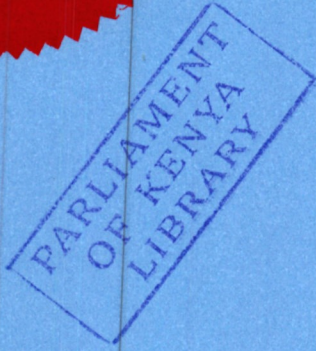
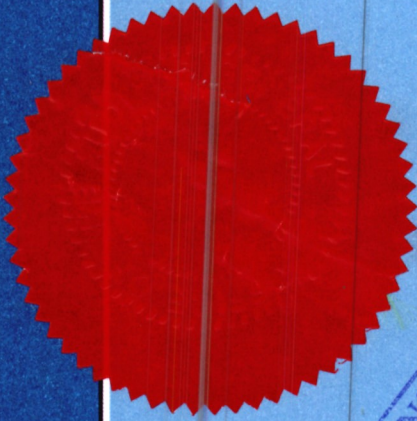


REPUBLIC OF KENYA



*Enhancing Accountability*



THE NATIONAL ASSEMBLY	
<b>REPORT</b>	DATE: 21 NOV 2023
	DAY: TUESDAY
TABLED BY:	HON OWEN BAYA, MP
OF	Deputy leader, majority
CLEAR THE TABLE:	Finlays Murruti

**THE AUDITOR-GENERAL**

**ON**

**MERILLE – MARSABIT ROAD  
REHABILITATION PROJECT (KE/001/09) LOAN  
AGREEMENT NO.KE/FED/2009/021-655**

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

**KENYA NATIONAL HIGHWAYS AUTHORITY**



**MINISTRY OF ROADS & TRANSPORT**



**Kenya National Highways Authority**

*Quality Highways, Better Connections*

**PROJECT NAME: MERILLE MARSABIT ROAD REHABILITATION PROJECT**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

**PROJECT GRANT/CREDIT NUMBER: GRANT ID KE/FED/2009/021-655  
PROJECT NO KE/001/09**

---

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**

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

---

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

***MERILLE MARSABIT ROAD REHABILITATION PROJECT***  
***Annual Report and Financial Statements for the financial year ended June 30, 2023***

---

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

---

<b>Table Contents</b>	<b>Page</b>
1. Acronyms and Glossary of Terms .....	ii
2. Project Information and Overall Performance.....	iii
3. Statement of Performance against Project’s Predetermined Objectives.....	viii
4. Environmental and Sustainability reporting .....	ix
5. Statement of Project Management responsibilities.....	xi
6. Report of the Independent Auditors on Financial Statement for the Merille Marsabit Road Project.....	xii
7. Statement of Receipts and Payments for the year ended 30th June 2023.....	1
8. Statement of Financial Assets as at 30th June 2023 .....	2
9. Statement of Cashflow for the year ended 30th June 2023 .....	3
10. Statement of Comparison of Budget and Actual amounts for year ended 30th June 2023 .....	4
11. Significant Accounting Policies .....	5
12. Notes to the Financial Statements.....	11
13. Annexes .....	14

***MERILLE MARSABIT ROAD REHABILITATION PROJECT***  
***Annual Report and Financial Statements for the financial year ended June 30, 2023***

---

**1. Acronyms and Glossary of Terms**

CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIA	Environmental Impact Assessment
ESIA	Environmental Social Impact Assessment
ESMP	Environment and Social Management Plan
EU	European Union
FY	Financial Year
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
Kshs.	Kenya Shillings
MoRT	Ministry of Roads and Transport
NEMA	National Environment Management Authority
TNT	National Treasury
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
UA	Unit of Account

## **MERILLE MARSABIT ROAD REHABILITATION PROJECT**

**Annual Report and Financial Statements for the financial year ended June 30, 2023**

### **2. Project Information and Overall Performance**

#### **2.1 Name and registered office**

**Name:** Merille Marsabit Road Rehabilitation Project

**Objective:**

The Merille River – Marsabit Road is to serve the strategic transport corridor linking Mombasa Port and Nairobi to Addis Ababa in Ethiopia. The road is part of the Trans East African Corridor from Cairo to Gaborone Botswana

**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](mailto:dg@Kenha.co.ke)

#### **2.2 Project Information**

Project Start Date:	28 <sup>th</sup> January ,2013
Project End Date:	27 <sup>th</sup> May, 2017
Project Engineer	Eng Cleophus Makau
Project Sponsor:	European Union (EU) Government of Kenya

#### **2.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of the State Department of Roads on behalf of Ministry of Roads & Transport.
Project number	KE/FED/2009/021-655
Strategic goals of the project	The strategic goals of the project are as follows: <ul style="list-style-type: none"><li>• To provide regional economic integration.</li><li>• To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards.</li><li>• It offers an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia</li></ul>

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**

**Annual Report and Financial Statements for the financial year ended June 30, 2023**

**Project information and overall performance (continued)**

Achievement of strategic goals	Implementation of the project in timely, efficient and effective manner.
Other important background information of the project	The project is funded jointly between the Government of Kenya (37.47%) and the European Union (62.53%). The Project is about 120.6 Kms
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: <ul style="list-style-type: none"><li>• Reduction of transport cost and travel time between Kenya and Ethiopia.</li><li>• Improvement of transportation of Animal Products and Natural resources produced to and from the project area</li><li>• Improvement of social-economic status of people in towns along the corridor</li></ul>
Project duration	The project started on 28 <sup>th</sup> January 2013 and completed on 26 <sup>th</sup> May, 2017.

**2.4 Bankers**

Cooperative Bank of Kenya Ltd  
Upper Hill Branch, Nairobi  
Po Box 48400-0100  
Nairobi

National Bank of Kenya Ltd  
Hill Branch,  
Nairobi

**2.5 Independent Auditors**

Auditor General  
Office of Auditor General  
Po Box 30084-0100  
Nairobi

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

**Project information and overall performance (continued)**

**2.6 Roles and Responsibilities**

The following are the people working under the project

Names	Title Designation	Key Qualification	Responsibilities
Eng. Henry Gakuru	Ag. Director-Development	Registered Civil Engineer	Project Implementing Team Leader
Eng. Cleophus Makau	Deputy Director-Development	Registered Civil Engineer	Project Engineer
Mr. Walter B. Nyatwang'a	Deputy Director Environment & Social Interests	Environmental & Social Specialist	Project Safeguards Specialist
Ms. Levina K. Wanyonyi	Deputy Director-Supply Chain Management	Registered KISM	Project Procurement Specialist
Mr. Chanje Kera	Deputy Director-Finance & Accounts	CPA (K)	Project Financial Specialist

**2.7 Funding summary**

The Project was for duration of Three (3) years from 2013 to 2016 with an approved budget of Euro 88,200,000 equivalent to Kshs 9,457,421,400 and an amount of Kshs.5,308,175,796 by GoK as highlighted in the table below:

**A. Source of Funds**

Source of funds	Donor Commitments		Amount received to date (30.06.2023)		Undrawn balance to date (30.06.2023)	
	EURO (A)	Kshs (A')	EURO (B)	Kshs (B')	EURO (A)-(B)	Kshs (A') - (B')
<b>(i) Loan</b>						
European Union (EU)	88,200,000	9,457,421,400	86,032,542	9,225,011,341	2,167,458	232,410,059
(ii) Counterpart Funds	-	5,308,175,796	-	5,308,175,796	-	-
<b>Total</b>	<b>88,200,000</b>	<b>14,765,597,196</b>	<b>86,032,542</b>	<b>14,533,187,137</b>	<b>2,167,458</b>	<b>232,410,059</b>

**NOTE.**

- i. Contract exchange rate -Kshs.107.227
- ii. The undrawn amount of Euro 2,167,458 were surrendered back to the EU by the National Treasury on the completion of the project.

**MERILLE MARSABIT ROAD REHABILITATION PROJECT***Annual Report and Financial Statements for the financial year ended June 30, 2023***Project information and overall performance (continued)****B. Application of Funds**

Application of funds	Amount received to date- (30th June 2023)		Cumulative Amount paid to date-(30th June 2023)		Unutilised balance to date	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') – (B')
	EURO	Kshs	EURO	Kshs	EURO	Kshs
<b>i) Loan</b>						
European Union (EU)	86,032,542	9,225,011,341	86,032,542	9,225,011,341	-	-
<b>(ii) Counterpart Funds</b>						
Government of Kenya	-	5,308,175,796	-	5,308,175,796	-	-
<b>Total</b>	<b>86,032,542</b>	<b>14,533,187,137</b>	<b>86,032,542</b>	<b>14,533,187,137</b>	<b>-</b>	<b>-</b>

**2.8 Summary of Overall Project Performance:**

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

	2022/2023			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - Gok	23,108,955	23,108,955	100%	5,722,390,443	5,308,175,796	93%
Loan from External Development Partners	-	-	-	13,067,239,461	9,225,011,341	71%
<b>Total</b>	<b>23,108,955</b>	<b>23,108,955</b>	<b>100%</b>	<b>18,789,629,904</b>	<b>14,533,187,137</b>	<b>77%</b>

- ii. Physical progress based on outputs, outcomes and impacts since project commencement,

The Project was completed and taken over by the employer in FY 2017/2018.

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**

**Annual Report and Financial Statements for the financial year ended June 30, 2023**

**Project information and overall performance (continued)**

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

<b>FY</b>	<b>Budget</b>	<b>Actual</b>	<b>%</b>
2022/23	23,108,955	23,108,955	100%
2021/22	200,000,000	200,000,000	100%
2020/21	-	-	-
2019/20	320,485,224	231,523,703	72%
2018/19	134,242,660	134,242,660	100%
2017/18	1,471,318,433	1,252,537,681	85%
2016/17	3,334,957,549	2,744,099,597	82%
2015/16	3,255,818,292	2,425,683,732	75%
2014/15	4,400,000,000	3,648,979,786	83%
2013/14	4,201,029,084	2,424,341,316	58%
2012/13	1,448,669,707	1,448,669,707	100%
<b>TOTAL</b>	<b>18,789,629,904</b>	<b>14,533,187,137</b>	<b>77%</b>

**2.9 Summary of Project Compliance:**

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

## **MERILLE MARSABIT ROAD REHABILITATION PROJECT**

**Annual Report and Financial Statements for the financial year ended June 30, 2023**

### **3. Statement of Performance against Project's Predetermined Objectives**

#### **Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the 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 are to:

- a) Support the transport infrastructure sector to attain sustainable, safe roads network that facilitates socio-economic growth.
- b) Offers an alternative route from the Port of Mombasa for imports and exports through the proposed LAPSET corridor to the port of Lamu to Southern Sudan and Ethiopia to reduce transit time and costs incurred in cross-border movement.

#### **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:

<b>Project</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Merille Marsabit Road Rehabilitation Project	Support the transport infrastructure sector to attain sustainable, safe roads network that facilitates socio-economic growth.	Reducing Transport cost and travel time between Kenya and Ethiopia.	Increased movement of people and goods between Kenya and Ethiopia.	The road was 100% complete in the financial year 2016/17.
	Offers an alternative route from the Port of Mombasa for imports and exports through the proposed LAPSET corridor to the port of Lamu to Southern Sudan and Ethiopia to reduce transit time and costs incurred in cross-border movement.	Linked road from Mombasa Port and Nairobi to Addis Ababa in Ethiopia.	Increased discharge of containers from the Port of Mombasa	The road was 100% complete in the financial year 2016/17.

#### **4. Environmental and Sustainability reporting**

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

##### **4.1. Sustainability strategy and profile**

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the people and their 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

##### **4.2. 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.

#### **4.3. 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.

#### **4.4. 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.

#### **4.5. 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 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.

Some of the CSR carried out by this project were building of classrooms, providing water tanks to the local community, repair of water tank and building of the market. However, there were no CSR carried out in the current financial year given the project was completed in 2017.

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

---

**5. Statement of Project Management responsibilities**

The Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

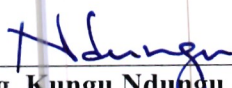
The Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

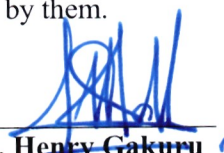
The Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2023, and of the Project's financial position as at that date. The Director General and the Project Implementation Team Leader for Merille Marsabit Road 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 and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project financial statements**

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project on 26 SEP 2023 and signed by them.

  
\_\_\_\_\_  
**Eng. Kungu Ndungu**  
Director General

  
\_\_\_\_\_  
**Eng. Henry Gakuru**  
Ag. Director -Development

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

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON MERILLE – MARSABIT ROAD REHABILITATION PROJECT (KE/001/09) LOAN AGREEMENT NO.KE/FED/2009/021-655 FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA NATIONAL HIGHWAYS AUTHORITY**

---

### **PREAMBLE**

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

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

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution 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 Merille - Marsabit Road Rehabilitation Project set out on pages 1 to 16, which comprise of the statement of financial assets and liabilities as at 30 June, 2023, and the statement of receipts and

---

*Report of the Auditor-General on Merille - Marsabit Road Rehabilitation Project (KE/001/09) Loan Agreement No.KE/FED/2009/021-655 for the year ended 30 June, 2023 - Kenya National Highways Authority*

payments, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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 the Merille - Marsabit Road Rehabilitation Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement No. KE/FED/2009/021-655 between the European Commission and the Republic of Kenya dated 20 April, 2010.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter 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**

#### **Unapproved Over Expenditure**

The second revised supplementary budget for the donor funded projects undertaken by the Authority reflected an approved budget of Kshs.17,500,000 for the Merille - Marsabit Road Rehabilitation Project. However, during the year under review, the Authority spent Kshs.23,108,955 on the Project resulting to an over-expenditure of Kshs.5,608,955. This

was in contravention of Regulation 31(2)(a) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of the national Government entity during the financial year.

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

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 comply, 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 financier and financing agreement, I report based on my audit, that:

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

### Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Projects ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the sustainability of services basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in

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

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

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

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

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

  
CPA Nancy Gathungu, SBS  
AUDITOR-GENERAL

Nairobi

10 November, 2023

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

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

Note	2022/23		2021/22		Total	Cumulative to date
	Receipts and payments controlled by the entity Kshs.	Payments made by third parties Kshs.	Receipts and payments controlled by the entity Kshs.	Payments made by third parties Kshs.		
<b>RECEIPTS</b>						
1 Transfer from Government entities	23,108,955	-	200,000,000	-	200,000,000	5,308,175,796
2 Grants from external Development Partners	-	-	-	-	-	9,225,011,341
<b>TOTAL RECEIPTS</b>	<b>23,108,955</b>	<b>-</b>	<b>200,000,000</b>	<b>-</b>	<b>200,000,000</b>	<b>14,533,187,137</b>
<b>PAYMENTS</b>						
Purchase of Goods & Services	-	-	-	-	-	10,140,536
Acquisition of non-financial assets	23,108,955	-	200,000,000	-	200,000,000	14,523,046,601
<b>TOTAL PAYMENTS</b>	<b>23,108,955</b>	<b>-</b>	<b>200,000,000</b>	<b>-</b>	<b>200,000,000</b>	<b>14,533,187,137</b>
<b>SURPLUS/DEFICIT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>


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

  
**Eng. Kungu Ndungu**  
 Director General

26 SEP 2023  
 Date

  
**Eng. Henry Gakuru**  
 Ag. Director - Development

26 SEP 2023  
 Date

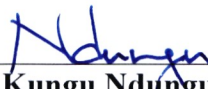
  
**CPA Chanje Kera**  
 Deputy Director (F&A)  
 ICPAK Member No. 8279

26 SEP 2023  
 Date

**MERILLE MARSABIT ROAD REHABILITATION PROJECT****Annual Report and Financial Statements for the financial year ended June 30, 2023****8. Statement of Financial Assets as at 30th June 2023**

	Note	2022/23	2021/22
		Kshs	Kshs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances		-	-
<b>TOTAL FINANCIAL ASSETS</b>		-	-
<b>FINANCIAL LIABILITIES</b>			
Payables- Retentions		-	-
<b>NET ASSETS</b>		-	-
<b>REPRESENTED BY:</b>			
Cash and cash equivalents b/fwd		-	-
Surplus/Deficit for the year		-	-
<b>NET FINANCIAL POSITION</b>		-	-

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

  
\_\_\_\_\_  
**Eng. Kungu Ndungu**  
Director General

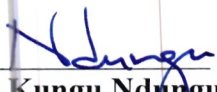
  
\_\_\_\_\_  
**Eng. Henry Gakuru**  
Ag. Director -Development

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


**MERILLE MARSABIT ROAD REHABILITATION PROJECT***Annual Report and Financial Statements for the financial year ended June 30, 2023***9. Statement of Cashflow for the year ended 30th June 2023**

	Notes	2022/23 Kshs.	2021/22 Kshs.
<b>RECEIPTS</b>			
Transfers from Government entities	1	23,108,955	200,000,000
<b>Net Receipts for operating income</b>		<b>23,108,955</b>	<b>200,000,000</b>
Purchase of Goods and Services	2	-	-
<b>Net Payments for operating expenses</b>		<b>-</b>	<b>-</b>
<b>Net cash flow from operating activities</b>		<b>23,108,955</b>	<b>200,000,000</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of road assets	4	(23,108,955)	(200,000,000)
<b>Net cash flows from Investing Activities</b>		<b>(23,108,955)</b>	<b>(200,000,000)</b>
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalent at Beginning of the year</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalent at End of the year</b>		<b>-</b>	<b>-</b>

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 28 SEP 2023 and signed by:

  
 Eng. Kungu Ndungu  
 Director General

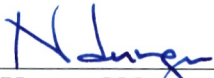
  
 Eng. Henry Gakuru  
 Ag. Director -Development

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


**MERILLE MARSABIT ROAD REHABILITATION PROJECT****Annual Report and Financial Statements for the financial year ended June 30, 2023****10. Statement of Comparison of Budget and Actual amounts for year ended 30th June 2023**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% Var
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Transfers from Government entities	70,000,000	(46,891,045)	23,108,955	23,108,955	-	100%
Proceeds from foreign borrowings	-	-	-	-	-	-
<b>Total Receipts</b>	<b>70,000,000</b>	<b>(46,891,045)</b>	<b>23,108,955</b>	<b>23,108,955</b>	<b>-</b>	<b>100%</b>
<b>Payments</b>						
Purchase of goods and services	-	-	-	-	-	-
Acquisition of non-financial assets	70,000,000	(46,891,045)	23,108,955	23,108,955	-	100%
<b>Total Payments</b>	<b>70,000,000</b>	<b>(46,891,045)</b>	<b>23,108,955</b>	<b>3,108,955</b>	<b>-</b>	<b>100%</b>
<b>Surplus/ Deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

  
Eng. Kungu Ndungu  
Director General

  
Eng. Henry Gakuru  
Ag. Director -Development

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

## **11. Significant Accounting Policies**

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

### **a) Statement of compliance and basis of preparation**

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

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

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

### **b) Reporting entity**

The financial statements are for the Merille Marsabit Road Rehabilitation Project under the Kenya National Highways Authority. The financial statements encompass the reporting for Merille Marsabit Road Rehabilitation Project as specified in the relevant legislation PFM Act 2012.

### **c) Reporting currency**

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

### **d) Recognition of receipts**

The 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 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 recognised in the financial statements the time associated cash is received.

**iv. Donations and grants**

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

**v. Proceeds from borrowing**

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

**vi. Undrawn external assistance**

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

**e) Recognition of payments**

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

**i. Compensation 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.

**iii. Interest on borrowing**

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

**Significant Accounting Policies (Continued)**

**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.

**g) Cash and cash equivalents**

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

**h) Restriction on cash**

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

**Significant Accounting Policies (Continued)**

**i) Imprests and Advances**

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

**j) Contingent 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

**k) Contingent Assets**

Merille Marsabit Road Rehabilitation Project 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 Merille Marsabit Road Rehabilitation Project 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)**

**l) Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' 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.

**m) Budget**

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

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

**n) Third party payments**

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

During the year **No** grant disbursements were received in form of direct payments from third parties.

**Significant Accounting Policies (Continued)**

**o) Exchange rate differences**

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

**p) Comparative figures**

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

**q) Subsequent events**

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

**r) Prior Period adjustment**

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments as at June, 30,2023.

**MERILLE MARSABIT ROAD REHABILITATION PROJECT***Annual Report and Financial Statements for the financial year ended June 30, 2023***12. Notes to the Financial Statements****1. Transfers from Government Entities**

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

	2022/23	2021/22	Cumulative
	Kshs	Kshs	to-date
Counterpart funds Quarter 1	23,108,955	134,281,489	2,019,946,671
Counterpart funds Quarter 2	-	65,634,695	1,074,374,307
Counterpart funds Quarter 3	-	83,816	1,148,064,706
Counterpart funds Quarter 4	-	-	1,065,790,112
<b>Total (See Annex 3)</b>	<b>23,108,955</b>	<b>200,000,000</b>	<b>5,308,175,796</b>

**2. Proceeds from Domestic and Foreign Grants**

During the 12 months to 30 June 2023, we received no funding from development partners since the project had elapsed in the FY 2017/2018.

**3. Purchase of Goods and Services**

	FY 2022/23			FY 2021/22	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence	-	-	-	-	8,673,136
Advertising and services	-	-	-	-	1,467,400
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,140,536</b>

**Notes to the Financial Statements (Continued)**

**4. Acquisition of Non-Financial Assets**

	FY 2022/23			FY 2021/22	Cumulative (Restated)
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Rehabilitation & renovation of plant, equipment & machinery	-	-	-	-	2,489,500
Research, studies, project preparation, design & supervision	-	-	-	-	546,337,397
Construction of roads	23,108,955	-	23,108,955	200,000,000	13,898,242,008
Acquisition of land	-	-	-	-	75,977,696
<b>Total</b>	<b>23,108,955</b>	<b>-</b>	<b>23,108,955</b>	<b>200,000,000</b>	<b>14,523,046,601</b>

**5. Accounts Payables-Retention**

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Retention controlled by the entity	-	-
Retention controlled by the Third parties	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**MERILLE MARSABIT ROAD REHABILITATION PROJECT****Annual Report and Financial Statements for the financial year ended June 30, 2023****Other Important Disclosures****1) Pending Accounts Payable (Annex 4)**

	<b>Balance b/f FY 2022/2023</b>	<b>Additions for the period</b>	<b>Paid during the year</b>	<b>Balance c/f FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Construction of Roads	92,165,073	-	23,108,955	69,056,118
<b>Total</b>	<b>92,165,073</b>	<b>-</b>	<b>23,108,955</b>	<b>69,056,118</b>

**2) External Assistance**

As at 30 June, 2023, there were no external assistance received being the project was completed and taken over by the employer in the FY 2017/2018. (30<sup>th</sup> June, 2022- NIL)

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

**13. Annexes**

**Annex 1-Prior Year Auditor-General'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)
1	<p style="text-align: center;"><b><u>Basis for Qualified Opinion</u></b></p> <p><b>Unsupported Cash and Bank Balances</b>                      The statement of financial assets reflects a NIL bank balance as at 30 June 2022. However, the cash and bank balances in respect of the project were commingled in one account maintained by the Authority for all projects, and which had a balance of Kshs. 5,305,453,396 as at 30th June, 2022. Therefore, cash balances attributed to individual projects held in the account could not be confirmed. In addition, there was no separate cashbooks maintained to record cash received for the project and payments against the project funds over the project implementation period. As a result, it was not possible to confirm total cash receipts and payments in respect of the project.</p>	<p>As correctly observed, the project had a budget of Kshs. 200,000,000 for the financial year 2021/2022 of which the full amount was received from the counterpart GoK thereby giving a NIL bank balance.</p> <p>Merille Marsbit project uses the Direct Payment Method where the Development Partner does not disburse any cash to the Authority but pay directly to the Contractor/Consultant. Therefore, no separate bank account is required. However, the Authority maintains a single exchequer bank account and a cash book that provides amongst other details:</p> <ul style="list-style-type: none"> <li>• The Project codes</li> <li>• The Project description and</li> <li>• The vendor to whom an amount relates to.</li> </ul> <p>From this single cashbook therefore, transactions for a particular project can be filtered through the Project Code and Project Description.</p>	Resolved	Continuous

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

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)
2	<p><b>Pending Bills</b>  <b>Payment of undisclosed Pending Bills</b>                      The statement of receipt and payments for the year ended 30<sup>th</sup> June 2022 reflects acquisition of non-financial assets of Kshs. 200,000,000. Review of expenditure ledger revealed payments to Kshs. 198,407,500 which was paid to a contractor to settle pending bills in respect of civil works. However, the amount paid exceeded Kshs. 139,890,445 disclosed as pending bills for the contractor in the prior financial years 2019/2020 and 2020/2021. The variance of Kshs. 58,433,239 between the paid amount and the previously disclosed amount was not explained.</p> <p>In addition, the reported pending bills as at 30 June 2021 and as at 1 July, 2022 as per the certified financial statements amounted to Kshs. 141,566,761 while the brought forward balance as on Note 12.1 of the financial statements was Kshs. 292,165,074. However, Management did not provide documents in support of additional pending bills amounting to Kshs. 150,598,313 and part of which was also paid for in the year under review.</p>	<p>The ledger provided during the Audit exercise was amounting to Kshs. 200,000,000. The difference between the reported amount and the amount purported to be in the ledger is Kshs. 1,592,500. The amount was in respect to the consultant M/S H.P Gauff Ingenieure FN 05A.</p> <p>The Pending bills for Financial years 2019/2020 and 2020/2021 was Kshs. 141,561,761. However, in the year of audit an amount of Kshs. 9,585,358.22 and Kshs. 141,012,958.92 for IPC 46 and IPC 47 respectively meant to have been paid by the Development Partner was not settled and therefore reverted back to GoK for settlement.</p> <p>This is explained in note 11.6 (Prior year adjustments) of our Financial statement and also a restated analysis of pending bills for the Financial year 2020/2021 to Kshs. 292,165,074. The amount of Kshs. 5,608,955 was a component of WHT outstanding on IPC 47. This has since been paid in the current Financial year as per the attached WHT certificate. From the reverting amount of Kshs. 150,598,317 an amount of Kshs.64,042,195 was paid being Kshs. 9,585,358 and Kshs.54,456,836 for IPC 46 and 47 respectively.</p>	Resolved	Continuous

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

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)
3	<p><b>Inconsistent Project Finance Information</b>                      The funding summary for the project during the year 2020/2021 reflected that the total funding commitment by the Donor and Government of Kenya counterpart amounted to Kshs. 14,542,488,241 out of which an amount Kshs.14,460,676,495 had been received leaving an outstanding balance of Kshs. 63,811,750. However, during the year under review, the total reported donor commitment increased to Kshs. 14,742,488,241 and the received amount increased to Kshs. 14,510,078,182 resulting to an outstanding balance of Kshs. 232,410,060. The Management did not provide explanation or documentation to support the increased commitment by the Donor since the project closed on 26 May, 2017.</p>	<p>The undrawn amount as at 1<sup>st</sup> July 2021 was Kshs.81,811,746 this compared to the undrawn amount as at 30<sup>th</sup> June,2022 of Kshs. 232,410,060 giving us a variance of Kshs. 150,598,314. This is explained by the IPCs that reverted to Counterpart GoK for settlement.</p> <p>There was no increment on the commitment amount on the Donor portion, however, the Counterpart Gok funding commitment increases yearly depending on the amount received in a particular year provided the contract sum of a particular project is not exceeded. Gok commitment can only be reported upon appropriation through the Annual Budget.</p>	Resolved	Continuous

  
**Eng. Kungu Ndungu**  
**Director General**  
**26 SEP 2023**

Date

  
**Eng. Henry Gakuru**  
**Ag. Director -Development**  
**26 SEP 2023**

Date

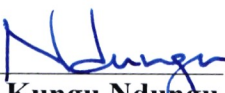
**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
*Annual Report and Financial Statements for the financial year ended June 30, 2023*


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

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget	Comments on Variance
	a	b	c=a-b	d=b/a %	
<b>RECEIPTS DURING THE YEAR/PERIOD</b>					
Government of Kenya	23,108,955	23,108,955	-	100%	
External financing	-	-	-	-	
<b>Total receipts</b>	<b>23,108,955</b>	<b>23,108,955</b>	<b>-</b>	<b>-</b>	
<b>PAYMENTS DURING THE YEAR/PERIOD</b>					
Purchase of goods and services	-	-	-	-	
Acquisition of non-financial assets	23,108,955	23,108,955	-	100%	
<b>Total Payments</b>	<b>23,108,955</b>	<b>23,108,955</b>	<b>-</b>	<b>100%</b>	

**Annex 3 – Reconciliation of inter-entity transfers**

	<b>PROJECT NAME:</b>	<b>MERILLE MARSABIT ROAD REHABILITATION PROJECT</b>		
<b>Breakdown of Transfers from the State Department of Roads</b>				
<b>a. Government Counterpart Funding</b>				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
	Quarter 1	30-Sep-22	23,108,955	FY 2022/23
	<b>Total</b>		<b>23,108,955</b>	

  
 Eng. Kungu Ndungu  
 Director General

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

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
**Annual Report and Financial Statements for the financial year ended June 30, 2023**

**Annex 4 - Analysis of Pending Bills**

Supplier of Goods or Services	Date Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance 2023	Outstanding Balance 2022	Comments
		a	b	c=a-b		
<b>a) Construction of roads</b>						
Gulsan Insaat	07/08/2017	479,790,643	410,734,525	69,056,118	92,165,073	47
<b>Grand Total</b>		<b>479,790,643</b>	<b>410,734,525</b>	<b>69,056,118</b>	<b>92,165,073</b>	

**MERILLE MARSABIT ROAD REHABILITATION PROJECT**  
*Annual Report and Financial Statements for the financial year ended June 30, 2023*

**Annex 5 – Summary of Fixed Assets Register**

Asset class	Opening Cost (Restated) (KShs) 2022/23	Purchases/Additions in the Year (KShs) 2022/23	Disposals in the Year (KShs) 2022/23	Closing Cost (KShs) 2022/23
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	14,423,959,950	23,108,955	-	14,447,068,905
Land	75,977,696	-	-	75,977,696
<b>Total</b>	<b>14,499,937,646</b>	<b>23,108,955</b>	<b>-</b>	<b>14,523,046,601</b>