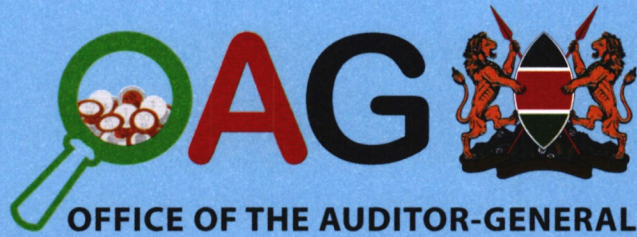


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REPORT

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Deputy majority leader

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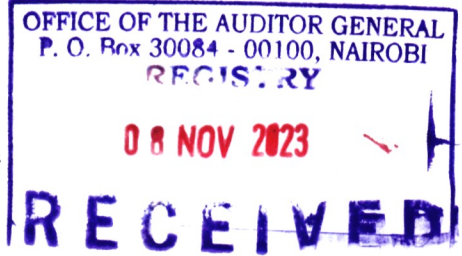
THE AUDITOR-GENERAL

ON

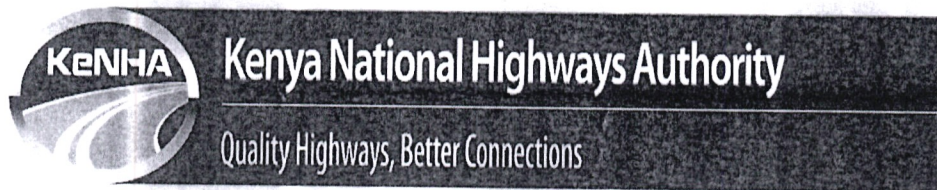
**MOMBASA-MARIAKANI HIGHWAY
PROJECT (A109) ROAD LOT 1:
(MOMBASA - KWA JOMVU)**

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

KENYA NATIONAL HIGHWAYS AUTHORITY



MINISTRY OF ROADS AND TRANSPORT



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

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT CREDIT NUMBER: 2100150032743

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023

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 Glossary of Terms

ADF	African Development Fund
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIA	Environmental Impact Assessment
EIK	Environmental Institute of Kenya
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
KISM	Kenya Institute of Supplies and Management
JKIA	Jomo Kenya International Airport
Kshs.	Kenya Shillings
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

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

Objective:

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

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

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

Contacts:

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

2.2 Project Information

Project Start Date:	September, 2015
Project End Date:	November 2023 (Recommended by Engineer)
Project Engineer	Eng. Cleophas Makau
Project Sponsor:	1. African Development Fund (ADF) 2. Government of Kenya (GK)

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of State Department for Roads
Project number	P-KE-DB0-021

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2023**

Strategic goals of the project	The strategic goals of the project are as follows: <ul style="list-style-type: none"> (i) Improve trade and regional integration and contribute to the Government of Kenya's social and economic development. (ii) Enhance social economic development of the people along the project road.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the strategic goals through implementation of the project in a timely, efficient and effective manner through: <ul style="list-style-type: none"> i. Monthly site meetings ii. Stakeholder engagements
Other important background information of the project	The Project has four (4) components namely; <ol style="list-style-type: none"> 1. Road Construction Civil Works; which involves dualling of the Mombasa – Mariakani Road (41.7 Kms). It will also include maintenance of the road for five years following the completion of the works. 2. Consulting Services and Training; include (i) construction supervision services for the road civil works, (ii) impact assessment of investments in the road sub-sector, (iii) provision for studies of Marua-Nanyuki-Lewa Road, (iv) project audit, (v) HIV/AIDS, gender, road safety awareness and sensitization and monitoring of ESMP and (vi) vocational training of unemployed youth. 3. Institutional Support; include consultancy services for: (i) development of Roads sub-sector guideline on gender mainstreaming; (ii) capacity building on planning and management of road maintenance contracts; and, (iii) project coordination. 4. Compensation and Resettlement; this component makes provision for the adequate compensation and resettlement of Project Affected Persons identified in the Project Environmental and Social Impact Assessments, and relocation of utilities.
Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: <ul style="list-style-type: none"> i. Traffic congestion at Changamwe roundabout ii. Slow trade and regional integration iii. Poverty levels among the communities living around the project area
Project duration	The initial implementation period is 5 years (2015 – 2020) with additional maintenance period of 5 years. Revised completion date is November 2023

2.4 Bankers

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

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

2.5 Independent Auditor

The project is audited by the Office of the Auditor-General.

2.6 Roles and Responsibilities

List of the people working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng. Henry Gakuru	Director-Development	Registered Engineer	Project Implementing Team Leader
Eng. Cleophas Makau	Deputy Director-Special Projects	Registered Engineer	Project Engineer
Mr. Walter Nyatwang'a	Deputy Director-Environment & Social Interests	NEMA Lead Expert, Member-EIK	Project Environment & Social Safeguards Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Advocate of the High Court of Kenya	Project Legal Specialist
Mr. Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist
Mr. Richard Kilel	Assistant Director-Supply Chain Management	Member-KISM	Project Procurement Specialist

Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2023

2.7 Funding summary

The Project is for duration of 5 years from September, 2015 to November 2023 with an approved Development Partner budget of UA 80,000,000 equivalent to Kshs. 11,316,256,000 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2023)		Undrawn balance to date (30.06.2023)	
	UA	Kshs	UA	Kshs	UA	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
ADF	80,000,000	11,316,256,000	56,053,303	7,928,919,029	23,946,697	3,387,336,971
(ii) Counterpart funds						
Government of Kenya	43,781,478	6,193,030,120	-	6,193,030,120	-	-
Total	123,781,478	17,509,286,120	56,053,303	14,121,949,149	23,946,697	3,387,336,971

B. Application of Funds

Application of funds	Amount received to date - (30.06.2023)		Cumulative Amount paid to date - (30.06.2023)		Unutilised balance to date - (30.06.2023)	
	UA	Kshs	UA	Kshs	UA	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
Africa Development Fund (ADF)	56,053,303	7,928,919,029	56,053,303	7,928,919,029	-	-
(ii) Counterpart funds						
Government of Kenya (GoK)	-	6,193,030,120	-	6,176,439,081	-	16,591,039
Total	56,053,303	14,121,949,149	56,053,303	14,105,358,110	-	16,591,039

2.8 Summary of Overall Project Performance:

(i) Budget performance against actual amounts for current year and for cumulative to-date: -

Budget	FY 2022/2023			Cumulative		
	Budget	Actual	%	Budget	Actual	%
	Kshs	Kshs		Kshs	Kshs	
Counterpart Funds - GoK	229,341,735	212,750,696	93%	6,220,302,333	6,176,439,081	99%
Loan from External Development Partners						
ADF	450,000,000	225,953,040	50%	8,485,000,000	7,928,919,029	93%
Total	679,341,735	438,703,736	65%	14,705,302,333	14,105,358,110	96%

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

As at 30th June, 2023, the overall weighted progress of works achieved was approximately 94.51% based on updated project cost appraisal against percentage of time elapsed of 94.01% based on the Engineer's recommended completion date of 24th November 2023.

(iii) Absorption rate for each year since the commencement of the project

Financial Year	Budget	Actual	Percentage (%)
FY 2022/23	679,341,735	438,703,736	65%
FY 2021/22	1,185,000,000	1,164,625,180	98%
FY 2020/21	2,054,000,000	1,929,304,082	94%
FY 2019/20	5,586,305,040	5,468,385,035	98%
FY 2018/19	3,121,286,000	3,097,385,051	99%
FY 2017/18	995,136,406	984,065,025	99%
FY 2016/17	944,233,152	893,576,270	95%
FY 2015/16	140,000,000	129,313,731	92%
Total	14,705,302,333	14,105,358,110	96%

(iv) The following are the Project's implementation challenges and recommended next steps.

- Delays in payment of land compensation for Project Affected Persons to allow Right of Way. To resolve this, the Authority is working with the Parent Ministry and the National Treasury to ensure adequate GoK budget is allocated for the project and prompt release of Exchequer funds.
- Delays in relocation of power and water lines. Contractor engaging Kenya Power and Mombasa Water Supply & Sanitation Company to expedite the relocation works.
- Court cases and injunctions. The Authority has been engaging some of the parties in out of court settlement. In some areas there was redesign of alignment and the encumbrances are now resolved.

2.9 Summary of Project Compliance:

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

3. Statement of Performance Against Project's Predetermined Objectives

Introduction

The key development objectives of the project are: -

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

Progress on attainment of Strategic development objectives

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

Below we provide the progress on attaining the stated objectives.

Objective	Outcome	Indicator	Performance
To improve trade and regional integration and contribute to the Government of Kenya's social and economic development	Reduced congestion in Mombasa town. Reduced travel time between Mombasa and Malaba	Increased volume of Import/Export trade handled at the port of Mombasa.	Construction works almost complete. Physical progress of works as at 30 th June 2023 was 94.10% based on the updated project cost appraisal report.
To enhance social economic development of the people along the project road	Improved air quality along the project road hence improved health among communities along the project road.	Reduced CO ₂ concentration along the project road as a result of reduced traffic congestion	Reduced dust and carbon emission along the project road.

4. Environmental and Sustainability Reporting

Mombasa – Mariakani Highway Project (A109) exists to transform lives. This is our purpose; the driving force behind everything we do. It’s what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

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

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

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

Environmental and Sustainability Reporting (Continued)

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.

To achieve inclusive growth among the community around the project area, the project has a component of training unemployed youth around the project area. To enhance social safeguards in

Environmental and Sustainability Reporting (Continued)

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.

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) are responsible for the preparation and presentation of the Project’s financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

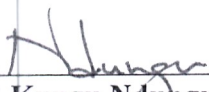
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) accept responsibility for the Project’s financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate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

The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) are of the opinion that the Project’s financial statements give a true and fair view of the state of Project’s transactions during the financial year ended June 30, 2023, and of the Project’s financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

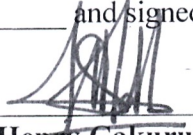
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds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

Approval of the Project financial statements

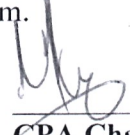
The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) on 26 SEP 2023 and signed by them.



Eng. Kungu Ndungu
Director General



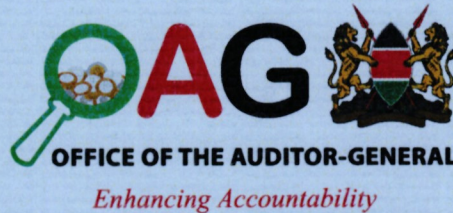
Eng. Henry Gakuru
Ag. Director-Development



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

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MOMBASA-MARIAKANI HIGHWAY PROJECT (A109) ROAD LOT 1: (MOMBASA - KWA JOMVU) FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa - Kwa Jomvu) set out on pages 1 to 21, which comprise of the statement of financial assets as at 30 June, 2023, and the statement of

Report of the Auditor-General on Mombasa-Mariakani Highway Project Road Lot 1: (Mombasa - Kwa Jomvu) for the year ended 30 June, 2023 - Kenya National Highways Authority

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

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa - Kwa Jomvu) as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No.2100150032743 dated 22 May, 2015 between the African Development Fund and the Government of the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Transfers from Government Entities

The statement of receipts and payments reflects transfer from Government entities of Kshs.229,341,735 as disclosed in Note 1 to the financial statements which includes annuity fund of Kshs.109,483,464 and appropriation in aid amount of Kshs.18,000,000. However, copies of the exchequer notifications and receipt vouchers in respect of annuity fund and appropriation-in-aid were not provided for audit review.

In the circumstances, the accuracy of the transfers from Government entities of Kshs.229,341,735 could not be confirmed.

2. Unsupported Cash and Cash Equivalents Balance

The statement of financial assets reflects cash and cash equivalents balance of Kshs.21,270,899 and as disclosed in Note 5 to the financial statements which includes Kshs.4,679,860 held in a local bank retention account whose certificate of bank balance was not provided for audit. The balance further includes Kshs.16,591,039 held in another local bank account whose bank reconciliation statement reflected reconciled bank balance of Kshs.3,582,156,401 resulting to unexplained variance of Kshs.3,565,565,362.

Further, the two (2) bank accounts were maintained in commercial banks instead of the Central Bank of Kenya. Management did not provide evidence of exemption by the Cabinet Secretary as required by Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.21,270,899 could not be confirmed.

3. Unsupported Deposits and Retention Monies

The statement of financial assets reflects a balance of Kshs.4,679,860 in respect of deposits and retentions and as disclosed in Note 6 to the financial statements which represents a decrease of Kshs.7,341,570 from the previous year's balance of Kshs.12,021,430. However, the details and corresponding taking over certificates issued for the sections or part of the works completed were not provided for audit contrary to the provisions of Clause 14.9 of the contract agreement between the contractor and the Authority which provides that when taking over certificate has been issued for the works, the first half of the retention money shall be certified by the engineer for payment to the contractor and that if a taking over certificate has been issued for a section or part of the works, a proportion of the retention money shall be certified and paid.

In the circumstances, the accuracy and authenticity of the retention monies paid and the balance of Kshs.4,679,860 could not be confirmed.

4. Presentation and Disclosures of the Financial Statements

Review of the financial statements submitted for audit revealed various inconsistencies in presentation and disclosure as indicated below:

- i. The list of the implementation challenges and recommended steps were omitted in the summary on overall performance section.
- ii. The payment of retention monies of Kshs.7,341,570 for the year under review and Kshs.3,011,714 for 2021/2022 financial year were disclosed in the statement of financial assets under the represented by section as a decrease instead of disclosing them as adjustments in the statement of cashflows.
- iii. Adjustments which included deposits and retention monies paid during the year under review were not disclosed in the statement of cashflows.

In the circumstances, the financial statements were not compliant with the format prescribed in the Annual Financial Reporting template issued by the Public Sector Accounting Standards Board.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements. Although Management indicated that some of the issues were resolved, the proof of how the issues were resolved was not provided for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Delayed Project Implementation and Completion

The statement of receipts and payments reflects total cumulative receipts of Kshs.14,121,949,149 out of which Kshs.6,193,030,120 was in respect of transfer from Government entities while Kshs.7,928,919,029 was in respect of loan from external development partners while the total cumulative payments were Kshs.14,100,678,250. As previously reported, the contract was awarded to an international contractor at a cost of Kshs.6,016,868,260 on 29 July, 2016 with an order to commence works issued on 6 January, 2017. The African Development Fund (ADF) and the Government of the Republic of Kenya were jointly financing the project, the Bank taking 97.8% of the cost while the Government of Kenya financing the remaining 2.2% including the tax elements arising during execution of the Contract.

Even though the contract period was extended to 24 November, 2024 from the initial completion date of 3 August, 2019, occasioning the variation of the contract sum to Kshs.8,538,736,334 from the original contract sum of Kshs.6,016,868,260, the monthly progress report number 77, indicated that the contractor and the joint consultants requested for several extensions of time cumulatively adding up to 2,895 days.

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

2. Irregular Transfer of Project Motor Vehicles

Information provided during the audit indicated that the Project Resident Engineer had nine (9) motor vehicles acquired between March, 2017 and October, 2018. However, it was noted that the vehicles were transferred to the project contractor under unclear circumstances to reduce the project cost. The value of the vehicles and the total cost reduction was not disclosed. This was contrary to the provisions of Regulation 139(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which

provides that the Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.

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

3. Pending Bills

The financial statements under other important disclosures reflects pending bills amounting to Kshs.2,225,743,167 as at 30 June, 2023 and as analysed in Annex 4 of the financial statements. Management did not provide satisfactory explanation for failure to settle the huge outstanding amount of pending bills.

In the circumstances, the Project risks incurring significant losses in form of interest and penalties due to continued delay in settlement of the pending bills.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund, I report based on my audit, that:

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

- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


15 November, 2023


**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2023**


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

Note	FY 2022/23			FY 2021/22			Cumulative to Date
	Receipts & Payments Controlled by the Entity Kshs	Payments Made by Third Parties Kshs	Total Kshs	Receipts & Payments Controlled by the Entity Kshs	Payments Made by Third Parties Kshs	Total Kshs	
RECEIPTS							
Transfer from Government entities	229,341,735	-	229,341,735	100,000,000	-	100,000,000	6,193,030,120
Loan from external development partners	-	225,953,040	225,953,040	-	1,052,603,750	1,052,603,750	7,928,919,029
TOTAL RECEIPTS	229,341,735	225,953,040	455,294,775	100,000,000	1,052,603,750	1,152,603,750	14,121,949,149
PAYMENTS							
Purchase of goods and services	9,933,452	-	9,933,452	-	-	-	153,776,665
Acquisition of non-financial assets	202,817,244	225,953,040	428,770,288	100,000,000	1,052,603,750	1,152,603,750	13,951,581,445
TOTAL PAYMENTS SURPLUS/DEFICIT FOR THE YEAR	212,750,696	225,953,040	438,703,740	-	1,052,603,750	1,152,603,750	14,105,358,110
	16,591,039	-	16,591,039	-	-	-	16,591,039

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


Eng. Kungu Ndungu
Director General

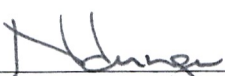

Eng. Henry Gakuru
Ag. Director-Development

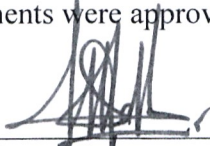

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

8. Statement of Financial Assets as at 30th June 2023

Description	Note	FY 2022/23	FY 2021/22(Restated)
		Kshs	Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	5A	21,270,899	12,021,430
Total Financial Assets		21,270,899	12,021,430
Financial Liabilities			
Deposits and Retention	6	4,679,860	12,021,430
Net Assets		16,591,039	-
Represented By:			
Fund balance B/fwd	7	-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		16,591,039	-
Net Financial Position		16,591,039	-

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


Eng. Kungu Ndungu
Director General

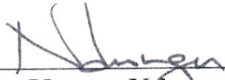

Eng. Henry Gakuru
Ag. Director-Development



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

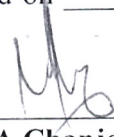
9. Statement of Cashflow for the year ended 30th June 2023

Description	Note	FY 2022/2023	FY 2021/2022(Restated)
Cashflow from operating activities		Kshs	Kshs
Receipts			
Transfer from government entities	1	229,341,735	100,000,000
Total Receipts		229,341,735	100,000,000
Payments			
Purchase of goods and services	3	(9,933,452)	-
Total Payments		(9,933,452)	-
Net receipts/(payments)		219,408,283	100,000,000
Adjustments during the year			
Prior year adjustments		-	-
Increase/(decrease) in accounts payable	8	(7,341,570)	(3,011,714)
Net cash flow from operating activities		212,066,713	96,988,286
Cashflow from investing activities			
Acquisition of Assets	4	(428,770,284)	(1,152,603,750)
Net cashflow from investing activities		(428,770,284)	(1,152,603,750)
Cashflow from financing activities			
Proceeds from Foreign Borrowings	2	225,953,040	1,052,603,750
Net cash flow from financing activities		225,953,040	1,052,603,750
Net increase in cash and cash equivalent		9,249,469	(3,011,714)
Cash and cash equivalent at Beginning of the year		12,021,430	15,033,144
Cash and cash equivalent at End of the year		21,270,899	12,021,430

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 SEP 2023 and signed by:


Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Ag. Director-Development

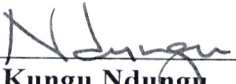

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279


*Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2023*


Statement of Comparison of Budget and Actual Amounts for the year ended 30th June 2023

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	150,000,000	79,341,735	229,341,735	229,341,735	-	100%
Proceeds from Loans	500,000,000	(50,000,000)	450,000,000	225,953,040	224,046,960	50%
Total Receipts	650,000,000	29,341,735	679,341,735	455,294,775	224,046,960	67%
Payments						
Purchase of goods and services	650,000,000	29,341,735	679,341,735	9,933,452	240,637,999	65%
Acquisition of non-financial assets				428,770,284		
Total Payments	650,000,000	29,341,735	679,341,735	438,703,736	240,637,999	65%
Surplus	-	-	-	(16,591,039)	(16,591,039)	-

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


Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Director-Development


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

10. Significant Accounting Policies

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

(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 Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) under Kenya National Highways Authority as required by Section 81 of the PFM Act, 2012.

(c) Reporting currency

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

(d) Recognition of receipts

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

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

(e) Recognition of payments

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

• **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 were incurred and paid for.

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

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

Significant Accounting Policies (Continued)

- **Acquisition of fixed assets**

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

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

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

(f) In-kind donations

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

(g) Cash and cash equivalents

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

(h) Restriction on cash

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

(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 are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

Significant Accounting Policies (Continued)

(j) Contingent Liabilities

A contingent liability is:

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

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships.

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

(k) Contingent Assets

Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu) does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Mombasa – Mariakani Highway Project (A109) Road Lot 1: (Mombasa – Kwa Jomvu)0 in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

(l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

Significant Accounting Policies (Continued)

(m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as

the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of

Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

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

(n) Third party payments

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

(o) Exchange rate differences

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

(p) Comparative figures

Where necessary comparative figures for the previous financial year 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 end with a significant impact on the financial statements for the year ended June 30, 2023.

Significant Accounting Policies (Continued)

(r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). Explanations and details of these prior period adjustments are presented in *note 8 of these financial statements*.

11. Notes to the Financial Statements

1. Transfers from Government Entities

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

Description	2022/23	2021/22	Cumulative
	Kshs	Kshs	to-date
Counterpart funding through Ministry of Roads & Transport			
Counterpart funds Quarter 1	37,500,000	80,000,000	686,031,163
Counterpart funds Quarter 2	-	20,000,000	703,628,755
Counterpart funds Quarter 3	64,358,271	-	409,183,142
Counterpart funds Quarter 4	-	-	4,266,703,596
Total (See Annex 3)	101,858,271	100,000,000	6,065,546,656
<i>Other transfers from government entities</i>			
Annuity fund	109,483,464	-	109,483,464
Total	109,483,464	-	109,483,464
Appropriations-in-Aid	18,000,000	-	18,000,000
Total	229,341,735	100,000,000	6,193,030,120

2. Loan from External Development Partner

During the 12 months to 30 June 2023 we received funding from Development Partners in form of loans negotiated by the National Treasury detailed in the table below:

Name of Donor	Amount in loan currency	Loans received in Cash	Loans received as direct payment	Total amount in Kshs	Total Amount in Kshs	Cumulative to date
				FY 2022/23	FY 2021/22	
	UA	Kshs	Kshs	Kshs	Kshs	Kshs
Loans Received from Multilateral Donors						
African Development Fund (ADF)	1,597,370	-	225,953,040	225,953,040	1,052,603,750	7,928,919,029
Total	1,597,370	-	225,953,040	225,953,040	1,052,603,750	7,928,919,029

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Description	FY 2022/23			FY 2021/22	Cumulative to Date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic Travel & Subsistence	9,933,452	-	9,933,452	-	87,525,964
Hospitality Supplies & Services	-	-	-	-	7,998,430
Printing, Adverts & Information Supplies	-	-	-	-	5,421,933
Training Payments	-	-	-	-	16,222,715
Other Operating Expenses	-	-	-	-	31,700,000
Utility Supplies & Services	-	-	-	-	4,907,623
Total	9,933,452	-	9,933,452	-	153,776,665

4. Acquisition of Non-Financial Assets

Description	FY 2022/23			FY 2021/22	Cumulative to-date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Research, Studies, Project Preparation, Design & Supervision	29,231,054	19,382,672	48,613,726	78,729,576	838,764,186
Construction of Roads	173,586,190	206,570,368	380,156,558	1,073,874,174	8,503,382,401
Acquisition of Land	-	-	-	-	4,609,434,858
Total	202,817,244	225,953,040	428,770,284	1,152,603,750	13,951,581,445

Notes to the Financial Statements (Continued)

5. Cash and Cash Equivalents Carried Forward

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Bank accounts (Note 5A)	21,270,899	12,021,430
Total	21,270,899	12,021,430

5A Bank Accounts

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Local Currency Accounts		
National Bank of Kenya Ltd. Retention [A/c No. 0100132733200]	4,679,860	12,021,430
Co-operative Bank of Kenya [A/c No.01141160979900]	16,591,039	-
Total bank account balances	21,270,899	12,021,430

6. Deposits & Retentions

Description	FY 2022/23		FY 2021/22	
	Kshs		Kshs	
Retentions	4,679,860		12,021,430	
Total	4,679,860		12,021,430	
Ageing analysis:	FY 2022/23	% of the Total	FY 2021/22	% of the total
Under one year	1,082,773	23%	710,824	6%
1-2 years	1,145,349	24%	3,747,378	31%
2-3 years	2,451,738	52%	3,192,267	27%
Over 3 years	-	0%	4,370,961	36%
Total	4,679,860	100%	12,021,430	100%

Notes to the Financial Statements (Continued)

7. Fund Balance Brought Forward

Description	FY 2022/23	FY 2021/22(Restated)
	Kshs	Kshs
Bank Accounts	21,270,899	12,021,430
Deposits & Retention	(4,679,860)	(12,021,430)
Total	16,591,039	-

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

Description	FY 2022/23	FY 2021/22 (Restated)
	Kshs	Kshs
Retentions as at 1st July	12,021,430	15,033,144
Closing accounts payables - retentions as at 30th June	4,679,860	12,021,430
Changes in accounts payables - retentions	(7,341,570)	(3,011,714)

9. Prior Year Adjustments

Description of error	Balance b/f FY 2021/2022 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2021/2022
Description	Kshs	Kshs	Kshs
Accounts Payables	15,743,968	(3,722,538)	12,021,430
Acquisition of non-financial assets	1,151,892,926	710,824	1,152,603,750
Acquisition of non-financial assets cumulative	13,507,778,017	15,033,144	13,522,811,161
Bank account Balances	15,743,968	(3,722,538)	12,021,430

Prior year adjustment relates to errors noted on accounting for withheld retention amounts withheld from the contractor which were not initially included in non-financial assets but have now been included.

Other Important Disclosures

1. Pending Bills (See Annex 4)

Description	Balance b/f FY 2021/2022	Additions for the year	Paid during the year	Balance c/f FY 2022/23
	Kshs			Kshs
Construction of civil works	385,350,437	2,194,333,629	387,498,128	2,192,185,938
Lands Compensation	-	-	-	-
Supply of services	62,908,888	29,195,519	58,547,178	33,557,229
Total	448,259,325	2,223,529,149	446,045,306	2,225,743,167

2. Accounts Payables – Retentions Controlled by Third Parties

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Retentions controlled by third parties	2,446,241	209,016,609
Total	2,446,241	209,016,609

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

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Retentions as at 1st July	209,016,609	418,033,205
Closing accounts payables - retentions as at 30th June	2,446,241	209,016,609
Changes in accounts payables - retentions	(206,570,368)	(209,016,596)

4. External Assistance

a) External assistance relating to loans and grants

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
External assistance received as loans	225,953,040	1,052,603,750
Total	225,953,040	1,052,603,750

Other Important Disclosures (Continued)

b) Undrawn external assistance

Description	Purpose for which the undrawn external assistance may be used	FY 2022/2023	FY 2021/2022
		Kshs	Kshs
Undrawn external assistance - grants	Construction of roads & consultancy services	3,387,336,971	3,613,290,011
Total		3,387,336,971	3,613,290,011

c) Classes of providers of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Multilateral donors	225,953,040	1,052,603,750
Total	225,953,040	1,052,603,750

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

d) Purpose and use of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Acquisition of Assets	225,953,040	1,052,603,750
Total	225,953,040	1,052,603,750

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

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

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Multilateral donors	225,953,040	1,052,603,750
Total	225,953,040	1,052,603,750

5. Contingent Liability

Contingent Liabilities	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Court Case MSA HC Petition no.106 of 2015 against the Project	81,574,631	-
Total	81,574,631	-

*Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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12. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p>Lack of a Project Bank Account</p> <p>The statement of receipts and payments and Note 1 to the financial statements reflects Kshs.100,000,000 in respect to transfers from other Government entities. However, as previously reported, the amount could not be confirmed as the Authority does not maintain a separate bank account for the project. It was therefore, not clear how the Management determined the receipts attributable to the Project.</p>	<p>The Authority maintains one Exchequer Account for receiving all exchequer funds pursuant to Section 28 (2) of the PFM act 2012. Further, the project's financing agreement did not provide for revenue method of payment which would have necessitated opening of a designated project bank account.</p>	Resolved	Resolved
2	<p>Accuracy of the Financial statement</p> <p>The statement of financial assets reflects nil amounts under both fund balance brought forward and surplus for the year. However, the statement of receipts and payments reflects Kshs.710,824 and Kshs.15,743,968 as surplus for the year and cumulative surpluses respectively which should have also been included in the statement of financial assets.</p>	<p>Kshs 710,824 reflected as surplus in the statement of receipts and payments represent retention amount withheld from the project's works contractor in FY 2021/22 hence constitutes a financial liability. This amount has been added to Payables – Deposits and Retentions from prior year of Kshs 15,033,144 hence Kshs 15,743,968 as reflected in the Statement of Financial Assets as at 30 June 2022 thus complies with the revised template issued by Public Sector Accounting Standards Board (PSASB).</p>	Resolved	Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
3	<p>Unsupported Cash and Cash Equivalents</p> <p>The statements of financial assets and Note 5 to the financial statements reflects a balance of Kshs.15,743,968 for the Retention Bank account held at a local bank as at 30 June, 2022. However, the bank reconciliation statement provided in support of this balance reflects a balance as per the cashbook of Kshs.183,962,682 as at the same date resulting in unexplained variance of Kshs.168,218,714.</p>	<p>We wish to note that although the Authority maintains one bank account for retention funds, the Authority operates an accounting system which is able to provide a retention ledger which provides the following details amongst others:</p> <ul style="list-style-type: none"> • The date when an amount was either retained or paid out, • The amounts retained or released, • The vendor to whom the amount relates to, and • The project to which the amount relates to <p>The Authority is therefore able to segregate the retention funds held for each project which ensures accuracy of the balances reported in the project financial statements. A schedule of retention balance of Kshs 15,743,968 was provided during the audit exercise.</p>	Resolved	Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><u>Other Matter</u></p> <p>Lack of Project Detailed Budget</p> <p>The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.1,535,000,000, However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.</p> <p>It was therefore not clear how the budget figures in the statement of comparison of budget and actual amounts were arrived at.</p>	<p>As clarified during the audit exercise, by nature and practice appropriation by the National Assembly to the project is on a specific line by line individual project. This is the form in which the project budgets are uploaded onto IFMIS and availed for expenditure.</p> <p>A line by line individual project budget was availed during the audit. However, for purposes of presentation in the financial statements, the requirement is not to present them per project as in IFMIS but by the nature of expenditure as per the template provided by the Public Sector Accounting Standards Board (PSASB).</p>	Resolved	Resolved

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
Annual Report and Financial Statements for the financial year ended June 30, 2023**

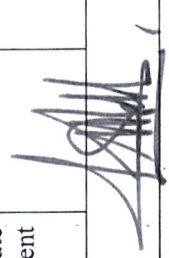
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
2	<p>Delayed Project Completion</p> <p>Kenya National Highways Authority entered into a 42 months contract for construction of Mombasa-Mariakani Project with Third Engineering Bureau of China in July, 2016 at a contract sum of Ksh.6,016,868,260. The works commenced on 4 February, 2017 with an initial contract period of 30 months and was later extended by 13 months to bring the revised completion date to 3 September, 2022. However, physical verification of the project site, which was carried out in November, 2022 after the lapse of revised completion date, revealed that works were still ongoing with overall progress approximated at 95.10% an indication that little progress was realized in the year under review. Further, there was no evidence that a contract extension period had been approved to warrant the contractor being on site. In the circumstances, implementation of the Project was behind schedule which may lead to costs escalation and delayed realization of expected benefits of the project.</p>	<p>The Project's completion has delayed due to the delay in acquisition of Right of Way (RoW) This has been due to the ongoing court cases which have stopped the Authority from accessing some sections of the project road like Kwa Jomvu Interchange for handing over to the Contractor. The cases have also affected the relocation of services.</p> <p>Once given access, the Authority will endeavour to closely monitor the project to ensure expedited completion.</p>	Not Resolved	Continuous

**Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
3	<p>Lack of Site Access Due to Legal Disputes</p> <p>A physical verification of the Project carried out in November, 2022 revealed that, works in a section of the road namely, Kwa - Jomvu interchange had stalled since the year 2016 due to two on-going Court cases. The first Court case No.157 of 2015 was filed by a local company which led to stoppage of construction of interchange reinforced earth wall, ramp, the main road and slip road while another Court case No.106 of 2015 was filed by another Investment Company which stopped demolition of a walling structures encroaching on the road reserve.</p>	<p>The Authority has requested the office of the Solicitor General to intervene and expedite the cases. Further the Authority has engaged the two litigants to try out of court settlements which may be faster to allow works to continue.</p>	Not Resolved	Continuous
4	<p>Pending Bills</p> <p>Note 12.1 to the financial statements reflects pending bills amounting to Kshs.448,259,325 as at 30 June, 2022 and as analysed in Annex 3. Although the Management has explained that it was liaising with the line Ministry and The National Treasury to secure adequate budgetary allocation and exchequer releases to enable prompt payments of the pending bills, there is a risk of incurring additional significant costs in terms of interest and penalties due to continued delay in settlements of Project obligations.</p>	<p>This arise due to inadequate budgetary provisions and delays in exchequer releases. In FY 2022/23 the Authority has managed to secure GoK budgetary allocation of Kshs 150,000,000 for the project subject to the current year ceilings to be utilized in reducing these pending bills.</p> <p>The Authority will endeavour to allocate adequate budget, subject to provided ceilings in subsequent Financial Years to further reduce the pending bills.</p>	Not Resolved	Resolved


Eng. Kungu Ndungu
Director General

26 SEP 2023
Date


Eng. Henry Gakuru
Director-Development

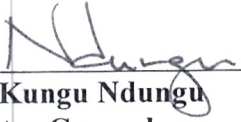
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Annex 2: Variance Explanations - Comparative Budget and Actual Amounts for FY 2022-2023

	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	229,341,735	229,341,735	-	100%	
External financing	450,000,000	225,953,040	224,046,960	50%	Prolonged addendum process
Total receipts	679,341,735	455,294,775	224,046,960	67%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services		9,933,452			
Acquisition of non-financial assets	679,341,735	428,703,736	240,637,999	65%	Prolonged addendum process
Total payments	679,341,735	438,703,736	240,637,999	65%	

Annex 3: Reconciliation of Inter-Entity Transfers

Project Name:		Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa - Kwa Jomvu)	
Break down of Transfers from the State Department of Roads			
Government Counterpart Funding			
	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
	30-Sep-22	37,500,000	FY 2022/23
	10-Feb-23	64,358,271	FY 2022/23
Total	Total	101,858,271	
Direct Payments			
		<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
		-	
		-	
	Total	-	
Others			
		<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
Annuity Fund	25-May-23	109,483,464	FY 2022/23
Appropriations-in-Aid		18,000,000	FY 2022/23
	Total	127,483,464	
	Total (A+B+C)	229,341,735	


Eng. Kungu Ndungu
Director General

26 SEP 2023

Date


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

26 SEP 2023

Date

*Mombasa-Mariakani Highway Project (A109) Road Lot 1: (Mombasa-Kwa Jomvu)
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Annex 4 – Analysis of Pending Bills

Supplier of Goods/Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2023	2022	
		a	c	d=a-c		
Consultancy Services						
Sai Consulting Engineers	03.12.2020	83,807,218	83,807,218	-	10,292,115	FN 18/095
Sai Consulting Engineers	15.12.2020	733,016	-	733,016	733,016	FN 14
Sai Consulting Engineers	20.05.2021	1,907,331	-	1,907,331	1,907,331	FN 12(Tax)
Sai Consulting Engineers	02.08.2021	12,502,634	-	12,502,634	12,502,634	FN 16(Tax)
Sai Consulting Engineers	04.08.2021	2,060,053	-	2,060,053	2,060,053	FN 16A(Int)
Sai Consulting Engineers	01.03.2022	61,448,857	61,448,857	-	8,188,276	FN 24/139
Sai Consulting Engineers	25.03.2022	4,039,658	-	4,039,658	4,039,658	FN 17(Tax)
SMEC International	12.02.2021	401,945	401,945	-	401,945	FN 7
Gibb Africa Ltd	26.05.2021	47,370,748	45,370,748	2,000,000	5,241,947	FN 4(Lewa)
Gibb Africa Ltd	18.01.2022	35,263,743	34,470,223	793,520	7,423,359	FN 5(Lewa)
Government Printers	10.06.2021	13,920	-	13,920	13,920	Inv 2244
EMC Consultants	01.07.2021	2,668,000	2,668,000	-	2,553,000	FN 1
Cardno IT Transport	11.06.2021	8,515,121	6,671,807	1,843,314	1,843,314	FN 2
Cardno IT Transport	11.06.2021	8,515,121	6,671,807	1,843,314	1,843,314	FN 3
Cardno IT Transport	11.06.2021	8,515,121	6,671,807	1,843,314	1,843,314	FN 4
Cardno IT Transport	11.06.2021	8,935,071	6,913,380	2,021,691	2,021,691	FN 5
Gibb Africa Ltd	16.11.2022	1,392,442	1,088,061	304,381	-	FN 10
Cardno IT Transport	01.03.2023	11,970,347	10,319,264	1,651,083	-	FN 6
Sub-total		300,060,346	266,503,117	33,557,229	62,908,888	
Civil Works						
Third Engineering	04.05.2020	25,272,255	-	25,272,255	25,272,255	IPC 13
Third Engineering	01.10.2020	28,056,411	-	28,056,411	28,056,411	IPC 20
Third Engineering	02.10.2020	283,258,610	283,258,610	-	-	IPC 22
Third Engineering	11.11.2020	260,638,425	260,638,425	-	-	IPC 23
Third Engineering	30.11.2020	484,827,439	484,827,439	-	38,618,990	IPC 24
Third Engineering	05.03.2020	221,651,365	221,651,365	-	14,776,337	IPC 26
Third Engineering	16.04.2021	224,350,164	224,350,164	-	35,199,717	IPC 27
Third Engineering	01.06.2021	227,423,723	191,741,725	35,681,998	35,681,998	IPC 28
Third Engineering	08.06.2021	235,800,896	219,070,950	16,729,946	36,996,346	IPC 29
Third Engineering	14.07.2021	345,020,250	290,887,763	54,132,488	54,132,488	IPC 30
Third Engineering	04.08.2021	342,978,866	289,166,665	53,812,201	53,812,201	IPC 31
Third Engineering	01.12.2021	219,193,963	184,803,153	34,390,810	34,390,810	IPC 32
Third Engineering	28.06.2022	28,412,884	-	28,412,884	28,412,884	IPC 33
Third Engineering	01.03.2023	772,198,851	-	772,198,851	-	Claim 1
Third Engineering	01.03.2023	1,143,498,095	-	1,143,498,095	-	IPC 36

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Supplier of Goods/Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2023	2022	
		a	c	d=a-c		
Sub-total		4,842,582,197	2,650,396,258	2,192,185,938	385,350,437	
Land Compensation			4,609,434,858	-	-	
Grand-Total		5,142,642,542	7,526,334,233	2,225,743,167	448,259,325	

Annex 5: Summary of Fixed Asset Register

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KSh)	(KSh)	(KSh)	(KSh)
	2022/23	2022/23	2022/23	2023
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Land	4,609,434,857	-	-	4,609,434,857
Construction of Roads	8,913,376,304	428,770,284	-	9,342,146,588
Total	13,522,811,161	428,770,284	-	13,951,581,445

Annex 6: Contingent Liabilities Register

	Nature of contingent liability	Remarks
1	MSA HC Petition no.106 of 2015 Court Award	Out of court negotiations are ongoing with the claimant, Mistry Premji Investments Ltd, to allow settlement of the matter in the interest of progress of Works.

Details of Court Cases in Mombasa – Kwa Jomvu Road Project

No.	Plot No.	Particulars	Location	Works Affected	Status
1.	MN/V/1667	Kamlesh Pandya (SYNERGY) - Court Injunction stopping demolition of structures encroaching road reserve. MSA HC Petition no. 13 of 2015	Km 11+200	Construction of Kwa Jomvu Interchange reinforced earth wall, ramp, and the Main Road and RHS Slip Road.	There have been several negotiation meetings with the complainant (Synergy Gases) involving NLC, independent valuation Consultant and MOR&T with a view to settle the matter out of court. Award to M/s Synergy Gases is awaited from the National Land Commission. The Authority can negotiate for early entry upon release of the Award.
2.	MN/V/393/R	Mistry Premji Investments Ltd - Court Injunction stopping demolition of structures encroaching road reserve. MSA HC Petition no. 106 of 2015 . They also did not accept award and have contested the same	Km 11+620	Construction of Kwa Jomvu Interchange Service Road	The Court delivered Judgment in favour of M/s Mistry Premji (Investments) Limited issuing an injunction restraining KeNHA from entering the suit property. The court further awarded the claimant damages amounting to KES 81,574,631. Out of court negotiations are ongoing with the claimant, Mistry Premji Investments Ltd, to allow settlement of the matter in the interest of

3.	MN/V/1706	Cyber Access Ltd - Court Injunction stopping demolition of structures encroaching road reserve. MSA HC Petition no. 44 of 2018	Km 9+800	Construction of the Service Road, Drainage and Footpath between Km 9+000 and Km 10+100 RHS.	progress of Works. A redesign has been proposed at this section to use closed drain and have it also serve as footpath since these are the major works remaining at this section. This case is considered resolved by the change of design.
4.	MN/V/1707	Habo Agencies Ltd - Court Injunction stopping demolition of structures encroaching road reserve. MSA HC Petition no. 43 of 2018	Km 9+740		
5.	MN/V/2043	Narendra Kumar & others - Court Injunction stopping demolition of structures encroaching road reserve. MSA CMC ELC Petition no. 41 of 2015	Km 9+640		
6.	MN/V/2531	Jitenda Kanabar - Court Injunction stopping demolition of walling encroaching road reserve. MSA HC Petition no. 157 of 2015	Km 10+000		
7.	MN/V/755	Goshrani Printers Ltd - Court Injunction stopping demolition of walling encroaching road reserve. MSA HC. ELC Petition no. 103 of 2015	Km 7+820	Construction of the RHS Slip Road, Drainage and Footpath at Mikindani	Redesign of the Mikindani RHS Slip Road avoided the disputed section allowing works to progress to completion.
8.	MN/V/1/3047 & 2920	Highway Carriers Ltd	Km 6+500	Pending resolution of the case, the owner gave consent to do construction activities.	Road works completed at this section following the owner's consent.

