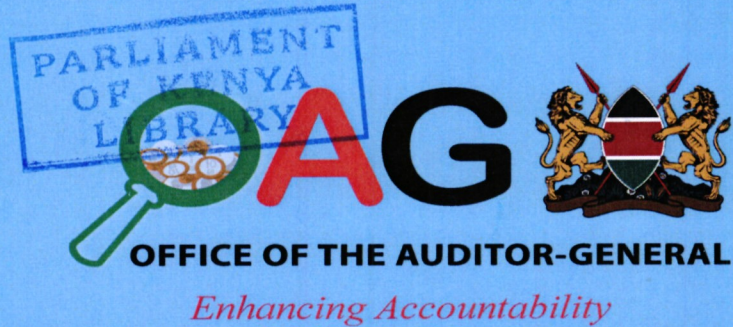


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

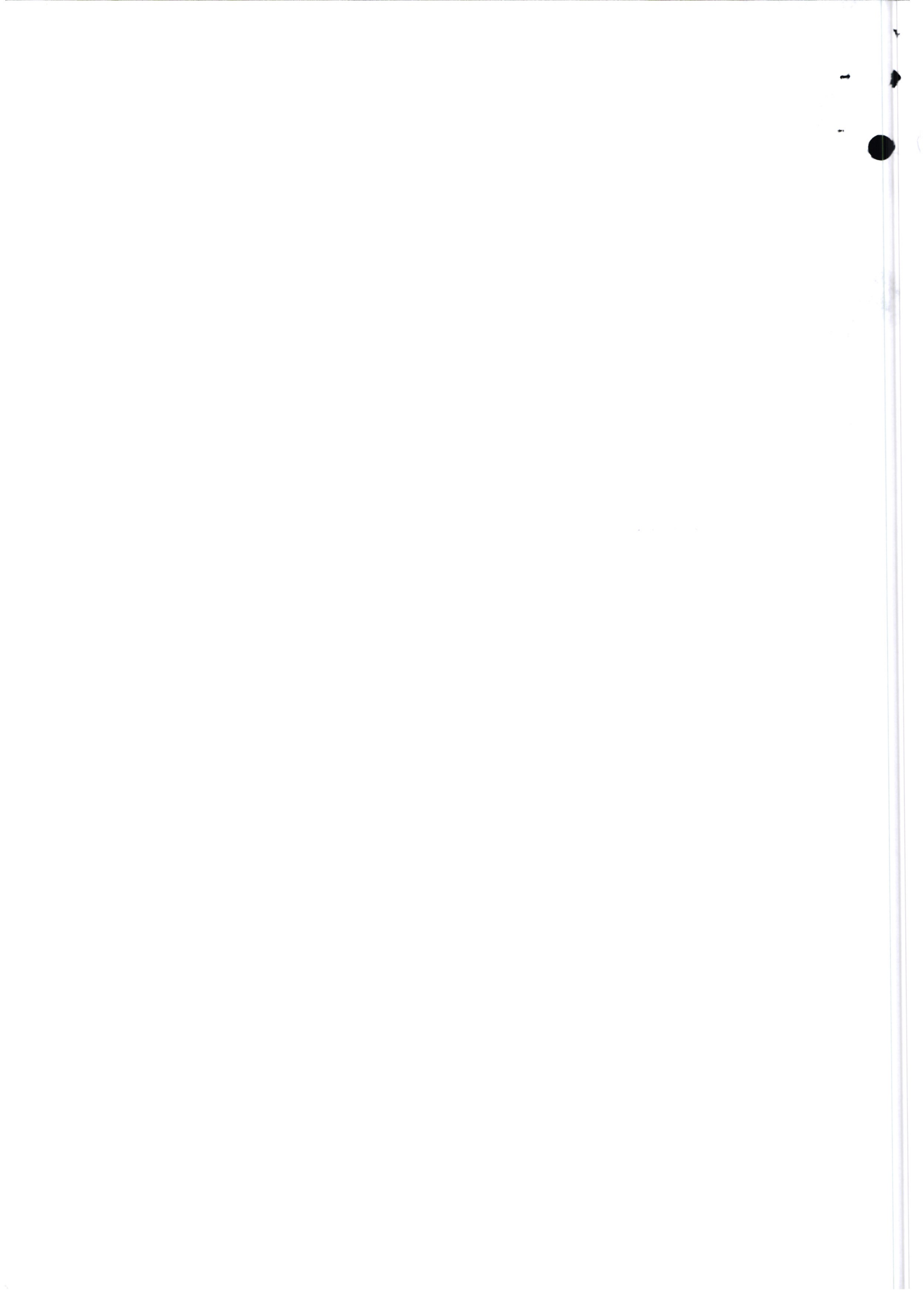
ON

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

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

KENYA RURAL ROADS AUTHORITY

THE NATIONAL ASSEMBLY	
DATE: 13 APR 2023 THURSDAY	
TABLED BY:	THE LEADER OF THE MAJORITY PARTY (Hon. Kimani (Chung'u))
CLERK AT THE TABLE:	Joyce Kemerele





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

30 NOV 2022

RECEIVED



**Project Name: SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS
REHABILITATION PROJECT IN KENYA**

Implementing Entity: KENYA RURAL ROADS AUTHORITY

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



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2022

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

*10th EDF Rural Roads Rehabilitation Project
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

Name

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

Objective

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

Address

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

The address of its registered office is:

Kenya Rural Roads Authority

Barabara Plaza, Block B,

Airport South Road

P.O. Box 48151 – 00100 Nairobi.

Contacts: The following are the project contacts

Telephone: +254 711 851103

E-mail: dg@kerra.go.ke

Website: www.kerra.go.ke

- 1.2 Project Information

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

1.3 Project Overview

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

**10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022**

	<p>intensive construction of roads using innovative techniques and locally available local materials.</p> <p>(iii) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations</p>
<p>Achievement of strategic goals</p>	<p>The project management aims to achieve the goals through the following means:</p> <p>(i) Provide contract management to ensure upgrading of the link roads to low volume seal standard.</p> <p>(ii) Ensure locals population gain direct employment to uplift their economic wellbeing.</p> <p>(iii) Support capacity building for local contractor especially in Roads 2000- maintenance strategy.</p>

Challenges Encountered in executing the project:

- Equipment down time across all lots leading to low productivity.
- There were mobilization challenges for sufficient manpower resource by contractors during the period with a number of Contractor's staff strikes. This is with the exception of Lot 3 who substantially completed works in July 2019.
- The Contractor Lot 1 and 2 abandoned sites before completions and instituted litigation & arbitration cases against the Contracting Authority culminating in eventual termination of works.
- The COVID-19 Pandemic caused a general slow down to the hearing of the two cases.
- Lot 1 and Lot 2 procurement has been successfully concluded and awarded, contract document review is underway prior to signing by the parties.

<p>Other important background information of the project</p>	<p>The project Formulation Study was undertaken from November 2011 up to December 2012. It was executed on behalf of the KeRRA by COWI A/S Consultants of Denmark.</p> <p>The initial Study centred on a total of 1,463 Km across the 5 Regions, 654 Km of which were rehabilitated using EC Stabex Funds under Phase 2.</p> <p>The final listing following a detailed cost Benefit Assessment was whittled down to the final adopted listing of roads, as presented below. Tender Documents were prepared in July 2012, amended and reproduced in December 2012 by COWI A/S of Denmark.</p> <p>Following the preparation of Contract Documents in 2012 by COWI A/S, amendments were subsequently made (provision of Horizontal & Vertical alignment) to the documents by KeRRA prior to the Tender Launch.</p> <p>The roads comprise Class D and E type routes described in the Kenyan Road Design Manual Part I as:</p> <p>Class D Roads that link locally important centres to either each other or to a centre of higher importance or to a higher-class Road.</p> <p>Class E Roads that link to minor centres.</p> <p>The project intervention area is geographically spread across the upper and lower Eastern Province across 5 Regions under 5 No project Locations and noted in the following Table.</p> <table border="1"> <thead> <tr> <th>Lot No</th> <th>Region/Country</th> <th>Road No</th> <th>Km</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>Lot 1</td> <td>Embu</td> <td>D470</td> <td>10.2</td> <td>Kyeni – Kathanjire – Karurumo Rd</td> </tr> <tr> <td>Lot 2</td> <td>Tharaka/Nithi</td> <td>D472</td> <td>28.7</td> <td>Chuka – Kaanwa – Kareni Rd</td> </tr> <tr> <td>Lot 3</td> <td>Meru</td> <td>E773 R24</td> <td>5.5 18.2</td> <td>Ndurumo – Kathirune – Giaki Rd Giaki – Birikene Miamponi – Rd</td> </tr> <tr> <td>Lot 4</td> <td>Machakos</td> <td>E480 E477</td> <td>5.8 10.1</td> <td>Kivandini – Kango Rd Kango-Kakalia – Kali Rd</td> </tr> <tr> <td>Lot 5</td> <td>Makueni</td> <td>D515</td> <td>20.5</td> <td>Katuaa – Kee – Nunguni Rd</td> </tr> </tbody> </table> <p>CONTRACT SUM</p> <table border="1"> <tbody> <tr> <td>LOT 1</td> <td>231,570,571.00</td> </tr> <tr> <td>LOT 2</td> <td>537,264,086.70</td> </tr> <tr> <td>LOT 3</td> <td>695,023,763.80</td> </tr> <tr> <td>LOT 4</td> <td>377,939,319.85</td> </tr> <tr> <td>LOT 5</td> <td>362,001,255.00</td> </tr> <tr> <td>TOTAL</td> <td>2,203,798,996.00</td> </tr> </tbody> </table> <p>Total Length 99.0Km</p> <p>The works contracts commencement orders were issued in September 2015 and the Contractors had previously confirmed a commencement date of 5th October 2015 across the five individual Lots.</p>	Lot No	Region/Country	Road No	Km	Description	Lot 1	Embu	D470	10.2	Kyeni – Kathanjire – Karurumo Rd	Lot 2	Tharaka/Nithi	D472	28.7	Chuka – Kaanwa – Kareni Rd	Lot 3	Meru	E773 R24	5.5 18.2	Ndurumo – Kathirune – Giaki Rd Giaki – Birikene Miamponi – Rd	Lot 4	Machakos	E480 E477	5.8 10.1	Kivandini – Kango Rd Kango-Kakalia – Kali Rd	Lot 5	Makueni	D515	20.5	Katuaa – Kee – Nunguni Rd	LOT 1	231,570,571.00	LOT 2	537,264,086.70	LOT 3	695,023,763.80	LOT 4	377,939,319.85	LOT 5	362,001,255.00	TOTAL	2,203,798,996.00
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10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022

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

1.4 Bankers

The following are the bankers for the current year:

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

1.5 Auditors

The project is audited by:

The Auditor - General

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

1.6 Roles and Responsibilities

The table below indicates the roles and responsibility of personnel who are involved in the project implementation.

Names	Title designation	Key qualification	Responsibilities
Eng. Philemon K. Kandie dg@kerra.go.ke philemon.kandie@kerra.go.ke +254 0777851103,0207807600	Director General	BSc Hons, P. Eng., MIEK, MSc. MBS.	Accounting Officer
Eng. Enoch K. Ariga dpde@kerra.go.ke Enock.ariga@kerra.go.ke +254 0777851103,0207807602	Director (Planning, Design & Environment)	BSc Hons, P. Eng., MIEK, MA (Planning)	Supervisor
Eng. Samuel N. Mwangi dpde@kerra.go.ke samuel.mwangi@kerra.go.ke +254 0777851103,0207807602	Project Manager	<i>BSc MIEK, R. Eng.</i>	Coordinator of the Program Activities
CPA Pauline N.Kahwai dcs@kerra.go.ke pauline.kahwai@kerra.go.ke +254 0777851103,0207807601	Project Accountant	<i>BCom, CPA(K), ICPAK, MSc (Fin.)</i>	Accountant, support the project team regarding compliance, payments and reports.

10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022

APPLICATION FUNDS

Application of funds	Amount received to date – (30 th June 2022)		Cumulative Amount paid to date – (30 th June 2022)	Unutilised balance to date (30th June 2022)	
	Donor currency (A)	Kshs (A')		Donor currency (A)-(B)	Kshs (A')-(B')
(i) Grant					
European Union	17,070,520	1,845,152,547	1,845,152,547	-	-
(ii) Counterpart funds					
Government of Kenya	5,920,992	640,000,000	636,886,420	28,604	3,113,580
Total	22,991,512	2,485,152,547	2,482,038,967	28,604	3,113,580

1.8 Summary of Overall Project Performance:

- i) During the financial year 2021/2022, the project utilised 13% of its allocated budget, the effect is only in the EU component.
- ii) Physical progress based on outputs, outcomes and impacts since project commencement,
- iii) Comment on value-for-money achievements,
- iv) The absorption rate for the project over the years has been:

Year	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/2020	FY 2020/21	FY 2021/22
Absorption rate	52%	68%	41%	88%	54%	13%

1.9 Summary of Project Compliance:

The Programme has ensured that all the activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed. The project has therefore fully complied with both the financing agreement and other statutory requirements.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Introduction

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

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

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

Progress on attainment of Strategic development objectives

Project	Objective	Outcome	Indicator	Performance
Public Works, Roads & Transport	To develop and maintain roads and storm water drainage to global standards	Increased efficient transportation of people, goods and services	% of motorable and passable roads within the rural areas	In FY 21/22we increased motorable and passable roads by 63%. 64.1.7Km of the 99Km has been upgraded to LVS

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The 10th EDF Rural Roads Rehabilitation Project in Kenya 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.

1. Sustainability strategy and profile

The integration environmental and social concerns in the implementation strategy of the project will enhance environmental practices amongst all stakeholders. This will ultimately enhance sustainable development of the project. The proposed project will enhance the social-economic well-being of the local community as well as the whole country.

2. Environmental performance

The Authority's Board and Management recognize that there is no country that is not experiencing drastic effects of environmental degradation and climate change as a result of unsustainable development practices. Overall, KeRRA recognizes the provisions in the Constitution, of the right to a clean and healthy environment to every person, and the right to have the environment protected for the benefit of present and future generations through legislative and other measures. The Authority therefore has committed to cooperate with various State organs and other persons to strive towards protecting and conserving the environment, and ensure ecologically sustainable development and use of natural resources. KeRRA acknowledges that its various operations have potential impacts on the environment. It is therefore the Authority's commitment to conserve natural resources, maximize eco-efficiency, reduce waste and climate change impacts, and prevent pollution throughout its operations. The Authority has an Environmental and Social Sustainability Policy which was formulated to conform to the prevailing Government strategies as highlighted in the National Environment Policy. In accordance with the Policy, the Performance Contracting guidelines and the requirements of the Environmental Management and Coordination Act, the Authority has implemented various activities with an aim to mitigate against water, air, noise and other forms of pollution, promote environmental protection and conservation through stakeholder partnerships, and also contribute towards the Presidential directive on tree planting.

3. Employee welfare

The project employs both technical and non-technical staff from the project local area. It's only the technical staff where the expertise is not found in the community that the project employs externally. The employees are engaged through competitive public recruitment at the local county administrative centres. The employees are remunerated as guided by the most current gazetted wages in the Collative Bargaining Agreement.

The project has offered several internships and attachments to students who have completed their courses and those continuing with their studies respectively. KeRRA has a Human Resource Manual which guides compliance with all labour laws and international treaties.

4. Market place practices-

a) Responsible Supply chain and supplier relations-

The project consultant and contractor were procured through open tender making the procurement competitive. The organisation has sustained payments of all obligations arising out of the two contracts. However, payments have faced some challenges due to lengthy disbursement and insufficient exchequer releases

b) Responsible ethical practices

The internal audit department has been organising trainings through Ethics and anticorruption commission (EACC) for the staff to create awareness among staff and stakeholders.

c) Regulatory impact assessment

The project is adhering to all statutory and regulatory requirements. This is through complying with all statutes and regulations and filing the required documents. Further, all grievances raised are addressed as promptly as possible.

5. Community Engagements

The project does not have a direct CSR component. However, the community benefits through outreach programme for HIV/AIDS and Road Safety from well researched experts.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project in Kenya are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2022.

This responsibility includes

- a. Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period.
- b. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the
- c. Financial position of the project.
- d. 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.
- e. Safeguarding the assets of the project.
- f. Selecting and applying appropriate accounting policies.
- g. Making accounting estimates that are reasonable in the circumstances.

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2022, and of the Project's financial position as at that date. They further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants,

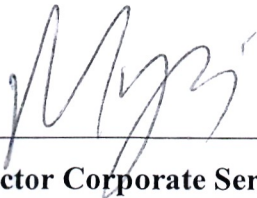
10th EDF Rural Roads Rehabilitation Project

Annual Report and Financial Statements for the financial year ended June 30, 2022

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 The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project on **27th September, 2022** and signed by them.



Director Corporate Services

CPA Dan Manyasi

ICPAK Member Number: 6407



Project Coordinator

Eng. Samuel N. Mwangi

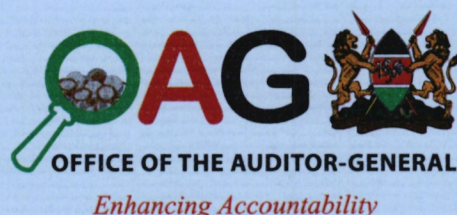


Director General

Eng. Philemon K. Kandie(MBS)

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 SUPPORT TO ROADS SECTOR POLICY:10TH EDF RURAL ROADS REHABILITATION PROJECT IN KENYA (AGREEMENT NO.KE/FED/023/-571) FOR THE YEAR ENDED 30 JUNE, 2022 - KENYA RURAL ROADS AUTHORITY

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Support to Roads Sector Policy:10th EDF Rural Roads Rehabilitation Project in Kenya - Agreement NO.KE/FED/023-571 set out on pages 1 to 24 which comprise the statement of financial assets as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actuals amounts for the year ended then and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Support to Roads Sector Policy:10th EDF Rural Roads Rehabilitation Project in Kenya as at 30 June, 2022 and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement NO.KE/FED/023-571 signed on 10 September, 2012 between the European Commission and the Republic of Kenya and the Public Finance Management Act, 2012.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Support to Roads Sector Policy:10th EDF Rural Roads Rehabilitation Project in Kenya in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Lack of HIV/AIDS Awareness by the Contractor

Project inspection carried out for Lot 5 on 14 October, 2022 revealed that the contractor did not carry out HIV/AIDS awareness as provided for by paragraph 25-50-001(a) of the tender documents. The contractor was required to take steps to make continuous awareness to the workers and the general public about HIV/AIDS via public displays at the project site and on the project vehicles. The contract had a provision of Kshs.720,000 in the Bill of Quantities to cater for the HIV/AIDS awareness.

The Contractor was therefore in breach of the requirements of paragraph 25-50-001(a) of the tender documents.

2. Construction of Kivandini-Kango-Kakalia-Kali Road (Lot 4)

Kenya Rural Roads Authority awarded tender for construction of 15.9 Kilometers of Kivandini-Kango-Kakalia-Kali Road in Machakos County to a contractor at a contract sum of Kshs.301,251,357. Project inspection carried out on 14 October, 2022 revealed that the drifts constructed along the road lacked demarcation points to indicate width and length of the drifts for the safety of the road users. Road markings were partially done for about 5Kms while road furniture were not done.

It was also noted that the entire stretch of the road lacked speed bumps around towns and steep sections of the road prompting locals to erect informal bumps thus risking the lives of the road users. At Ikiwe drift, a section which has experienced fatal accidents in the past, there was a protruded stone that the contractor did not uproot or carry out any specific works on it to avert future accidents. It was further noted that the contractor was not on site thus casting doubt on whether the remaining works would be completed.

In the circumstances, value for money spent in the Project could not be confirmed.

3. Construction of Katuaa-Kee-Nunguni Road (Lot 5)

Kenya Rural Roads Authority awarded tender for construction of 20.5 Kilometers of Katuaa-Kee-Nunguni road in Makueni County to a contractor at a contract sum of Kshs.362,001,255. Project inspection conducted on 13 October, 2022 revealed that only staggered sections of the road had been tarmacked to approximate ten (10) Kilometers. Road markings and furniture works had not been done on the tarmacked sections of the road. It was further noted that the contractor was not on-site casting doubt on the completion of the works before the scheduled Project closing date of 9 September, 2023.

In the circumstances, value for money spent in the Project could not be confirmed.

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 European Commission, I report based on my audit, that:

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Project's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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

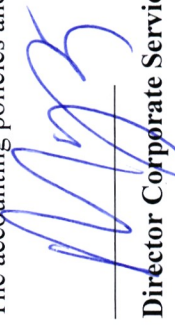
Nairobi

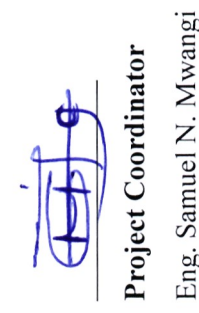
05 December, 2022

6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2022.

Description	Note	FY 2021/2022		FY 2020/2021		Cumulative to Date
		Receipts and payments controlled by the entity Kshs	Receipts and payments Made by third parties	Receipts and payments controlled by the entity Kshs	Receipts and payments Made by third parties	
RECEIPTS						Kshs
Receipts from Government of Kenya	1	30,000,000	-	30,000,000	-	640,000,000
Proceeds from Domestic and Foreign Grants	2		44,794,887		117,809,147	1,845,152,547
Total Receipts		30,000,000	44,794,887	30,000,000	117,809,147	2,485,152,547
PAYMENTS						
Consultancy	3	-	-	-	15,163,108	317,388,962
Other operating costs		49,212		7,621		713,934
Road Works Expenditure	3	31,608,770	44,794,887	101,731,890	102,646,038	2,163,936,071
Total Payments		31,657,982	44,794,887	101,739,511	117,809,146	2,482,038,967
Surplus/Deficit		(1,657,982)	(0)	1	1	3,113,580

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


Director Corporate Services
 CPA Dan Manyasi


Project Coordinator
 Eng. Samuel N. Mwangi


Director General
 Eng. Philemon K. Kandie (MBS)

*10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*


7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2022

Description	Note	2021/2022	2020/21
		Kshs	
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	4.A	3,113,580	4,771,562
Total Cash Equivalents		3,113,580	4,771,562
REPRESENTED BY			
Fund balance brought forward	5	4,771,562	76,511,072
Surplus/Deficit for the year		(1,657,982)	(71,739,510)
Net Financial Position		3,113,580	4,771,562


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 27th **September, 2022** and signed by:



Director Corporate Services
CPA Dan Manyasi
ICPAK Member No. 6407



Project Coordinator
Eng. Samuel N. Mwangi



Director General
Eng. Philemon K. Kandie(MBS)

8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2022

Description	Note	2021/2022	2020/2021
		Kshs	Kshs
Cash flow from operating activities			
Transfer from Government Entities	1	30,000,000	30,000,000
Proceeds from domestic and foreign grants	2	44,794,887	117,809,147
Payments for operating activities			
Road Works Expenditure		(76,452,869)	(219,548,657)
Net Cash flow from operating activities		(1,657,982)	(71,739,510)
Cash flow from borrowing activities			
Proceeds from foreign borrowings		-	-
Net Cash flow from borrowing activities		-	-
Net increase in cash and cash equivalents		(1,657,982)	(71,739,510)
Cash and cash equivalents at the beginning of the year		4,771,561	76,511,072
Cash and cash equivalents at the end of the year	4.A	3,113,580	4,771,561

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 27th **September, 2022** and signed by:



Director Corporate Services

CPA Dan Manyasi

ICPAK Member No. 6407



Project Coordinator

Eng. Samuel N. Mwangi



Director General

Eng. Philemon K. Kandie(MBS)

9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH

JUNE, 2022

Financial Year Ended 30th June 2022

Consolidated	Original Budget A	Adjustments B	Final Budget C=a+b	Actual on comparable basis D	Budget Utilisation Variance E=c-d	% of Utilisation F=d/c%
Receipts/Payment Item RECEIPTS						
Receipts from Government of Kenya	30,000,000	-	30,000,000	30,000,000	-	100%
Proceeds from Domestic and Foreign Grants	542,000,000	-	542,000,000	44,794,887	497,205,113	8%
Total receipts	572,000,000	-	572,000,000	74,794,887	497,205,113	13%
PAYMENTS						
Consultancy services	-	-	-	-	-	0%
Road works	500,000,000	-	500,000,000	76,403,657	423,596,343	15%
Operating costs	72,000,000	-	72,000,000	49,212	71,950,788	0%
Total Payments	572,000,000	-	572,000,000	76,452,869	495,547,131	13%

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


Director Corporate Services

CPA Dan Manyasi

ICPAK Member No: 6407


Project Coordinator

Eng. Samuel N. Mwangi

Director General

Eng. Philemon K. Kandie(MBS)

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 The 10th EDF Rural Roads Rehabilitation Project in Kenya under the State Department of Ministry of Transport Infrastructure Housing and Urban Development as required by Section 81 of the PFM Act, 2012.

10.3 Reporting currency

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

10.4 Recognition of receipts

The improvement of Rural Roads and Market Infrastructure in Western Kenya recognises all receipts from the various sources when the event occurs, and the related cash has actually been received.

i) Transfers from the Exchequer

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

ii) External Assistance

External assistance is monies 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 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.

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.

i) Compensation to employees

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

Significant Accounting Policies (Continued)

ii) Use of goods and services

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

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

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

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.

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.

Significant Accounting Policies (Continued)

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 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.

10.10 Contingent Liability

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:

Significant Accounting Policies (Continued)

- 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.

10.11 Contingent Asset

Kenya Rural Roads Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Kenya Rural Roads Authority 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' 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 recognized 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.

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 past dates of the transactions as per the agreement terms and condition. 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.

***10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022***

Significant Accounting Policies (Continued)

10.16 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.

10.17 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, 2022.

10.18 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). Explanations and details of these prior period adjustments are presented.

*10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

11. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2021/2022	2020/21	Cumulative to-date (from inception)
	KShs	KShs	
<i>Counterpart funding through Ministry of Transport and Infrastructure</i>			
Counterpart funds	30,000,000	0	640,000,000
Total	30,000,000	0	640,000,000

2. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the year ended 30th June 2022 we received grants from donors as detailed in the table below:

Name of Donor	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Total amount in KShs	
				2021/2022	2020/21
				KShs	KShs
Grants Received from Multilateral Donors (International Organizations)					
The European union	414,422	-	44,794,887	117,809,147	232,898,577
Total	414,422	-	44,794,887	117,809,147	232,898,577

*10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ROADWORKS EXPENDITURE

Description	2021/22			2021/22	Cumulative to-date
	Payments made by the Entity in	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	KShs
Construction of roads	31,608,770	44,794,887	76,403,657	204,377,929	2,163,935,647
Total	31,608,770	44,794,886	76,403,657	204,377,929	2,163,935,647

4. CASH AND CASH EQUIVALENTS

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

4. A Bank Accounts

Project Bank Accounts

	2021/22	2020/21
	KShs	KShs
Bank accounts (Note 8.13A)	3,113,580	4,771,562
Cash in hand (Note 8. 13B)	-	-
Cash equivalents (short-term deposits) (Note 8.13C)	-	-
Total	3,113,580	4,771,562

4 B. Cash In Hand

	2021/22	2020/21
	KShs	KShs
Location 1	-	-
Location 2	-	-
Location 3	-	-
Other locations	-	-
Total cash balances	<u>0</u>	<u>0</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 C Cash equivalents (short-term deposits)

	2021/22	2020/21
	KShs	KShs
Kenya Commercial Bank[A/c No. 1179736370.....]	-	-
Total	<u>0</u>	<u>-</u>

5. FUND BALANCE BROUGHT FORWARD

	2021-2022	2020-2021
	KShs	KShs
Bank accounts	4,771,562	76,511,071
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Total	4,771,562	76,511,071

*10th EDF Rural Roads Rehabilitation Project
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. OTHER IMPORTANT DISCLOSURES

1. EXTERNAL ASSISTANCE

	2021-2022	2020-2021
Description	Kshs	Kshs
External assistance received as grants	44,794,887	117,809,147
Total	44,794,887	117,809,147

a). External assistance relating loans and grants

	2021-2022	2020-2021
Description	Kshs	Kshs
External assistance received as grants	44,794,887	117,809,147
Total	44,794,887	117,809,147

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	2021-2022	2020-2021
Description		Kshs	Kshs
Undrawn external assistance - loans		-	-
Undrawn external assistance - grants		-	-
Total		0	0

c) classes of providers of external assistance

	FY 2021-2022	FY 2020-2021
Description	Kshs	Kshs
Multilateral donors	44,794,887	117,809,147
Bilateral donors	-	-
International assistance organization	-	-
NGOs	-	-
National Assistance Organization	-	-
Total	44,794,887	117,809,147

10th EDF Rural Roads Rehabilitation Project

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d. non-monetary external assistance

	FY 2021-2022	FY 2020-2021
Description	Kshs	Kshs
Roadworks	44,794,887	102,646,039
Services	-	15,163,108
Total	44,794,887	117,809,147

e Purpose and use of external assistance

	2021-2022	2020-2021
Description	Kshs	Kshs
External assistance received as grants	44,794,887	117,809,147
Total	44,794,887	117,809,147

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

Payments Made by Third Parties	FY 2021-2022	FY 2020-2021
	Kshs	Kshs
Construction of roads	44,794,887	102,646,039
Supervision consultancy services	-	15,163,108
TOTAL	44,794,887	117,809,147

2. RETENTION

Description	2021-2022	2020-2021
	Kshs	Kshs
Retention	159,292,037	153,772,511
Total	159,292,037	153,772,511

See appendix 2 attached.

**10th EDF Rural Roads Rehabilitation Project
Annual Report and Financial Statements for the financial year ended June 30, 2022**

13. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

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)
Budgetary Control and Performance	The statement of comparative budget and actual amounts reflects an approved receipts budget of Kshs. 404,900,000 against actual amount of Kshs. 147,809,147 resulting in a 178 shortfall in receipts of Kshs. 257,090,853. Similarly, overall, the Project under-spent its budget amount by Kshs.185,351,341. The under expenditure mainly occurred under the components related to consultancy at Kshs.104,836,892 and road works at Kshs.80,422,071 and operating costs at Kshs.92,379. In view of the above under expenditure, the Project's targets and objectives for the year under review may not have been achieved.	We concur that the projects targets were not achieved in the period. The shortfall on roadworks was attributed to lack of output for Lot 1 & Lot 2 contracts which were later terminated in the 4 th and 3 rd quarter of FY 2020/21 respectively. There was likelihood the contractor would resume site operations following concerted efforts to amicably settle the disputes. The Consultancy expenditure was under-spent following the delay by the consultant Nicholas O'Dwyer, to present their final invoice which was eventually submitted in October 2021.	Resolved	
Abandoned Works	Lot 1: Kyeni – Kathanjire - Karurumo Road Works The contract for construction of Lot 1 in	We concur that the contractor has abandoned site since March 2019.	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	<p>respect of Kyeni-Kathanjire-Karurumo Road was awarded to a Contractor on 5 October, 2015. The contract sum was Kshs.231,570,571 covering 10.2 km. The project completion date was revised to 19 December, 2017 (An additional 216 days), leading to delayed project implementation. However, the project was abandoned and subsequently terminated on 8 June, 2021. As at the time of termination, the Contractor had been paid accumulated payments amounting to Kshs.172,117,546 being 74% of the contract price. Records provided in respect of the Project indicate that a no objection letter was done to EU, to allow a negotiated procedure to procure new contractors for the works following the early termination of the contractor. There was no</p>	<p>Subsequently, the Contractor's employment under this contract was terminated with effect from 8th June 2021. The EU gave a no-objection to procure a new contractor through negotiated procedure on 3rd October 2021. The re-tendering works was carried out in accordance with Article 64 of General Conditions. Approval of the tender document and shortlist of bidders was given on 13th June 2022. Bids were opened on 28th July 2022. The Negotiation Committee's recommendation was approved by the Contracting Authority and a No Objection from the EU was granted on 17th October, 2022. The notification of the</p>		

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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)
	evidence whether a new contractor had been procured as at the time of the audit.	Award is currently underway.		
	<p>Lot 2: Chuka- Kaanwa - Kareni Road Kaanwa- Kareni Road Project was awarded to a contractor on 5 October, 2015. The contract sum was Kshs.537,264,086 covering 28 km. Records provided for audit indicate that the contractor has been paid accumulated payments amounting to Kshs.231,022,802 being 42% of the contract price as at 30 June, 2021. The project initial completion period was two (2) years but a revised completion date of 10 June, 2019 was agreed upon. However, the project was abandoned and subsequently terminated with effect from 8 June, 2021. Information provided indicate that a no objection was done to Financier to allow use of negotiated procedure to procure new contractors</p>	<p>We concur that the contractor had abandoned site since March 2019 and the contract was subsequently terminated with effect from 19th January, 2021. The Contracting Authority received a No-Objection to procure new contractors using negotiated procedure on 13th July 2021. An approval was granted for the tender documents and shortlisted bidders on 20th December 2021. The outstanding works were split into three sections to allow speedy construction within the remaining period of execution under the Financing Agreement.</p>	Resolved	

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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)
	for the works following the early termination of the contract. There was no evidence as to whether a new contractor had been procured as at the time of the audit.	The Negotiation Team's recommendation was approved by the EU on 2 nd May 2022. The Notification of Award for the three (3) new lots were communicated on 9 th May, 2022. The awards were to M/s Assets Construction Ltd (Lot 1), Elikar Enterprises Ltd (Lot2) and Nariana Enterprises Ltd (Lot 3) The commencement orders were issued on 18 th August 2022. The contractors are currently mobilising and works are expected to be completed in 12months time.		
	Lot 5: Katuaa-Kee-Nunguni Road (20.5 km)-Makueni County The Authority awarded tender to a local contractor for	We concur that the Lot 5 works are behind schedule. However, overall progress as at 30 th	Resolved	

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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)
	<p>construction of 20.5 Km KatuaaKee-Nunguni Road in Makueni County at a contract sum of Kshs.362,001,255.</p> <p>Physical verification on the road works conducted in October, 2021 indicated that the contractor had completed 9.7 Km of 20.5 Km road to asphalt concrete which is 47 of the contract 179 having been paid a total of Kshs.255,314,503 equivalent to 70% of the contract sum. The project is therefore behind schedule and the funds are almost exhausted as the revised contract period had elapsed. In addition, physical verification of the road indicated that there are cracks on some</p>	<p>June 2021 was at 75%. The contract had completed 9.7 km of cold asphalt surfacing as observed and an additional 0.7Km of roller compacted concrete surface. The contractor had also completed 12.2 km of base, 19.5 km of subbase and 20.8 km (100%) of improved subgrade works.</p> <p>The contractor shall be sanctioned for delayed implementation of tasks as per the contact terms.</p> <p>On site observations issues, our response is as follows;</p> <p>Areas that have shown early signs of failure including the trial</p>		

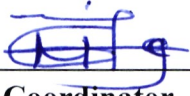
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>sections of the road, approximately 1 Km which could be attributed to poor workmanship or failed asphalt concrete mix. It was also noted that trial section of about 200M failed near Kee Market and the section had not been done by the time of verification. The asphalt concrete surfacing was not continuous as there were gaps in some sections of the road and the contractor was not on site and no work was going on. Money on these Projects have not been achieved. In review of foregoing, value for money on these roads have not been achieved.</p>	<p>section will be made good prior to taking-over of the works, The contractor was not on site after his labour declined to work until their wages were paid. This being a labour-intensive contract all works were grounded once industrial action was initiated. The contractor resumed operations on 8th November, 2021, The asphalt concrete gaps occur due to traffic management as only half carriageway is surfaced at a time. The asphalt concrete gaps are usually given first priority in subsequent operations</p>		

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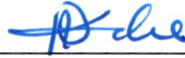
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
Vacation of Site by the Consultant	Review of Project's documents indicated that consultancy and supervisory services provider vacated the site as per letter Ref No:KeRRA/03/5/VOL.1/(2497). The letter emphasized that this was due to exhaustion of funds despite the fact that the works had not been concluded as some were still outstanding.	We concur that the consultancy services for Nicholas O'Dwyer & Company Ltd ended in September 2020 after exhaustion of the consultancy services funds. However, the Contracting Authority approved the Implementing Agency (Kenya Rural Roads Authority) to take-over supervision activities from the outgoing consultant. The new supervision teams were already in place and have been involved in supervision works in Lot 3, 4 & 5 since August 2020. Control of road works is being effectively controlled and supervised.	Resolved	

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Project Coordinator

Date



Director General

Date

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14. ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Financial Year Ended 30th June 2022

Description	Final Budget Kshs a	Actual on comparable basis Kshs b	Utilisation Variance Kshs c=a-b	% of Utilisation d=b/a%	Comments on variance
RECEIPTS					
Receipts from Government of Kenya	30,000,000	30,000,000	-	100%	Funds received from GoK were fully utilized
Proceeds from Domestic and Foreign Grants	542,000,000	44,794,887	497,205,113	8%	Due to ongoing litigation on Lot 1 and 2 contracts, they could not be effectively terminated to enable repackaging and re-tender.
Total receipts	572,000,000	74,794,887	497,205,113		
PAYMENTS					
Consultancy services	-	-	-	0%	Low utilization attributable to the expiration of the consultant's contract during the course of the financial year.
Road works	500,000,000	76,403,657	423,596,343	15%	Attributable to slow progress of works in Lot 5 and the termination of Lot 1 and Lot 2.
Operating costs	72,000,000	49,212	71,950,788	0%	These costs are largely dependent on the project's level of activity. The low levels of activity in the projects translated to low operating costs.
Total Payments	572,000,000	76,452,869	495,547,131	13%	

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ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

PROJECT NAME:				
Break down of Transfers from the State Department of Infrastructure,				
a.	Government Counterpart Funding			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		02/09/2021	15,000,000	FY-2021/22
		01/03/2022	15,000,000	FY-2021/22
		Total	30,000,000	
b.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			44,794,874	FY-2021/22
		Total	44,794,874	
c.	Others			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
		Total	0	
		TOTAL (a+b+c)	74,794,874	

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ANNEX 3A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount a	Date Contracted b	Amount Paid To-Date c	Outstanding Balance 2021/22 d=a-c	Outstanding Balance 2020/21	Comments
Construction of civil works						
1.Coastal Kenya Enterprise Ltd	17,271,709	30/09/2021	14,200,000	3,071,709		
2.Coastal Kenya Enterprise Ltd	22,727,132	30/09/2021	15,000,000	7,727,132		
3. Nariana Ltd	0	20/04/2022	3,734,978	3,734,978		
Sub-Total	39,998,841		32,934,978	14,533,819		
Grand Total	39,998,841		32,934,978	14,533,819		

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APPENDICES

- i. Bank Reconciliations statement as at 30th June 2022.
- ii. Retention as at 30th June 2022.