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REPORT

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OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE, 2024**

KENYA NATIONAL HIGHWAYS AUTHORITY



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

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MINISTRY OF ROADS & TRANSPORT



PROJECT NAME: MERILLE MARSABIT ROAD REHABILITATION PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

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

ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2024**

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

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1. Acronyms and Definition of Terms

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

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The Project's official name is Merille - Marsabit Road Rehabilitation Project

Objective

The key objective of the project is to serve the strategic transport corridor linking Mombasa Port and Nairobi to Addis Ababa in Ethiopia. The road is part of the Trans East African Corridor from Cairo to Gaborone Botswana

Address: Barabara Plaza,
Jomo Kenyatta International Airport (JKIA)
Off Mazao Road (Opposite KCAA Headquarters)
Nairobi Kenya

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

2.2 Project Information

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

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Roads & Transport.
Project number	KE/FED/2009/021-655
Strategic goals of the project	The strategic goals of the project are as follows: i. To improve transport from Mombasa Port to Addis Ababa in Ethiopia ii. To improve regional growth

Project information and overall performance (continued)

Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: <ul style="list-style-type: none">• To provide regional economic integration.• To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards• It offers an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia.
Other important background information of the project	The project is funded jointly between The Government of Kenya (37.47%) and European Union (62.53%). The Project is about 120.6 Kms
Areas that the project was formed to intervene	The project was formed to intervene in the following areas: <ul style="list-style-type: none">• Reducing Transport cost and travel time between Kenya and Ethiopia.• Improvement of transportation of Animal Products and Natural resources produced to and from the project area• Improvement of economic and living standard of people in towns along the corridor
Project duration	The project started on 28 th January 2013 and was taken over on 26 th May, 2017.

2.4 Bankers

The following are the bankers for the project:

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

2.5 Independent Auditors

The project is audited by the Office of Auditor General of P.O Box 30084-0100 Nairobi

Project information and overall performance (continued)

2.6 Roles and Responsibilities

The following are the people working under the project

No	Names	Title Designation	Key Qualification	Responsibilities
1	Eng. Henry Gakuru	Director-Development	Registered Civil Engineer	Project Implementing Team Leader
2	Eng. Cleophus Makau	Deputy Director-Development	Registered Civil Engineer	Project Engineer
3	Mr. Walter B. Nyatwang'a	Deputy Director Environment & Social Interests	Environmental & Social Specialist	Project Safeguards Specialist
4	Ms. Levina K. Wanyonyi	Deputy Director-Supply Chain Management	Registered KISM	Project Procurement Specialist
5	Ms. Rose Oloo	Assistant Director-Social Interests	Social Development Specialist	Project Social Development Specialist
6	Mr. Chanje Kera	Deputy Director-Finance & Accounts	Registered CPA (K)	Project Financial Specialist

2.7 Funding summary

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

A. Source of Funds

Source of funds	Donor Commitments		Amount received to date (30 th June 2024)		Undrawn balance to date	
	EURO	Kshs	EURO	Kshs	EURO	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
(i) Loan						
European Union (EU)	88,200,000	9,457,421,400	86,032,542	9,225,011,341	-	-
(ii) Counterpart Funds	49,504,097	5,308,175,796	-	5,308,175,796	-	-
Total	137,704,097	14,765,597,196	86,032,542	14,533,187,137	-	-

NOTE. Contract exchange rate -Kshs.107.227

MERILLE - MARSABIT ROAD REHABILITATION PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2024

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date- (30 th June 2024)		Cumulative Amount paid to date-(30 th June 2024)		Unutilised balance to date (30 th June 2024)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') – (B')
	EURO	Kshs	EURO	Kshs	EURO	Kshs
i) Loan						
European Union (EU)	86,032,542	9,225,011,341	86,032,542	9,225,011,341	-	-
(ii) Counterpart Funds						
Government of Kenya	49,504,097	5,308,175,796	-	5,308,175,796	-	-
Total	135,536,639	14,533,187,137	86,032,542	14,533,187,137	-	-

2.8 Summary of Overall Project Performance:

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

	2023/2024			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - Gok	-	-	-	5,722,390,443	5,308,175,796	93%
Loan from External Development Partners	-	-	-	13,067,239,461	9,225,011,341	71%
Total	-	-	-	18,789,629,904	14,533,187,137	77%

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

The Project is substantially complete and taken over by the employer.

MERILLE - MARSABIT ROAD REHABILITATION PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2024

Project information and overall performance (continued)

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

FY	Budget	Actual	%
2023/24	-	-	-
2022/23	23,108,955	23,108,955	100%
2021/22	200,000,000	200,000,000	100%
2020/21	-	-	-
2019/20	320,485,224	231,523,703	72%
2018/19	134,242,660	134,242,660	100%
2017/18	1,471,318,433	1,252,537,681	85%
2016/17	3,334,957,549	2,744,099,597	82%
2015/16	3,255,818,292	2,425,683,732	75%
2014/15	4,400,000,000	3,648,979,786	83%
2013/14	4,201,029,084	2,424,341,316	58%
2012/13	1,448,669,707	1,448,669,707	100%
TOTAL	18,789,629,904	14,533,187,137	77%

2.9 Summary of Project Compliance:

There is no significant case of non-compliance with applicable laws and regulations and essential external financing agreements /covenants was reported during the year.

3. Statement of Performance against Project’s Predetermined Objectives

Introduction

Section 81 (2) (f) / Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, the Accounting Officer include a statement of Merille River - Marsabit Road Rehabilitation Project performance against predetermined objectives at the end of each financial year.

The key development objectives of the project are to:

- a) To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards
- b) It offers an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia Reduce transit time and costs incurred in cross-border movement.

Progress on attainment of Strategic development objectives

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

Project	Objective	Outcome	Indicator	Performance
Merille Marsabit Road Rehabilition Project	To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards	Reducing Transport cost and travel time between Kenya and Ethiopia.	Increased movement of people and goods between Kenya and Ethiopia.	The road is 100% complete in the financial year 2016/17.
	To offer an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia Reduce transit time and costs incurred in cross-border movement.	Linked road from Mombasa Port and Nairobi to Addis Ababa in Ethiopia.	Increased discharge of containers from the Port of Mombasa	The road is 100% complete in the financial year 2016/17.

4. Environmental and Sustainability Reporting

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

i. 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

ii. Environmental performance

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

Environmental and Sustainability Reporting (Continued)

iii. 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.

iv. 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.

v. 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 and playing environment in schools along the project road. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues. Some of the CSR carried out by this project were building of classrooms, providing water tanks to the local community, repair of water tank and building of the market. However, there were no CSR carried out in the current financial year given the project was completed in 2017.

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Merille - Marsabit Road Rehabilitation Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for the financial year ended on June 30, 2024. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) Selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

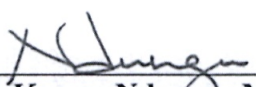
The Director General, KeNHA and the Project Implementation Team Leader accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting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

The Director General, KeNHA and the Project Implementation Team Leader are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2024, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader 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 and the adequacy of the systems of internal financial control.


The Director General, KeNHA and the Project Implementation Team Leader confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

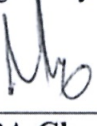
The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader on 19 JUL 2024 and signed by them.



Eng. Kungu Ndungu, MBS
Director General



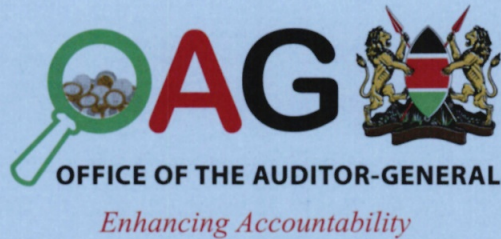
Eng. Henry Gakuru
Director -Development



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

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON MERILLE - MARSABIT ROAD REHABILITATION PROJECT (LOAN AGREEMENT NO.KE/FED/2009/021-655) FOR THE YEAR ENDED 30 JUNE, 2024 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the 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, risk management environment and 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 aim to address the Auditor-General's statutory roles and responsibilities 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 Merille - Marsabit Road Rehabilitation Project set out on pages 1 to 13, which comprise of the statement of financial assets and liabilities as at 30 June, 2024, and the statement of receipts and

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

In my opinion, the financial statements present fairly, in all material respects, the financial position of Merille - Marsabit Road Rehabilitation Project as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement No.KE/FED/2009/021-655 dated 20 April, 2010 between European Commission and the Republic of Kenya.

Basis for Opinion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Merille - Marsabit Road Rehabilitation Project Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

1. Long Outstanding Pending Bills

Note 6 to the financial statements and Annex 4 on other important disclosures reflects an amount of Kshs.69,056,118 in respect of pending accounts payables. However, review of the statement of comparison of budget and actual amounts revealed that Management did not provide a budget for settling the bills during the year under review and no explanation was provided on how and when Management intends to settle the pending bills. The Project is at risk of incurring additional costs in form of interest and penalties for failure to settle Project costs as and when the amounts fall due.

2. Lack of Project Closure Report

Paragraph 2.2 on Project Information in the financial statements indicates that the Project start date was 28 January, 2013 and Project end date was 27 May, 2017.

Further, Paragraph 2.7 on Funding Summary indicates that the Project had an approved budget of Euro 88,200,000 equivalent to Kshs.9,457,421,400 to be financed by the European Union (Donor) while an amount of Euro 49,504,097 equivalent to Kshs.5,308,175,796 was to be financed as counterpart funding by the Government of Kenya (GoK).

In addition, Paragraph 2.8(ii) on Summary of Overall Project Performance on physical progress based on outputs, outcomes and impacts showed that as at 30 June, 2024, the Project was substantially complete and taken over by the employer. However, the Project closure report was not provided for audit and Management did not provide an explanation for the failure to close the Project.

My opinion is not modified in respect of these matters.

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

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although Management had indicated the issues as resolved as at 30 June, 2024, no evidence was provided to support the position.

Other Information

Conclusion

The Management is responsible for the other information set out on pages iii to xi which comprise of Project information and Overall Performance, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting, and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

Basis for Conclusion

In connection with my audit on the Project's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and 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 the ISSAI 3000 and ISSAI 4000. The standards requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, 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 the 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 controls, 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.

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 controls, risk management and overall governance.

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I also I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, SBS
AUDITOR-GENERAL


Nairobi

13 November, 2024


7. Statement of Receipts and Payments for the Year ended 30th June 2024

	Note	2023/24			2022/23			Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payments controlled by the entity	Payments made by third parties	Total	
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Receipts								
Transfer from Government entities	1	-	-	-	23,108,955	-	23,108,955	5,308,175,796
Grants from external Development Partners	2	-	-	-	-	-	-	9,225,011,341
Total Receipts		-	-	-	23,108,955	-	23,108,955	14,533,187,137
Payments								
Purchase of Goods & Services	3	-	-	-	-	-	-	10,140,536
Acquisition of non-financial assets	4	-	-	-	23,108,955	-	23,108,955	14,523,046,601
Total Payments		-	-	-	23,108,955	-	23,108,955	14,533,187,137
Surplus/(deficit)		-	-	-	-	-	-	-


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


Eng. Kungu Ndungu, MBS
Director General

19 JUL 2024
Date


Eng. Henry Gakuru
Director -Development

19 JUL 2024
Date


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

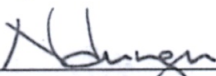
19 JUL 2024
Date


MERILLE - MARSABIT ROAD REHABILITATION PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2024


8. Statement of Financial Assets and Liabilities as at 30th June 2024

	Note	2023/24	2022/23
		Kshs	Kshs
Financial Assets			
Cash and Cash Equivalents		-	-
Total Financial Assets (A)		-	-
Financial Liabilities			
Payables- Retentions		-	-
Total Financial Liabilities (B)		-	-
Net Financial Assets (A-B)		-	-
Represented By:			
Fund Balance B/fwd		-	-
Surplus/(Deficit) for the year		-	-
Net Financial Assets		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 19 JUL 2024 and signed by:


Eng. Kungu Ndungu, MBS
Director General


Eng. Henry Gakuru
Director -Development


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

MERILLE - MARSABIT ROAD REHABILITATION PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2024***9. Statement of Cashflows for the year ended 30th June 2024**

Description	Notes	2023/24 Kshs.	2022/23 Kshs.
Cashflow from operating activities			
Receipts			
Transfers from Government entities	1	-	23,108,955
Total Receipts		-	23,108,955
Payments			
Purchase of Goods and Services	2	-	-
Total Payments		-	-
Net cash flow from operating activities		-	23,108,955
Cashflow from investing activities			
Acquisition of non-financial assets	4	-	(23,108,955)
Net cash flows from Investing Activities		-	(23,108,955)
Cashflow from financing activities			
Proceeds from foreign borrowings		-	-
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalents		-	-
Cash & cash equivalent at beginning of the year		-	-
Cash and cash equivalent at end of the year		-	-

MERILLE - MARSABIT ROAD REHABILITATION PROJECT

Annual Report and Financial Statements for the financial year ended June 30, 2024

10. Statement of Comparison of Budget and Actual Amounts for the Year ended 30th June 2024

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfers from Government entities	-	-	-	-	-	-
Proceeds from foreign borrowings	-	-	-	-	-	-
Total Receipts	-	-	-	-	-	-
Payments						
Purchase of goods and services	-	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-	-
Total Payments	-	-	-	-	-	-
Surplus or Deficit	-	-	-	-	-	-

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

11. Significant Accounting Policies

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

a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

b) Reporting entity

The financial statements are for Merille Marsabit Road Rehabilitation Project under Kenya National Highways Authority as required by Section 81/ Section 164 of the PFM Act, 2012.

c) Reporting currency

The financial statements are presented in Kenya Shillings (Kshs), the project's functional and reporting currency. All values are rounded to the nearest Kenya Shilling.

d) Recognition of receipts

Merille Marsabit Road Rehabilitation Project recognizes all receipts from various sources when an event occurs, and the related cash is received.

i) Transfers from the Exchequer

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

Significant Accounting Policies (continued)

ii) External Assistance

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

iii) Other receipts

This includes Appropriation-in-Aid and relates to receipts such as proceeds from the disposal of assets and the sale of tender documents. These are recognized in the financial statements when 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 payment advice is received by the recipient entity or by the beneficiary. In the case of a grant/donation in kind, such grants are recorded upon receipt of the grant item and its value determined. The transaction date 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 the reporting date 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. The funding summary analyzes the Project's undrawn external assistance.

e) Recognition of payments

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

i) Compensation to employees

Salaries, wages, Allowances, and Statutory Contributions for employees are recognized when the compensation is paid.

Significant Accounting Policies (continued)

ii) Use of goods and services

Goods and services are recognized as payments when the goods/services are consumed and paid for. If not paid for when 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)

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

v) Acquisition of fixed assets

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

f) In-kind donations

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

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

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

h) Restriction on cash

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

i) Imprests and Advances

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

j) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

Significant Accounting Policies (Continued)

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. There were no contingent liabilities in the year.

k) Contingent Assets

Merille - Marsabit Road Rehabilitation Project does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Merille - Marsabit Road Rehabilitation Project in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Pending bills

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

m) Budget

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

Significant Accounting Policies (Continued)

transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been *included in an annex to these financial statements*.

n) Third-party payments

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

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into 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 recognized in the statements of receipts and payments.

p) Comparative figures

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

q) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2024.

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments on the financial statements for the year ended June 30, 2024

12. Notes to the Financial Statements

1. Transfers from Government Entities

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

	2023/24	2022/23	Cumulative
	Kshs	Kshs	to-date
Counterpart funds Quarter 1	-	5,608,955	2,002,446,671.0
Counterpart funds Quarter 2	-	17,500,000	1,091,874,307
Counterpart funds Quarter 3	-	-	1,148,064,706
Counterpart funds Quarter 4	-	-	1,065,790,112
Total (See Annex 3)	-	23,108,955	5,308,175,796

2. Proceeds from Domestic and Foreign Grants

During the 12 months to 30 June 2024, we received no funding from development partners.

3. Purchase of Goods and Services

	FY 2023/24			FY 2022/23	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence	-	-	-	-	8,673,136
Advertising and services	-	-	-	-	1,467,400
Total	-	-	-	-	10,140,536

MERILLE - MARSABIT ROAD REHABILITATION PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2024***Notes to the Financial Statements (Continued)****4. Acquisition of Non-Financial Assets**

	FY 2023/24			FY 2022/23	Cumulative to date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Rehabilitation & renovation of plant, equipment & machinery	-	-	-	-	2,489,500
Research, studies, project preparation, design & supervision	-	-	-	-	546,337,397
Construction of roads	-	-	-	23,108,955	13,898,242,008
Acquisition of land	-	-	-	-	75,977,696
Total	-	-	-	23,108,955	14,523,046,601

5. Third Party Deposits and Retention

During the financial period to 30 June 2024, there were no third-party deposits and retention, (FY 2022-23, Nil)

Other Important Disclosures**6. Pending Accounts Payable (Annex 4)**

	Balance b/f FY 2023/2024	Additions for the period	Paid during the year	Balance c/f FY 2023/2024
Description	Kshs	Kshs	Kshs	Kshs
Construction of Roads	69,056,118	-	-	69,056,118
Total	69,056,118	-	-	69,056,118

7. External Assistance

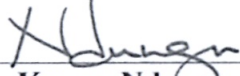
As at 30 June, 2024, there were no external assistance received being the project is substantially complete and taken over by the employer. (30th June, 2023- NIL)

13. Annexes

Annex 1-Prior Year Auditor-General’s Recommendations

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Basis for Conclusion</p> <p>Unapproved Overspending</p> <p>The second revised supplementary budget for the donor funded projects reflects the approved budget of Kshs. 17,500,000 for the Merille-Marsabit Road Rehabilitation Project. However, during the year under review, the Authority spent Kshs. 23,108,955 on the Project resulting in Over-expenditure of Kshs. 5,608,955. In the circumstances, Management was in breach of the law.</p>	<p>We agree with the observation that an amount of Kshs. 17,500,000 was the supplementary approved budget for the FY 2022/2023.</p> <p>However, an amount of Kshs. 5,608,955 represents WHT tax budgeted for in prior years but settled in FY 2022/23</p>	Resolved	Resolved


Eng. Kungu Ndungu
 Director General, MBS
 19 JUL 2024

 Date


Eng. Henry Gakuru
 Director -Development
 19 JUL 2024

 Date

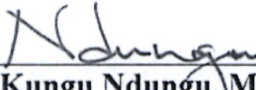
MERILLE - MARSABIT ROAD REHABILITATION PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2024


Annex 2 - Variance Explanations - Comparative Budget and Actual Amounts for FY 2023/2024

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilisation Variance to Final Budget	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Government of Kenya	-	-	-	-	-
External financing	-	-	-	-	
Total receipts	-	-	-	-	
Payments					
Purchase of goods and services	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	
Total Payments	-	-	-	-	

Annex 3 – Reconciliation of inter-entity transfers

	PROJECT NAME:	MERILLE MARSABIT ROAD REHABILITATION PROJECT		
Breakdown of Transfers from the State Department of Roads & Transport				
a. Government Counterpart Funding				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
	-	-	-	-
	Total		-	


 Eng. Kungu Ndungu, MBS
 Director General


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

MERILLE - MARSABIT ROAD REHABILITATION PROJECT

Annual Report and Financial Statements for the financial year ended June 30, 2024

Annex 4 - Analysis of Pending Bills

Supplier of Goods or Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance 2023-2024	Outstanding Balance 1022-2023	Comments
		a	b	c=a-b		
a) Construction of roads						
Gulsan Insaat	07/08/2017	479,790,643	410,734,525	69,056,118	69,056,118	47
Grand Total		479,790,643	410,734,525	69,056,118	69,056,118	

Annex 5 – Summary of Fixed Assets Register

Asset class	Opening Cost (KShs) 2023/24	Purchases/Additions in the Year (KShs) 2023/24	Disposals in the Year (KShs) 2023/24	Closing Cost (KShs) 2023/24
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	14,447,068,905	-	-	14,447,068,905
Land	75,977,696	-	-	75,977,696
Total	14,523,046,601	-	-	14,523,046,601