6. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021

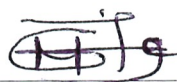
| | Note | 2020/2021 | 2019/2020 |
|----------------------------------|------|------------------|-------------------|
| | | Kshs | Kshs |
| FINANCIAL ASSETS | | | |
| Cash and Cash Equivalents | | | |
| Bank Balances | 4.A | 4,771,562 | 76,511,071 |
| Total Cash Equivalents | | 4,771,562 | 76,511,071 |
| REPRESENTED BY | | | |
| Fund balance brought forward | 5 | 76,511,072 | 158,000,410 |
| Surplus/Deficit for the year | | (71,739,511) | (81,489,338) |
| Net Financial Position | | 4,771,561 | 76,511,072 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on **29th September, 2021** and signed by:



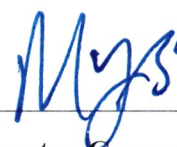
Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Samuel N. Mwangi



Director Corporate Services

CPA Dan Manyasi

ICPAK Member No. 6407

7. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2021

| | Note | 2020/2021 | 2019/2020 |
|--|------|---------------------|---------------------|
| | | Kshs | Kshs |
| Cash flow from operating activities | | | |
| Transfer from Government Entities | 1 | 30,000,000 | - |
| Proceeds from domestic and foreign grants | 2 | 102,646,040 | 232,898,578 |
| Payments for operating activities | | | |
| Road Works Expenditure | | (204,385,549) | (314,387,915) |
| Net Cash flow from operating activities | | (71,739,509) | (81,489,337) |
| Cash flow from borrowing activities | | | |
| Proceeds from foreign borrowings | | - | - |
| Net Cash flow from borrowing activities | | - | - |
| Net increase in cash and cash equivalents | | (71,739,509) | (81,489,337) |
| Cash and cash equivalents at the beginning of the year | | 76,511,072 | 158,000,410 |
| | | | |
| Cash and cash equivalents at the end of the year | 4.A | 4,771,562 | 76,511,072 |

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 **29th September, 2021** and signed by:



Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Samuel N. Mwangi



Director Corporate Services

CPA Dan Manyasi

ICPAK Member No: 6407

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8. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

| Consolidated | Original Budget A | Adjustments B | Final Budget C=a+b | Actual on comparable basis D | Budget Utilisation Variance E=c-d | % of Utilisation F=d/c% |
|---|----------------------|------------------|-----------------------|---------------------------------------|--|-------------------------------|
| Receipts/Payment Item | | | | | | |
| RECEIPTS | | | | | | |
| Receipts from Government of Kenya | 30,000,000 | - | 30,000,000 | 30,000,000 | - | 100% |
| Proceeds from Domestic and Foreign Grants | 374,900,000 | - | 374,900,000 | 117,809,147 | 257,090,853 | 31% |
| Total receipts | 404,900,000 | - | 404,900,000 | 147,809,147 | 257,090,853 | |
| PAYMENTS | | | | | | |
| Consultancy services | 120,000,000 | - | 120,000,000 | 15,163,108 | 104,836,892 | 13% |
| Road works | 284,800,000 | - | 284,800,000 | 204,377,929 | 80,422,071 | 72% |
| Operating costs | 100,000 | - | 100,000 | 7,621 | 92,379 | 8% |
| Total Payments | 404,900,000 | - | 404,900,000 | 219,548,659 | 185,351,341 | |

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



Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Samuel N. Mwangi



Director Corporate Services

CPA Dan Manyasi

ICPAK Member No: 6407

9. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Basis of Preparation

10.2 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.

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

10.3 Reporting entity

The financial statements are for the 10th EDF Rural Roads Rehabilitation Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.3.1 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.

10.4 Significant Accounting Policies

a) Recognition of receipts

The Project 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 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.

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 the time associated cash is received.

b) 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.

Significant Accounting Policies (Continued)

c) Proceeds from borrowing

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

d) Undrawn external assistance

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

e) Recognition of payments

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

i) Compensation of 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.

Significant Accounting Policies (Continued)

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

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

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

f) In-kind donations

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

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

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) Accounts receivable

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.

Significant Accounting Policies (Continued)

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.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

j) Contingent Assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity 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.

Significant Accounting Policies (Continued)

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’ items to provide a sense of the overall net cash position of the Project at the end of the year. 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.

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.

Significant Accounting Policies (Continued)

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, 2021.

q) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

10. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

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

| | 2020/21 | 2019/20 | |
|---|-----------------------|----------|-------------------------------------|
| | KShs | KShs | Cumulative to-date (from inception) |
| <i>Counterpart funding through Ministry of Transport and Infrastructure</i> | | | |
| Counterpart funds | 30,000,000.00 | 0 | 610,000,000 |
| Total | = 30,000,000.0 | 0 | 610,000,000 |

2. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2021 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 | |
|--|-----------------------------------|-------------------------|------------------------------------|----------------------|--------------------|
| | | | | 2020/21 | 2019/20 |
| | Euro | KShs | KShs | KShs | KShs |
| Grants Received from Multilateral Donors (International Organizations) | | | | | |
| The European union | 1,089,917.17 | - | 117,809,147 | 117,809,147 | 232,898,577 |
| Total | 1,089,917.17 | - | 117,809,147 | 117,809,147 | 232,898,577 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ROADWORKS EXPENDITURE

| | 2020/21 | | | 2019/20 | Cumulative to-date |
|-----------------------|--------------------------------|--------------------------------|--------------------|--------------------|--------------------|
| | Payments made by the Entity in | Payments made by third parties | Total Payments | Total Payments | |
| | KShs | KShs | KShs | KShs | KShs |
| Construction of roads | 101,731,890 | 102,646,038 | 204,377,927 | 230,379,963 | 294,450,703 |
| Total | <u>101,731,890</u> | <u>102,646,038</u> | <u>204,377,927</u> | <u>230,379,963</u> | <u>294,450,703</u> |

4. CASH AND CASH EQUIVALENTS

| | 2020/21 | 2019/20 |
|---|------------------|-------------------|
| | KShs | KShs |
| Bank accounts (Note 8.13A) | 4,771,562 | 26,511,071 |
| Cash in hand (Note 8. 13B) | - | - |
| Cash equivalents (short-term deposits) (Note 8.13C) | - | 50,000,000 |
| Total | <u>4,771,562</u> | <u>76,511,071</u> |

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

4. A Bank Accounts

Project Bank Accounts

| | 2020/21 | 2019/20 |
|--|------------------|-------------------|
| | KShs | KShs |
| Local Currency Accounts | | |
| Kenya Commercial Bank[A/c No. 1179736370.....] | 4,771,562 | 76,511,071 |
| Total local currency balances | <u>4,771,562</u> | <u>76,511,071</u> |
| Total bank account balances | <u>4,771,562</u> | <u>76,511,071</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 C Cash equivalents (short-term deposits)

| | 2020/21 | 2019/20 |
|--|----------|-------------------|
| | KShs | KShs |
| Kenya Commercial Bank[A/c No. 1179736370.....] | - | 50,000,000 |
| Total | 0 | 50,000,000 |

5. FUND BALANCE BROUGHT FORWARD

| | 2019/20 | 2018/19 |
|--|-------------------|--------------------|
| | KShs | KShs |
| Bank accounts | 26,511,071 | 158,000,410 |
| Cash in hand | - | - |
| Cash equivalents (short-term deposits) | 50,000,000 | - |
| Outstanding imprests and advances | - | - |
| Total | 76,511,071 | 158,000,410 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. OTHER IMPORTANT DISCLOSURES

1. EXTERNAL ASSISTANCE

| | FY 2020/2021 | FY 2019/2020 |
|--|--------------------|--------------------|
| Description | Kshs | Kshs |
| External assistance received as grants | 117,809,147 | 232,898,577 |
| Total | 117,809,147 | 232,898,577 |

a) External assistance relating loans and grants

| | FY 2020/2021 | FY 2019/2020 |
|--|--------------------|--------------------|
| Description | Kshs | Kshs |
| External assistance received as grants | 117,809,147 | 232,898,577 |
| Total | 117,809,147 | 232,898,577 |

b) Undrawn external assistance

| | Purpose for which the undrawn external assistance may be used | FY 2020/2021 | FY 2019/2020 |
|--------------------------------------|---|--------------|--------------|
| Description | | Kshs | Kshs |
| Undrawn external assistance - loans | | - | - |
| Undrawn external assistance - grants | | - | - |
| Total | | 0 | 0 |

c) classes of providers of external assistance

| | FY 2020/2021 | FY 2019/2020 |
|---------------------------------------|--------------------|--------------------|
| Description | Kshs | Kshs |
| Multilateral donors | 117,809,147 | 232,898,577 |
| Bilateral donors | - | - |
| International assistance organization | - | - |
| NGOs | - | - |
| National Assistance Organization | - | - |
| Total | 117,809,147 | 232,898,577 |

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OTHER IMPORTANT DISCLOSURES (Continued)

d. non-monetary external assistance

| | FY 2020/2021 | FY 2019/2020 |
|--------------------|---------------------|---------------------|
| Description | Kshs | Kshs |
| Roadworks | 102,646,039 | 148,972,513 |
| Services | 15,163,108 | 83,926,064 |
| Total | 117,809,147 | 232,898,577 |

e Purpose and use of external assistance

| Payments Made by Third Parties | FY 2020/2021 | FY 2019/2020 |
|---------------------------------------|---------------------|---------------------|
| | Kshs | Kshs |
| Construction of roads | 102,646,039 | 148,972,513 |
| Supervision consultancy services | 15,163,108 | 83,926,064 |
| TOTAL | 117,809,147 | 232,898,577 |

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

| | FY 2020/2021 | FY 2019/2020 |
|---------------------|---------------------|---------------------|
| Description | Kshs | Kshs |
| Multilateral donors | 117,809,147 | 232,898,577 |
| Total | 117,809,147 | 232,898,577 |

2. RETENTION

| Description | 2020-2021 | 2019-2020 |
|--------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Retention | 153,772,511 | 147,114,451 |
| Total | 153,772,511 | 147,114,451 |

As at the end of the financial year 2020/2021, the project had total retention funds amounting to Kshs. 153,772,511. Of this amount, the GoK Portion of Kshs. 44,447,595 is held in the KCB HoF Retention Fund Account No. 1119722543; the Donor Portion of Kshs. 109,324,915.58 is held by the Development Partner (EU).

12. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR’S RECOMMENDATIONS

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---------------------|-----------------------------------|--|
| | All the Audit issues/Observations for the FY 2020/2021 were resolved. | N/A | N/A | N/A |
| | | | | |
| | | | | |
| | | | | |



Ag. Director General

29/09/2021

Date



Project Coordinator

29/09/2021

Date

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13. ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

| | Final Budget Kshs a | Actual on comparable basis Kshs b | Utilisation Variance Kshs c=a-b | % of Utilisation d=b/a% | Comments on variance |
|--|---------------------------|---|--|-------------------------------|---|
| RECEIPTS | | | | | |
| Receipts from Government of Kenya | 30,000,000 | 30,000,000 | - | 100% | Funds received from GoK were fully utilized |
| Proceeds from Domestic and Foreign Grants | 374,900,000 | 117,809,147 | 257,090,853 | 31% | Due to ongoing litigation on Lot 1 and 2 contracts, they could not be effectively terminated to enable repackaging and re-tender. |
| Total receipts | 404,900,000 | 147,809,147 | 257,090,853 | | |
| PAYMENTS | | | | | |
| Consultancy services | 120,000,000 | 15,163,108 | 104,836,892 | 13% | Low utilization attributable to the expiration of the consultant's contract during the course of the financial year. |
| Road works | 284,800,000 | 204,377,929 | 80,422,071 | 72% | Attributable to slow progress of works in Lot 5 and the termination of Lot 1 and Lot 2. These costs are largely dependent on the project's level of activity. The low levels of activity in the projects translated to low operating costs. |
| Operating costs | 100,000 | 7,621 | 92,379 | 8% | |
| Total Payments | 404,900,000 | 219,548,659 | 185,351,341 | | |

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ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

| PROJECT NAME: | | | |
|--|------------------------|----------------------|-----------------------|
| Break down of Transfers from the State Department of Infrastructure, | | | |
| | Government Counterpart | | |
| a. | Funding | Bank Statement Date | Amount (KShs) |
| | | | 15,000,000 |
| | | | 15,000,000 |
| | | Total | 30,000,000 |
| b. | Direct Payments | Bank Statement Date | Amount (KShs) |
| | | | 117,809,147 |
| | | Total | 117,809,147 |
| c. | Others | Bank Statement Date | Amount (KShs) |
| | | | 0 |
| | | | 0 |
| | | Total | 0 |
| | | TOTAL (a+b+c) | 147,809,147.00 |

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ANNEX 3A - ANALYSIS OF PENDING BILLS

| Supplier of Goods or Services | Original Amount | Date Contracted | Amount Paid To-Date | Outstanding Balance 2020/21 | Outstanding Balance 2019/20 | Comments |
|------------------------------------|-----------------|-----------------|---------------------|-----------------------------|-----------------------------|----------|
| | a | b | c | d=a-c | | |
| Construction of buildings | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Sub-Total | 0 | | | | | |
| Construction of civil works | | | | | | |
| 3. | | | | | | |
| 4. | | | | | | |
| Sub-Total | 0 | | | | | |
| Supply of goods | | | | | | |
| 5. | | | | | | |
| 6. | | | | | | |
| Sub-Total | | | | | | |
| Supply of services | 0 | | | | | |
| 7. | | | | | | |
| 8. | | | | | | |
| Sub-Total | 0 | | | | | |
| Grand Total | 0 | | | | | |

APPENDICES

- i. Bank Reconciliations statement as at 30th June 2021