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Enhancing Accountability

REPORT

OF

THE NATIONAL ASSEMBLY

THE AUDITOR-GENERAL

DATE: 13 APR 2023

THURSDAY

TABLED
BY:

THE LEADER OF THE
MAJORITY PARTY
(Hon. Kimani Ichung'wa)

ON

CLERK AT
THE TABLE:

Joyce Lemerelle

MOMBASA-MARIAKANI HIGHWAY PROJECT (LOT 1 – MOMBASA – KWA JOMVU)

**FOR THE YEAR ENDED
30 JUNE, 2022**

KENYA NATIONAL HIGHWAYS AUTHORITY

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT
AND PUBLIC WORKS**



Kenya National Highways Authority

Quality Highways, Better Connections

**PROJECT NAME: MOMBASA-MARIAKANI HIGHWAY PROJECT (A109) ROAD LOT 1:
(MOMBASA – KWA JOMVU)**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT CREDIT NUMBER: 2100150032743

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022**

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1. Project Information and Overall Performance

1.1 Name and registered office

Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu)

Objective:

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

The specific objective of the Project is to improve transport of import and export goods and passengers' traffic along the Northern Corridor. The Project will also contribute towards restoring the road network and improving economic and social welfare of people living in urban, peri-urban and rural areas along the project road.

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

Contacts:

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

1.2 Project Information

Project Start Date:	September, 2015
Project End Date:	August 2022
Project Engineer	Eng. Charles O. Obuon
Project Sponsor:	1. African Development Fund (ADF) 2. Government of Kenya (GoK)

1.3 Project Overview

Line Ministry/State Department of the	The project is under the supervision of the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works
---------------------------------------	------------------------------------------------------------------------------------------------------------------------------

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2022**

project	
Project number	P-KE-DB0-021
Strategic goals of the project	The strategic goals of the project are as follows: (i) Improve trade and regional integration and contribute to the Government of Kenya's social and economic development. (ii) Enhance social economic development of the people along the project road.
Achievement of strategic goals	The project management aims to achieve the strategic goals through implementation of the project in a timely, efficient and effective manner.
Other important background information of the project	The Project has four (4) components namely; 1. Road Construction Civil Works ; which involves dualling of the Mombasa – Mariakani Road (41.7 Kms). It will also include maintenance of the road for five years following the completion of the works. 2. Consulting Services and Training ; include (i) construction supervision services for the road civil works, (ii) impact assessment of investments in the road sub-sector, (iii) provision for studies of Marua-Nanyuki-Lewa Road, (iv) project audit, (v) HIV/AIDS, gender, road safety awareness and sensitization and monitoring of ESMP and (vi) vocational training of unemployed youth. 3. Institutional Support ; include consultancy services for: (i) development of Roads sub-sector guideline on gender mainstreaming; (ii) capacity building on planning and management of road maintenance contracts; and, (iii) project coordination. 4. Compensation and Resettlement ; this component makes provision for the adequate compensation and resettlement of Project Affected Persons identified in the Project Environmental and Social Impact Assessments, and relocation of utilities.
Project duration	The overall implementation period is 5 years (2015 – 2020) with additional maintenance period of 5 years.

1.4 Bankers

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

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

1.5 Auditors

Auditor General
Office of the Auditor General
Po Box 30084-0100,
Nairobi.

1.6 Roles and Responsibilities

List of the people working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng. Charles Obuon	Director-Development	Qualified	Project Implementing Team Leader
Eng. Cleophas Makau	Deputy Director-Special Projects	Qualified	Project Engineer
Mr. Walter Nyatwang'a	Deputy Director-Environment & Social Interests	Qualified	Project Safeguards Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Qualified	Project Legal Specialist
Mr. Chanje Kera	Assistant Director-Finance & Accounts	Qualified	Project Financial Specialist
Ms. Rose Oloo	Assistant Director-Social Interests	Qualified	Project Social Development Specialist
Mr. Richard Kilel	Assistant Director-Supply Chain Management	Qualified	Project Procurement Specialist

1.7 Funding summary

The Project is for duration of 5 years from September, 2015 to December, 2020 with an approved Development Partner budget of UA 80,000,000 equivalent to Kshs. 11,316,256,000 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2022)		Undrawn balance to date (30.06.2022)	
	UA (A)	Kshs (A')	UA (B)	Kshs (B')	UA (A)-(B)	Kshs (A')-(B')
(i) Loan						
ADF	80,000,000	11,316,256,000	54,455,933	7,702,965,989	25,544,067	3,613,290,011
(ii) Counterpart funds						
Government of Kenya	42,160,152	5,963,688,385	-	5,963,688,385	-	-
Total	122,160,152	17,279,944,385	54,455,933	13,666,654,374	25,544,067	3,613,290,011

B. Application of Funds

Application of funds	Amount received to date - (30.06.2022)		Cumulative Amount paid to date - (30.06.2022)		Unutilised balance to date - (30.06.2022)	
	Donor currency (UA)	Kshs	Donor currency (UA)	Kshs	Donor currency (UA)	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
Africa Development Fund (ADF)	54,455,933	7,702,965,989	54,455,933	7,702,965,989	-	-
(ii) Counterpart funds						
Government of Kenya (GoK)	-	5,963,688,385	-	5,947,944,417	-	15,743,968
Total	54,455,933	13,666,654,374	54,455,933	13,650,910,406	-	15,743,968

1.8 Summary of Overall Project Performance:

(a) Budget performance against actual amounts for current year: -

Budget	FY 2021/2022		
	Actual	Budget	%
Counterpart Funds - GoK	100,000,000	35,000,000	286%
Loan from External Development Partners			
ADF	1,052,603,750	1,500,000,000	70%
TOTAL	1,152,603,750	1,535,000,000	75%

(b) Physical progress based on outputs, outcome and impacts since project commencement: -

As at 30th June, 2022, the overall weighted progress of works achieved was approximately 95.10% based on updated project cost against percentage of time elapsed of 97.41%

(c) **Comment on value for money achievements.**

- The project procurement process is conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- The authority (KeNHA) has put in place adequate checks & balances on appointment of the works consultant supervision who oversees the project implementation on daily basis on consultation and subsequent approvals from the employer and the bank.
- In addition to works supervision, the consultant undertakes design review before commencement of roads construction works to reduce uncertainties.

- Regular auditing of the project by Internal Auditors, External Auditors and Quality Assurance Departments.
- Project site review meetings by the Development Partners through supervision missions
- Monthly site meetings that involve the employer, the consultant and the contractor.

1.9 Summary of Project Compliance:

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

2. Statement of Performance Against Project's Predetermined Objectives

Introduction

The key development objectives of the project are to:

- a) To improve trade and regional integration and contribute to the Government of Kenya's social and economic development
- b) To enhance social economic development of the people along the project road

Progress on attainment of Strategic development objectives

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

Objective	Outcome	Indicator	Performance
To improve trade and regional integration and contribute to the Government of Kenya's social and economic development	Reduced congestion in Mombasa town. Reduced travel time between Mombasa and Malaba	Increased volume of Import Export trade handled at the port of Mombasa.	Construction works almost complete. Physical progress of works as at 30 th June 2022 was 95.10% based on the updated project cost
To enhance social economic development of the people along the project road	Improved air quality along the project road hence improved health among communities along the project road.	Reduced CO ₂ concentration along the project road as a result of reduced traffic congestion	Reduced dust along the project road.

3. Environmental and Sustainability Reporting

1. Sustainability strategy and profile

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

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

2. Environmental performance

The Authority is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact Assessment (EIA) Audits, carries out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

Environmental and Sustainability Reporting (Continued)

3. Employee welfare

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

4. Market place practices

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

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

5. Community Engagements

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

To achieve inclusive growth among the community around the project area, the project has a component of training unemployed youth around the project area. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross-cutting issues.

4. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) 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, 2022. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

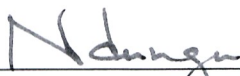
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) accept responsibility for the Project’s financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) 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, 2022, and of the Project’s financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

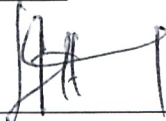
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) on 30 AUG 2022 2022 and signed by them.



Eng. Kungu Ndungu
Director General



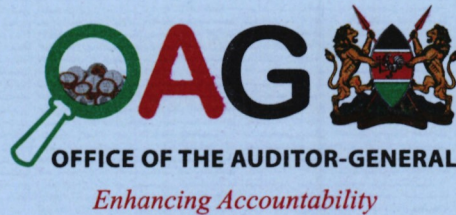
Eng. Charles Obuon
Director-Development



CPA Chanje Kera
Deputy Director (F&A)
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MOMBASA-MARIAKANI HIGHWAY PROJECT (LOT 1 - MOMBASA - KWA JOMVU) FOR THE YEAR ENDED 30 JUNE, 2022 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure 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 controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mombasa-Mariakani Highway Project (Lot 1 - Mombasa Kwa Jomvu) set out on pages 1 to 20, which comprise of the statement of financial assets as at 30 June, 2022, and the statement of receipts and

Report of the Auditor-General on Mombasa-Mariakani Highway Project (Lot 1 - Mombasa-Kwa Jomvu) for the year ended 30 June, 2022 - Kenya National Highways Authority

payments, statement of cashflows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mombasa-Mariakani Highway Project as at 30 June, 2022, 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.2100150032743 dated 22 May, 2015 between the African Development Fund and the Government of the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of a Project Bank Account

The statement of receipts and payments and Note 1 to the financial statements reflect Kshs.100,000,000 in respect to transfers from other Government entities. However, as previously reported, the amount could not be confirmed as the Authority does not maintain a separate bank account for the Project. It was therefore, not clear how the Management determined the receipts attributable to the Project.

In the circumstances, the accuracy and validity of Kshs.100,000,000 in respect to receipts from other Government entities could not be confirmed.

2. Accuracy of the Financial Statements

The statement of financial assets reflects nil amounts under both fund balance brought forward and surplus for the year. However, the statement of receipts and payments reflects Kshs.710,824 and Kshs.15,743,968 as surplus for the year and cumulative surplus respectively which should have also been included in the statement of financial assets.

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

3. Unsupported Cash and Cash Equivalents

The statement of financial assets and Note 5 to the financial statements reflect a balance of Kshs.15,743,968 for the Retention bank account held at a local bank as at 30 June, 2022. However, the bank reconciliation statement provided in support of this balance reflects a balance as per the cashbook of Kshs.183,962,682 as at the same date resulting in unexplained variance of Kshs.168,218,714.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.15,743,968 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mombasa-Mariakani Highway Project (Lot 1 - Mombasa-Kwa Jomvu) Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Lack of Project Detailed Budget

The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.1,535,000,000. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

It was therefore not clear how the budget amounts in the statement of comparison of budget and actual amounts were arrived at.

2. Delayed Project Completion

Kenya National Highways Authority entered into a 42 months contract for construction of Mombasa-Mariakani Project with Third Engineering Bureau of China in July, 2016 at a contract sum of Ksh.6,016,868,260. The works commenced on 4 February, 2017 with an initial contract period of 30 months and was later extended by 13 months to bring the revised completion date to 3 September, 2022. However, physical verification of the project site, which was carried out in November, 2022 after the lapse of revised completion date, revealed that works were still ongoing with overall progress approximated at 95.10% an indication that little progress was realized in the year under review. Further, there was no evidence that a contract extension period had been approved to warrant the contractor being on site.

In the circumstances, implementation of the Project was behind schedule which may lead to costs escalation and delayed realization of the expected benefits of the Project.

3. Lack of Site Access Due to Legal Disputes

A physical verification of the Project carried out in November, 2022 revealed that, works in a section of the road namely, Kwa - Jomvu interchange had stalled since the year 2016 due to two on-going Court cases. The first Court case No.157 of 2015 was filed by a local company which led to stoppage of construction of interchange reinforced earth wall, ramp, the main road and slip road while another Court case No.106 of 2015 was filed by another Investment Company which stopped demolition of walling structures encroaching on the road reserve.

In the circumstances, completion of road works in the affected sections is doubtful which undermines realization of benefits from the Project and could also lead to additional costs in form of claims by the contractor due to lack of access to the construction site.

4. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.448,259,325 as at 30 June, 2022 and as analysed in Annex 3 to the financial statements. Although Management has explained that it was liaising with the line Ministry and The National Treasury to secure adequate budgetary allocation and exchequer releases to enable prompt payments of the pending bills, there is a risk of incurring additional significant costs in terms of interest and penalties due to continued delay in settlements of Project obligations.

Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

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 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 African Development Fund, 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 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 the Management is aware of the intention to terminate the Project or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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


07 December, 2022

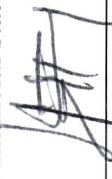
**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwu Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2022**

6. Statement of Receipts and Payments for the year ended 30th June 2022

	Note	FY 2021/22			FY 2020/21			Cumulative to Date
		Receipts & Payments Controlled by the Entity		Total	Receipts & Payments Controlled by the Entity		Total	
		Kshs	Payments Made by Third Parties	Kshs	Kshs	Payments Made by Third Parties	Kshs	
Receipts								
Transfer from Government entities	1	100,000,000	-	100,000,000	248,755,305	-	248,755,305	5,963,688,385
Loan from external development partners	2	-	1,052,603,750	1,052,603,750	-	1,680,548,777	1,680,548,777	7,702,965,989
Total Receipts		100,000,000	1,052,603,750	1,152,603,750	248,755,305	1,680,548,777	1,929,304,082	13,666,654,374
Payments								
Purchase of goods and services	3	-	-	-	1,181,775	-	1,181,775	143,843,213
Acquisition of non-financial assets	4	99,289,176	1,052,603,750	1,151,892,926	247,139,005	1,680,548,777	1,927,687,782	13,507,067,193
Total Payments		99,289,176	1,052,603,750	1,151,892,926	248,320,780	1,680,548,777	1,928,869,557	13,650,910,406
Surplus/Deficit		710,824	-	710,824	434,525	-	434,525	15,743,968

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


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development

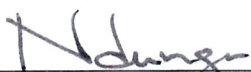


CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

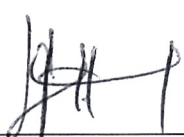
7. Statement of Financial Assets as at 30th June 2022

	Note	FY 2021/22 Kshs	FY 2020/21 Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	5A	15,743,968	15,033,144
Total Financial Assets		15,743,968	15,033,144
Financial Liabilities			
Deposits and Retention monies	6	15,743,968	15,033,144
Net Assets		-	-
Represented By:			
Fund balance B/fwd		-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year			
Net Financial Position		-	-


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30 AUG 2022 2022 and signed by:



Eng. Kungu Ndungu
Director General



Eng. Charles Obuon
Director-Development

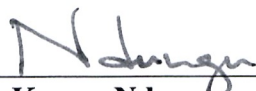



CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279


8. Statement of Cashflow for the year ended 30th June 2022

	Note	FY 2021/2022	FY 2020/2021
Cashflow from operating activities			
Receipts			
Transfer from government entities	1	100,000,000	248,755,305
Payments			
Purchase of goods and services	3	-	(1,181,775)
Net cash flow from operating activities		100,000,000	247,573,530
Cashflow from investing activities			
Acquisition of Assets	4	(1,151,892,926)	(1,927,687,782)
Net cashflow from investing activities		(1,151,892,926)	(1,927,687,782)
Cashflow from financing activities			
Proceeds from Foreign Borrowings	2	1,052,603,750	1,680,548,777
Net cash flow from financing activities		1,052,603,750	1,680,548,777
Net increase in cash and cash equivalent		710,824	434,525
Cash and cash equivalent at Beginning of the year		15,033,144	14,598,619
Cash and cash equivalent at End of the year		15,743,968	15,033,144

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 30 AUG 2022 2022 and signed by:


 Eng. Kungu Ndungu
 Director General


 Eng. Charles Obuon
 Director-Development

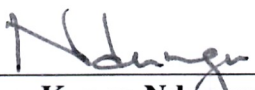

 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279


**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2022**


9. Statement of Comparison of Budget and Actual Amounts for the year ended 30th June 2022

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	60,000,000	(25,000,000)	35,000,000	100,000,000	(65,000,000)	286%
Proceeds from Loans	1,600,000,000	(100,000,000)	1,500,000,000	1,052,603,750	447,396,250	70%
Total Receipts	1,660,000,000	(125,000,000)	1,535,000,000	1,152,603,750	382,396,250	75%
Payments						
Purchase of goods and services	1,660,000,000	(125,000,000)	1,535,000,000	-	383,107,074	75%
Acquisition of non-financial assets				1,151,892,926		
Total Payments	1,660,000,000	(125,000,000)	1,535,000,000	1,151,892,926	383,107,074	75%
Surplus	-	-	-	710,824	(710,824)	-

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


Eng. Kungu Ndungu
Director General


Eng. Charles O. Obuon
Director-Development


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

10. Significant Accounting Policies

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

10.1 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.

10.2 Reporting entity

The financial statements are for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) under the State Department of Infrastructure. The financial statements are for the reporting entity's Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) as required by Section 81 of the PFM Act, 2012.

10.3 Reporting currency

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

10.4 Recognition of receipts

Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

10.5 Recognition of payments

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

- **Compensation of employees**

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

- **Use of goods and services**

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

- **Interest on borrowing**

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

- **Repayment of borrowing (principal amount)**

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

Significant Accounting Policies (Continued)

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts

items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

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

10.6 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.

10.7 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

10.8 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

10.9 Imprests and Advances

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

Significant Accounting Policies (Continued)

10.10 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

10.11 Contingent Assets

Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) 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 Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu)0 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.

10.12 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.

Significant Accounting Policies (Continued)

10.13 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.

10.14 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. During the year **Kshs 1,052,603,750** being loan disbursements were received in form of direct payments from third parties.

10.15 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.

10.16 Comparative figures

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

10.17 Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

Significant Accounting Policies (Continued)

10.18 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments on the financial statements for the year ended June 30, 2022

11. Notes to the Financial Statements

1. Transfers from Government Entities

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

	2021/22	2020/21	Cumulative
	Kshs	Kshs	to-date
Counterpart funding through Ministry of Transport and Infrastructure			
Counterpart funds Quarter 1	80,000,000	108,739,467	648,531,163
Counterpart funds Quarter 2	20,000,000	119,666,921	703,628,755
Counterpart funds Quarter 3	-	16,024,127	344,824,871
Counterpart funds Quarter 4	-	4,324,790	4,266,703,596
Total	100,000,000	248,755,305	5,963,688,385

2. Loan from External Development Partner

During the 12 months to 30 June 2022 we received funding from Development Partners in form of loans negotiated by the National Treasury detailed in the table below:

Name of Donor	Date Received	Amount in Donor currency	Loans Received in Cash	Loans Received as Direct Payment	Total Amount in Kshs	
					FY 2021/22	FY 2020/21
		UA	Kshs	Kshs	Kshs	Kshs
Loans Received from Multilateral Donors (International Organisations)						
African Development Fund (ADF)	FY 2021/22	7,441,357	-	1,052,603,750	1,052,603,750	1,680,548,777
Total		7,441,357	-	1,052,603,750	1,052,603,750	1,680,548,777

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Item	FY 2021/22			FY 2020/21	Cumulative to Date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	KSh	KSh	KSh	KSh	KSh
Domestic Travel & Subsistence	-	-	-	699,275	77,592,512
Hospitality Supplies & Services	-	-	-	482,500	7,998,430
Printing, Adverts & Information Supplies	-	-	-	-	5,421,933
Training Payments	-	-	-	-	16,222,715
Other Operating Expenses	-	-	-	-	31,700,000
Utility Supplies & Services	-	-	-	-	4,907,623
Total	-	-	-	1,181,775	143,843,213

4. Acquisition of Non-Financial Assets

	FY 2021/22			FY 2020/21	Cumulative to-date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	KSh	KSh	KSh	Kshs	Kshs
Research, Studies, Project Preparation, Design & Supervision	-	78,729,576	78,729,576	168,920,765	790,150,460
Construction of Roads	99,289,176	973,874,174	1,073,163,350	1,739,402,284	8,107,481,875
Acquisition of Land	-	-	-	19,364,733	4,609,434,858
Total	99,289,176	1,052,603,750	1,151,892,926	1,927,687,782	13,507,067,193

Notes to the Financial Statements (Continued)

5. Cash and Cash Equivalents Carried Forward

	FY 2021/22	FY 2021/22
Description	Kshs	Kshs
Bank accounts (Note 10.7A)	15,743,968	15,033,144
Total	15,743,968	15,033,144

5A Bank Accounts

	FY 2021/22	FY 2020/21
	Kshs	Kshs
Local Currency Accounts		
National Bank of Kenya Ltd. [A/c No. 0100132733200]	15,743,968	15,033,144
Total bank account balances	15,743,968	15,033,144

6. Accounts Payables

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions controlled by the entity	15,743,968	15,033,144
Total	15,743,968	15,033,144

7. Changes in Accounts Payable – Retentions Controlled by The Entity

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions as at 1st July	15,033,144	14,598,619
Closing accounts payables - retentions as at 30th June	15,743,968	15,033,144
Changes in accounts payables - retentions	710,824	434,525

12. Other Important Disclosures

1. Pending Bills (See Annex 3A)

Description	Balance b/f FY 2020/2021*	Additions for the period	Paid during the year	Balance c/f FY 2021/22
	Kshs	Kshs	Kshs	Kshs
Construction of civil works	314,602,054	1,143,911,733	1,073,163,350	385,350,437
Lands Compensation	-	-	-	-
Supply of services	26,141,907	115,496,557	78,729,576	62,908,888
Total	340,743,961	1,259,408,290	1,151,892,926	448,259,325

**Balance b/f FY 2021/2022 restated downwards by Kshs 103,344,470 being land compensation for Lot 2(Kwa Jomvu - Mariakani) inadvertently reported under Lot 1(Mombasa - Kwa Jomvu) in prior year*

2. Accounts Payables – Retentions Controlled by Third Parties

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions controlled by third parties	209,016,609	418,033,205
Total bank account balances	209,016,609	418,033,205

3. Changes in Accounts Payable – Retentions Controlled by Third Parties

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions as at 1st July	418,033,205	294,224,858
Closing accounts payables - retentions as at 30th June	209,016,609	418,033,205
Changes in accounts payables - retentions	(209,016,596)	123,808,347

4. External Assistance

a) External assistance relating to loans and grants

Description	FY 2021/2022	FY 2020/2021
	Kshs	Kshs
External assistance received as loans	1,052,603,750	1,680,548,777
Total	1,052,603,750	1,680,548,777

Other Important Disclosures (Continued)

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	FY 2021/2022	FY 2020/2021
Description		Kshs	Kshs
Undrawn external assistance - grants	Construction of roads & consultancy services	3,613,290,011	4,665,893,761
Total		3,613,290,011	4,665,893,761

c) Classes of providers of external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Multilateral donors	1,052,603,750	1,680,548,777
Total	1,052,603,750	1,680,548,777

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

d) Purpose and use of external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Acquisition of Assets	1,052,603,750	1,680,548,777
Total	1,052,603,750	1,680,548,777

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

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

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Multilateral donors	1,052,603,750	1,680,548,777
Total	1,052,603,750	1,680,548,777

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2022**

13. Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><u>Basis for Opinion</u></p> <p>Unsupported Transfers from Government Entities</p> <p>Note 1 to the financial statements reflects Kshs.248,755,305 in respect to transfers from other Government entities. However, the supporting documents provided by way of exchequer requisitions and bank statements and bank statements revealed that an amount of Kshs 302,681,906 was requested for the Project during the year under review but which could not be linked to actual receipts resulting to an unexplained variance of Kshs 53,926,601. It was therefore not clear how Management of the implementing Authority determined the receipts attributable to the Project.</p> <p>In the circumstance, it has not been possible to confirm the completeness, accuracy and validity of Kshs.248,755,305 in respect to receipts from other government entities.</p>	<p>All exchequer funds received are all channelled to a single exchequer bank account which is in line with provisions of the PFM Act of a Treasury Single Account. Further total receipts from the Parent Ministry are equally confirmed at the end of each financial year as per attached exchequer receipt confirmation.</p>	Resolved	Resolved
2	<p>Unreconciled Retention Funds</p> <p>The statement of financial assets and liabilities and Note 6 to the financial statements reflects a balance of Kshs 15,033,144 in respect to retention funds controlled by the entity which, when added to the Kshs 418,033,205 reflected as retentions controlled by third parties under other important disclosures at Note</p>	<p>The project's retention amounts emanate from the main road works contract and the contract for relocation of oil and gas pipelines from the road corridor. The retention amounts withheld and transferred to retention fund for the main works contractor and the contractor relocating oil and gas pipelines is as at 30th June 2021 is Kshs 6,818,554 and Kshs 8,414,590 respectively thus Kshs 15,033,144 as reflected in the financial statements.</p>	Resolved	Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2022**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
	<p>12.2, gives a combined figure of Kshs 433,066,349. However, examination of the last interim payment certificate No. 29 of 28 May, 2021 revealed that, a total of Kshs. 427,436,817 had been retained from the contractor's payments implying that there is an overstatement of the retention balance by Kshs. 5,629,532</p>			
3	<p>Undisclosed Surpluses The statement of financial assets and liabilities reflects nil amounts under both fund balance brought forward and surplus for the year. However, the statement of receipts and payments reflects Kshs 434,525 and Kshs 15,033,144 as surplus for the year and cumulative surpluses respectively which should have also been included in the statement of financial assets and liabilities.</p> <p>In the circumstances, it was not possible to ascertain the fair statement of the financial position of the Project as at 30 June, 2021</p>	<p>Project Financial Statements reporting template provided by the National Treasury provides for declaration of retention amount as surpluses (or deficit in case of a retention release) in the statement of receipts and payments. The reporting template also required the retention amounts to be reported as Financial Liabilities (Payables – deposits and retentions) in the statement of financial position.</p> <p>It is therefore not possible to report retention amounts withheld in the financial year as both surplus for the year as well as financial liabilities (Payables – deposits and retentions) in the same statement of financial position as suggested by the auditor because this would lead to an imbalance in the statement of financial position.</p>	Resolved	Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><u>Other Matter</u></p> <p>Delayed Project Completion</p> <p>Kenya National Highway Authority entered into a 42 months contract for construction Mombasa-Mariakani (Lot1) project with Third Engineering Bureau of China on July 2016 at a contract sum of Ksh.6,016,868,259.80. The works commenced on 4 February 2017, with an initial contract period of 30 months and was later extended by 13 months to bring the revised completion date to 3 September, 2021. However, physical verification of the project site, which was carried out in October, 2021 after the lapse of revised completion date, revealed that the works were still ongoing with overall progress approximated at 94.5%.</p> <p>In the circumstances, implementation of the project was behind schedule which may lead to costs escalation and delayed realization of expected benefits.</p>	<p>The project as indicated was initially to be completed by July, 2020 and was later extended to September, 2021. The project however has delayed due to the delay in acquisition of Right of Way (RoW), compensation of Project Affected Persons and relocation of services. The area had major services including oil and gas pipelines and high voltage power masts and water pipes which required specialized contractors and collaboration with other government departments to relocate. The relocation works have been completed and works are ongoing in those sections. The Contractor has since submitted claim for extension upto 29th October, 2022 inclusive of 12 months Defects Notification Period. Since most of the RoW issues have been cleared, it's expected that all the works will have been cleared by the end of this period.</p>	Not Resolved	Continuous

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
2	<p>Pending Bills</p> <p>Note 12.1 to the financial statements reflects pending bills amounting to Kshs.451,001,811 as at 30 June, 2021 and as analysed in Annex 3A. The balance represented an increase from a figure of Kshs.133,575,356 reported in 2020 financial year by Kshs 317,426,455. The Management explained that it was liaising with the line Ministry and the National Treasury to secure adequate budgetary allocation and exchequer releases to enable prompt payments of the pending bills in the subsequent financial year. However, there is a risk of incurring additional significant costs in terms of interest and penalties due to continued delay in settlements of Project obligations.</p>	<p>This arise due to inadequate budgetary provisions and delays in exchequer releases. In FY 2021/22 the Authority managed to secure Kshs 60 million budgetary allocation for the project in an effort to further reduce the pending bills.</p> <p>The Authority will continue liaising with the Parent Ministry and National Treasury for adequate budgetary allocation for the project.</p>	<p>Not Resolved</p>	<p>Continuous</p>


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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
3	<p>Lack of Site Access Due to Legal Disputes</p> <p>A physical verification of the project carried out on 21 October, 2021 revealed that works in a section of the road namely, Kwa - Jomvu interchange had stalled since 2016 due to two on-going court cases. The first Court case No.157 of 2015 was filed by a local company which led to stoppage of construction of interchange reinforced earth wall, ramp, the main road and slip road while another Court case No.106 of 2015 was filled by another Investment Company which stopped demolition of a walling structures encroaching on the road reserve.</p> <p>In the circumstances, completion of the road works in the affected road sections is doubtful which not only undermines realization of benefits from the project but could also lead to additional costs in form of claims by the contractor due to lack of access to the construction site.</p>	<p>The Authority has requested the office of the Solicitor General to intervene and expedite the cases. Further, the Authority has engaged the two litigants to try out of court settlements which may be faster to allow works to continue. It is expected that these cases will be concluded and works executed in this section within the contract period.</p>	Not Resolved	Continuous


Eng. Kungu Ndungu
 Director General

30 AUG 2022

Date



Eng. Charles O. Obuon
 Director-Development

30 AUG 2022

Date

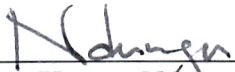
14. Annexes

Annex 1 - Variance Explanations - Comparative Budget and Actual Amounts for FY 2021-2022

	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	35,000,000	100,000,000	(65,000,000)	286%	FY 2020/21 funds received in FY 2021/22
External financing	1,500,000,000	1,052,603,750	447,396,250	70%	Delays in possession of site
Total receipts	1,535,000,000	1,152,603,750	382,396,250	75%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services		-			Delays in possession of site to facilitate construction
Acquisition of non-financial assets	1,535,000,000	1,151,892,926	383,107,074	75%	
Total payments	1,535,000,000	1,151,892,926	383,107,074	75%	

Annex 2 – Reconciliation of Inter-Entity Transfers

PROJECT NAME:		Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu)		
Break down of Transfers from the State Department of Infrastructure				
a. Government Counterpart Funding				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
	Quarter 1	8-July-21	80,000,000	FY 2020/21
	Quarter 2	23-Nov-21	20,000,000	FY 2021/22
	Total		100,000,000	


Eng. Kungu Ndungu
Director General

30 AUG 2022
Date


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

30 AUG 2022
Date

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Annex 3 – Analysis of Pending Bills

Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2022	2021	
	a	b	c	d=a-c		
Sub-Total						
Consultancy Services						
Sai Consulting Engineers	83,807,218	03.12.2020	73,515,103	10,292,115	10,292,115	FN 18/095
Sai Consulting Engineers	733,016	15.12.2020	-	733,016	733,016	FN 14
Sai Consulting Engineers	1,907,331	20.05.2021	-	1,907,331	1,907,331	FN 12(Tax)
Sai Consulting Engineers	12,502,634	02.08.2021	-	12,502,634	-	FN 16(Tax)
Sai Consulting Engineers	2,060,053	04.08.2021	-	2,060,053	-	FN 16A(Int)
Sai Consulting Engineers	61,448,857	01.03.2022	53,260,581	8,188,276	-	FN 24/139
Sai Consulting Engineers	4,039,658	25.03.2022	-	4,039,658	-	FN 17(Tax)
Smec International	401,945	12.02.2021	-	401,945	401,945	FN 7
Gibb Africa Ltd	47,370,748	26.05.2021	42,128,801	5,241,947	5,241,947	FN 4(Lewa)
Gibb Africa Ltd	35,263,743	18.01.2022	27,840,384	7,423,359	-	FN 5(Lewa)
Government Printers	13,920	10.06.2021	-	13,920	13,920	Inv 2244
Emc Consultants	2,668,000	01.07.2021	115,000	2,553,000	-	FN 1
Cardno IT Transport	8,515,121	11.06.2021	6,671,807	1,843,314	1,843,314	FN 2
Cardno IT Transport	8,515,121	11.06.2021	6,671,807	1,843,314	1,843,314	FN 3
Cardno IT Transport	8,515,121	11.06.2021	6,671,807	1,843,314	1,843,314	FN 4
Cardno IT Transport	8,935,071	11.06.2021	6,913,380	2,021,691	2,021,691	FN 5
Sub-total	286,697,557		223,788,669	62,908,888	26,141,907	
Civil Works						
Third Engineering	25,272,255	04.05.2020	-	25,272,255	25,272,255	IPC 13
Third Engineering	28,056,411	01.10.2020	-	28,056,411	28,056,411	IPC 20
Third Engineering	283,258,610	02.10.2020	283,258,610	-	38,437,948	IPC 22
Third	260,638,425	11.11.2020	260,638,425	-	29,361,896	IPC 23

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Supplier of Goods/Services	Original Amount	Date Contracte	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
Engineering						
Third Engineering	484,827,439	30.11.2020	446,208,449	38,618,990	50,819,146	IPC 24
Third Engineering	221,651,365	05.03.2020	206,875,028	14,776,337	34,776,337	IPC 26
Third Engineering	224,350,164	16.04.2021	189,150,447	35,199,717	35,199,717	IPC 27
Third Engineering	227,423,723	01.06.2021	191,741,725	35,681,998	35,681,998	IPC 28
Third Engineering	235,800,896	08.06.2021	198,804,550	36,996,346	36,996,346	IPC 29
Third Engineering	345,020,250	14.07.2021	290,887,763	54,132,488	-	IPC 30
Third Engineering	342,978,866	04.08.2021	289,166,665	53,812,201	-	IPC 31
Third Engineering	219,193,963	01.12.2021	184,803,153	34,390,810	-	IPC 32
Third Engineering	28,412,884	28.06.2022	-	28,412,884	-	IPC 33
Sub-total	2,926,885,251		2,541,534,814	385,350,437	314,602,054	
Land Compensation			4,609,434,858	-	-	
Grand-Total	3,213,582,808		7,374,758,341	448,259,325	340,743,961	

Annex 4 – Summary of Fixed Asset Register

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KSh)	(KSh)	(KSh)	(KSh)
	2021/22	2021/22	2021/22	2022
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Land	4,609,434,857	-	-	4,609,434,857
Construction of Roads	7,745,739,410	1,151,892,926	-	8,897,632,336
Total	12,355,174,267	1,151,892,926	-	13,507,067,193