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REPORT

OF

THE AUDITOR-GENERAL

ON

**ARUSHA-NAMANGA-ATHI RIVER ROAD
DEVELOPMENT PROJECT NO. P-Z1-DB0-040**

**FOR THE YEAR ENDED
30 JUNE, 2020**

**KENYA NATIONAL HIGHWAYS
AUTHORITY**





MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN
DEVELOPMENT & PUBLIC WORKS



Kenya National Highways Authority

Quality Highways, Better Connections

Project Name – ARUSHA – NAMANGA – ATHI RIVER ROAD PROJECT

**Implementing Entity – KENYA NATIONAL HIGHWAYS AUTHORITY -
(KeNHA)**

PROJECT LOAN NO: 2100150013893

PROJECT NO. P-ZI-DBO-040

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Project Name	Arusha – Namanga – Athi River Road Project
Project Objectives	<p>The objective of the Project is to improve the essential road transport infrastructure between Kenya and Tanzania, and particularly between Arusha and Nairobi, Arusha and Mombasa, and Malindi and Dar es Salaam. The indicators will improve transport service and lower transport costs between the two countries which may be measured by assessing the road roughness, estimating vehicle operating costs, and counting traffic both to the border from both countries (national traffic) and across the border (international traffic).</p> <p>Support regional integration, cross border trade, tourism, socio - economic development of the zone of influence and a contribution to the reduction of poverty. The indicators or the sector goal will be enhanced cross border economic activity. The principal beneficiaries will be the tourism industry in both countries, cross border trading, regional integration (social and economic aspects), and population in areas of the Arusha region, Kajiado and Nairobi, Malindi, Mombasa, Tanga and Dar es Salaam districts. The project impact will include increased cross border traffic, increased cross border tourism, increased social-economic activities across the two countries.</p>
Project Registered Office and Physical Location:	The project headquarters offices are at Barabara Plaza, Jomo Kenyatta International Airport, Nairobi, Off Mazao Road (Opposite KCAA Headquarters)
Project Address	P.O. Box 49712-00100 Nairobi
Contacts:	Telephone: 020-8013842; Email dg@kenha.co.ke; Website www.kenha.co.ke

1.2 Project Information

Project Start Date:	8th February, 2007
Project End Date:	14 th May 2015
Project Manager:	Eng. D.A Muchilwa – Director, Development
	Eng. C. Obuon – Project Co-Ordinator
Project Sponsor:	African Development Bank (ADB)

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works
Project number	P-ZI-DBO-040
Strategic goals of the Project	<p>The project management aims to achieve the goals through the following means:-</p> <ul style="list-style-type: none">(i) Increase efficiency of road transport along the Arusha-Namanga-Athi River Road Project to facilitate trade and regional integration.(ii) Promote private sector participation in the management, financing and maintenance of roads assets.(iii) Reduce transit time and costs incurred in cross-border movement.
Other important background information of the project	<p>MAIN ARUSHA-NAMANGA-ATHI RIVER ROAD: LOT K: ATHI RIVER-NAMANGA SECTION (A104), AND ADDENDUM NO. 3 FOR THE CONSTRUCTION OF THE ONE STOP BORDER POST AT NAMANGA</p> <p>Component 1: Civil Works</p> <p>The works consists of the reconstruction of the existing bitumen surfaced road to an international trunk road standard with a 7 m wide carriageway and 2 m wide shoulders on each side for a total length of 136km.</p> <p>Construction of One-Stop Border Post at Namanga whose objective is reduce transit time and costs incurred in cross-border movement by combining the activities of both country's border organizations and agencies at single location in either direction without increasing the risk to public safety or revenue collection.</p> <p>Component 2: Consulting Services</p> <p>Under the component the project will contract consultants to undertake: (i) Design Review and Supervision of the works above; (ii) road safety; (iii) sensitization and mitigation activities on HIV/AIDS, STI and gender issues; (iv) baseline data collection and monitoring of ESMP implementation (v) technical audit; and (iv) financial audit.</p> <p>Component 3: Compensation and Resettlement:</p> <p>The component provides for compensation and resettlement of the Project Affected Persons (PAPs) in accordance with the Resettlement Action Plans (RAPs).</p>

ARUSHA-NAMANGA-ATHI RIVER ROAD PROJECT

Reports and Financial Statements

For the financial year ended June 30, 2020

PROJECT COMPONENTS AND COSTS - LOAN			
Components under Kenya National Highways Authority (KeNHA)			
The following components of the project are being implemented by the Kenya National Highways Authority			
Categories of Expenditure (In Million UA)			
Category of Expenditure	F.E	L.C	Total
Works	44.827	1.226	46.053
Services	2.869	0.319	3.188
TOTAL	47.696	1.545	49.241

The project was financed by African Development Bank at 90% on Civil Works Construction inclusive of works consultancy supervision while 10% is financed by the Government of Kenya. Following the Exhaustion of AfDB's funding and the subsequent lapse of credit agreement, the project is now 100% financed by the Government of Kenya.

Current Situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Poor transport infrastructure along the Arusha-Namanga-Athi River Road Corridor (ii) Excessive travel time and high vehicle operating costs along the Northern Corridor (iii) Expand project funds including Donor/Gok towards attainment of the project objective.
Project duration	Main Project – Arusha-Namanga-Athi River Project The project started on 5th November, 2007 and ended on 5th November, 2011. Addendum No. 4 (Namanga OSBP) The project started on 9th January, 2013 and ended on 14 th May 2015.

1.4 Bankers

Co-Operative Bank Of Kenya Ltd
Upper Hill Branch, Nairobi
Account Number:'01141160979900

1.5 Auditors

Auditor General
Office of the Auditor - General
P.O. Box 30084 – 00100 GPO
Nairobi

1.6 Roles and Responsibilities

NAMES	Title Designation	Key qualification	Responsibilities
Eng. D. Muchilwa	Director, Development	Engineer	Project Implementing Team Leader
Eng. C. Obuon	D. Director, Special Projects	Engineer	Project Co-Ordinator
Mr. Brian Shikoli	Engineer	Engineer	Assist. Project Co-Ordinator
Mr. W. Nyatwanga	D. Director (Environmental & Social)	Environmental & Social	Project Environmentalist
Mr. Richard Kilel	A.D, Supply Chain Services	Procurement Specialist	Project Procurement Specialist
Mr. Isaac Kamotho	A.D, Finance & Accounts	Finance Specialist	Project Financial specialist

1.7 Funding summary

The project financing is for duration of seven years from 8th February, 2007 to 30th November, 2014 with an approved budget of UA 49,241,000 equivalent to USD 52,330,176 equivalent to Kshs. 5,353,288,072 as highlighted in the table below:

Source of funds	Donor Commitments		Amount received to date		Undrawn balance to date	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan - African Development Bank (AfDB)						
	52,330,176	5,353,288,072	52,330,176	5,353,288,072	-	-
(ii) Counterpart Funds – Government of Kenya (GoK)						
	-	3,954,693,678	-	3,954,693,678	-	-
Total	52,330,176	9,307,981,750	52,330,176	9,307,981,750	-	-

1.8 Summary of Overall Project Performance:

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

	2019/2020		
	Actual	Budget	%
Counterpart Funds - Gok	24,007,418	83,376,172	29%
Total	24,007,418	83,376,172	29%

(b) Physical progress based on outputs, outcome and impacts since project commencement.
 The project is substantially complete and has been handed over to the employer

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

- Project procurement process is conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- The authority (KeNHA) has put in place adequate checks & balances on appointment of the works consultant supervision who oversees the project implementation on daily basis on consultation and subsequent approvals from the employer and the bank.
- In addition to works supervision, the consultant undertakes design review before commencement of roads construction works to reduce uncertainties.
- Regular auditing of the project by Internal Auditors, External Auditors and Quality Assurance Departments.
- Project site review meetings by the Development Partners through supervision missions.
- Monthly site meetings that involve the employer, the consultant and the contractor.

1.9 Summary of Project Compliance:

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

STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Below is a summary of the Project's performance against the predetermined objectives:

Objective	Outcome	Indicator	Performance
Improve essential road transport infrastructure between Kenya and Tanzania.	Improved transport service and lower transport costs between the two countries	Construction of Athi River – Namanga Road	Project completed and opened for public use
To support regional integration, cross border trade, tourism, socio-economic development of the zone of influence and a contribution to the reduction of poverty.	Enhanced cross border economic activity	Construction of One Stop Border Post (OSBP) at Namanga	Project completed and opened for public use

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Sustainability strategy and profile

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

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

2. Environmental performance

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

3. Employee welfare

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

4. Market place practices

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

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

5. Community Engagements

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

The Contractor has been involved in various CSR activities geared towards providing the local residents through construction of water kiosks along the project road, improvement of access roads and enhancing learning, playing environment in schools along the project road and enhancement of security through construction of Police and NIS facilities at Namanga Border. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General, KeNHA and the Project Management for Arusha-Namanga-Athi River Road 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, 2020. This responsibility includes (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Director General, KeNHA and the Project Management for Arusha-Namanga-Athi River Road 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 the International Public Sector Accounting Standards.

The Director General, KeNHA and Project Management for Arusha-Namanga-Athi River Road Project are of the opinion that the Project financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June, 30, 2020 and the Project's financial position as at that date.

The Director General, KeNHA and the Project Management for Arusha-Namanga-Athi River Road Project further confirm that 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 on the adequacy of the systems of internal financial control.

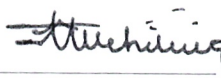
The Director General, KeNHA and the Project Management for Arusha-Namanga-Athi River Road Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit are 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 Project Management for Arusha-Namanga-Athi River Road Project on..... 26 AUG 20202020 and signed by them



Eng. Peter M. Mundinia
Director General



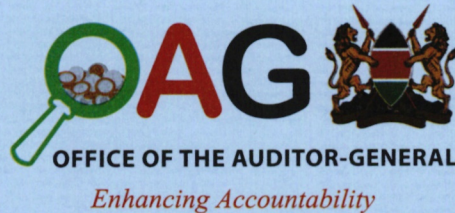
Eng. David A. Muchilwa
Director, Development



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

REPUBLIC OF KENYA

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Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON ARUSHA-NAMANGA-ATHI RIVER ROAD DEVELOPMENT PROJECT NO. P-Z1-DB0-040 FOR THE YEAR ENDED 30 JUNE, 2020 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Arusha-Namanga-Athi River Road Development Project set out on pages 1 to 12 which comprise of the statement of financial assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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 Arusha-Namanga-Athi River Road Development Project as at 30 June, 2020, 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 Loan Agreement No. 2100150013893 dated 8 February, 2007 between the African Development Fund (ADF) and the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Arusha-Namanga-Athi River Road Development 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.

Other Matter

1. Pending Bills

Note 11 to the financial statements discloses pending bills balances of Kshs.83,344,955 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

2. Budget Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.18,903,530 against estimated receipts of Kshs.83,376,172 resulting into shortfall of receipts of Kshs.64,472,642 or 77%. Similarly, the statement reflects actual expenditure totalling Kshs.20,007,418 against estimated expenditure of Kshs.83,376,172 resulting into an under-expenditure of Kshs.59,368,754 or 71% under acquisition of non-financial assets. The under expenditure was attributed to the project having been completed and put into use with limited budgetary allocations for settlement of outstanding bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether

effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund, except for the matters under Other Matter section of my report, 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 Board of Directors

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall 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 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 policies and procedures may deteriorate.


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 December, 2020

ARUSHA-NAMANGA-ATHI RIVER ROAD PROJECT
 Reports and Financial Statements
 For the financial year ended June 30, 2020

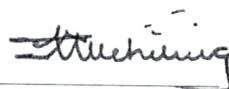
6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2020

	Note	2019/20		2018/19		Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payments controlled by the entity	Payments made by third parties	
		Kshs.		Kshs. (Restated)	Kshs	Kshs.
RECEIPTS						
Transfer from Government entities	10.3	18,903,530	-	152,982,733	-	3,954,693,678
Loan from external development partners	10.4	-	-	-	-	5,353,288,072
TOTAL RECEIPTS		18,903,530	-	152,982,733	-	9,307,981,750
PAYMENTS						
Purchase of Goods & Services	10.5	3,103,046	-	1,461,264	-	60,221,211
Acquisition of non-financial assets	10.6	20,904,372	-	144,477,521	-	9,162,089,690
TOTAL PAYMENTS		24,007,418	-	145,938,785	-	9,222,310,901
SURPLUS/DEFICIT FOR THE YEAR		(5,103,888)	-	7,043,948	-	85,670,849

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



Eng. Peter M. Mundinia
 Director General



Eng. David A. Muchilwa
 Director, Development



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

26 AUG 2020

Date

26 AUG 2020

Date

26 AUG 2020

Date

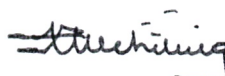
7. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2020

	Note	2019/20 Kshs.	2018/19 Kshs. (Restated)
FINANCIAL ASSETS			
Cash and Cash Balances	10.7	85,670,849	90,774,737
TOTAL FINANCIAL ASSETS		85,670,849	90,774,737
REPRESENTED BY:-			
Surplus/Deficit for the year		(5,103,888)	(5,193,098)
Fund balance b/fwd	10.8	90,774,737	95,967,835
NET FINANCIAL POSITION		85,670,849	90,774,737

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 AUG 2020 2020 and signed by:



Eng. Peter M. Mundinia
 Director General



Eng. David A. Muchilwa
 Director, Development



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

8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020

	Note	2019/20 Kshs.	2018/19 Kshs. (Restated)
RECEIPTS FOR OPERATING INCOME			
Transfers from Government entities			
GoK Counterpart Fund	10.3	18,903,530	152,982,733
Net Receipts for operating income		18,903,530	152,982,733
Payment for operating expenses			
Project operating costs	10.5	(3,103,046)	(1,461,264)
Net Payments for operating expenses		(3,103,046)	(1,461,264)
Net cash flow from operating activities		15,800,484	151,521,469
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of road assets	10.6	(20,904,372)	(144,477,521)
Net cash flows from Investing Activities		(20,904,372)	(144,477,521)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	-
Net Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	7,043,948
NET INCREASE IN CASH AND CASH EQUIVALENT		(5,103,888)	7,043,948
Cash and cash equivalent at Beginning of the year		90,774,737	83,730,789
Cash and cash equivalent at End of the year		85,670,849	90,774,737

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 26 AUG 2020 2020 and signed by:



Eng. Peter M. Mundinia
 Director General



Eng. David A. Muchilwa
 Director, Development



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

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments	Original	Adjustments	Final	Actual on	Variance	%Var.
	Budget		Budget	Comparable		f=d/c
	a		c=a+b	d		e=c-d
Receipts						
Transfers from Government entities	151,268,000	(67,891,828)	83,376,172	18,903,530	64,472,642	23%
Total Receipts	151,268,000	(67,891,828)	83,376,172	18,903,530	64,472,642	23%
Payments						
Purchase of goods and services	151,268,000	(67,891,828)	83,376,172	3,103,046	59,368,754	29%
Acquisition of non-financial assets				20,904,372		
Total Payments	151,268,000	(67,891,828)	83,376,172	24,007,418	59,368,754	29%

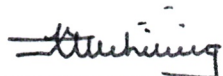
Note: The significant budget utilisation/performance differences in the last column are explained in Annex 1 to these financial statements.



Eng. Peter M. Mundinia
Director General

26 AUG 2020

Date



Eng. David A. Muchilwa
Director, Development

26 AUG 2020

Date



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

26 AUG 2020

Date

10. NOTES TO THE FINANCIAL STATEMENTS

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

10.1. Basis of Preparation

10.1.1. 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.

10.1.2. Reporting entity

The financial statements are for the Arusha-Namanga-Athi River Road Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.1.3. 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.

10.2. Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

• 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.

• External Assistance

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Proceeds from borrowing

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

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

• **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.

b) Recognition of payments

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

• **Compensation of employees**

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

• **Use of goods and services**

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

• **Interest on borrowing**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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.

- **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.

c) **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.

d) **Cash and cash equivalents**

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

Restriction on cash

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

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

f) 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.

g) 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.

h) 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 there was no loan disbursements received in form of direct payments from third parties.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) 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.

j) 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.

k) 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, 2020.

l) Errors

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

10.3. TRANSFER FROM GOVERNMENT ENTITIES

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

	2019/20 Kshs	2018/19 Kshs	Cumulative to-date
Counterpart funds Quarter 1	228,306	-	695,776,068
Counterpart funds Quarter 2	3,098,046	17,125,565	577,404,454
Counterpart funds Quarter 3	-	35,745,390	397,006,372
Counterpart funds Quarter 4	15,577,178	100,111,778	1,814,008,072
Sub- Total	18,903,530	152,982,733	3,484,194,966
RMLF Fund	-	-	470,498,712
TOTAL	18,903,530	152,982,733	3,954,693,678

10.4. LOANS FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2020 we did not receive any funding from development partners in form of loans negotiated by the National Treasury. An accumulative amount of Kshs 5.4 billion has however been utilised in the project.

10.5. PURCHASE OF GOODS AND SERVICES

	FY 2019/2020			FY 2018/2019	Cumulative to date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs			
Domestic travel and subsistence	-	-	-	163,616	8,065,608
Advertising and Services	3,103,046	-	3,103,046	1,297,648	52,155,603
Total	3,103,046	-	3,103,046	1,461,264	60,221,211

10.6. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2019/2020			FY 2018/2019	Cumulative to date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs (Restated)	
Construction of roads	20,904,372	-	20,904,372	144,477,521	8,155,691,555
Acquisition of land	-	-	-	-	1,006,398,135
Total	20,904,372	-	20,904,372	144,477,521	9,162,089,690

10.7. CASH AND CASH EQUIVALENTS C/FORWARD

	FY 2019/20 Kshs	FY 2018/19 Kshs (Restated)
Local Currency Accounts:		
National Bank Of Kenya A/C No. 0100132733200	85,670,849	90,774,737

10.8.FUND BALANCE BROUGHT FORWARD

	FY 2019/20	FY 2018/19
	KShs	KShs (Restated)
Bank accounts	85,670,849	90,774,737
Total	85,670,849	90,774,737

10.9. PRIOR YEAR ADJUSTMENT

	Balance b/f FY 2018/2019 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2018/2019
	Kshs	Kshs	Kshs
Bank account Balances	-	90,774,737	90,774,737
Acquisition of non-financial assets	156,714,567	(12,237,046)	144,477,521
	156,714,567	78,537,691	235,252,258

Prior year adjustment has been necessitated by PSAB introduction of the note on retention in the financial statements in FY 2019/20. Retention amounts had previously been expensed and have now been introduced in the statement of Financial Assets.

10.10.CHANGES IN ACCOUNTS PAYABLE –RETENTIONS

	2019 - 2020	2018 - 2019
	KShs	KShs
Retentions as at 1 st July (A)	90,774,737	78,537,691
Retentions held during the year (B)	-	12,237,046
Retentions paid during the Year (C)	5,103,888	-
Retentions as at 30th June D= A+B-C	85,670,849	90,774,737

11. PENDING BILLS (Annex 2A)

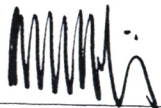
	Balance b/f FY 2019/2020	Additions during the period	Paid during the year	Balance c/f FY 2019/2020
Description	Kshs	Kshs	Kshs	Kshs
Construction of Roads	83,804,765	15,340,673	15,800,484	83,344,955
Purchase of Goods and Services	5,000	-	5,000	-
Total	83,809,765	15,340,673	15,805,484	83,344,955

ARUSHA-NAMANGA-ATHI RIVER ROAD PROJECT
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For the financial year ended June 30, 2019

12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

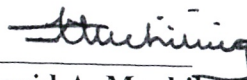
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Pending Bills	Note 9 to the financial statements reflects pending bills amounting to Kshs 83,809,765 as at 30 June 2019. Although Management has committed to liaise with the line ministry and the National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.	Through the continuous engagement with the parent ministry and the National Treasury, the Authority was able to secure funding and settled all outstanding works certificates in the current financial year. The Authority is however engaging the parent ministry and the National Treasury to come up with a policy on treatment of Forex differences arising from fixed exchange rate contracts in order to resolve part of the claims by the contractor.	Eng Charles Obuon	Resolved	



Eng. Peter M. Mundinia
 Director General

26 AUG 2020
 Date



Eng. David A. Muchilwa
 Director, Development

26 AUG 2020
 Date

ARUSHA-NAMANGA-ATHI RIVER ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2020

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	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 %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya -GOK	83,376,172	18,903,530	64,472,642	23%	Project Completed.
Total receipts	83,376,172	18,903,530	64,472,642	23%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	83,376,172	3,103,046	59,368,754	29%	Project Completed.
Acquisition of non-financial assets		20,904,372			
Total payments	83,376,172	24,007,418	59,368,754	29%	

ARUSHA-NAMANGA-ATHI RIVER ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2020

ANNEX 2 - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Liquidated Damages	Outstanding Balance	Outstanding Balance	Comments
					2020	2019	
	a	b	c		d=a-c		
Construction of roads							
China N.O. Eng. Co. Ltd	25,970,492	06/10/2014	-	-	25,970,492	25,970,492	IPC No. 41
China N.O. Eng. Co. Ltd	57,168,988	29/03/2016	-	-	57,168,988	57,168,988	IPC No. 49
China N.O. Eng. Co. Ltd	2,648,347	26/01/2018	2,442,872	-	205,474	433,780	IPC No. 4
China N.O. Eng. Co. Ltd	170,556,883	16/06/2018	152,825,846	17,731,037	-	231,505	IPC No. 51
Sub-Total	275,981,407		174,905,415	17,731,037	83,344,955	83,804,765	
Road Works Supervision Services							
Supervision Services							
Sub-Total	-		-				
Supply of goods & Services							
NEMA	5,000	23/12/2013		-	-	5,000	Invoice 20320
Sub-Total	5,000		-		-	5,000	
Grand Total	275,986,407		174,905,415	17,731,037	83,344,955	83,809,765	

ARUSHA-NAMANGA-ATHI RIVER ROAD PROJECT
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ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost (KShs) 2019/20	Purchases/Additions in the Year (KShs) 2019/20	Disposals in the Year (KShs) 2019/20	Closing Cost (KShs) 2018/19
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	8,134,787,183	20,904,372	-	8,155,691,555
Land	1,006,398,135	-	-	1,006,398,135
Total	9,141,185,318	20,904,372	-	9,162,089,690



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