

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

PARLIAMENT
OF KENYA
LIBRARY

REPORT

OF

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 06 DEC 2023

THE AUDITOR-GENERAL

FILED

HON. OWEN BATA, MP
DEPUTY MAJORITY LEADER

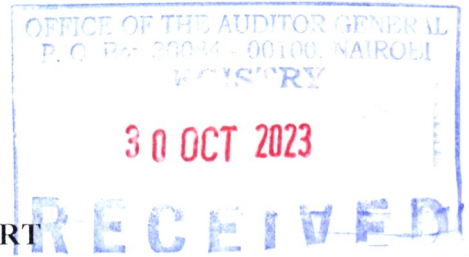
ON

**BAGAMOYO - HORO HORO - LUNGA LUNGA -
MALINDI ROAD PROJECT
(PHASE I) ID NO: PZI-DBO-129**

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

KENYA NATIONAL HIGHWAYS AUTHORITY





MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

PROJECT NAME: (BAGAMOYO – HOROHORO - LUNGA LUNGA - MALINDI ROAD

PROJECT: PHASE I)

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT LOAN No: 2000200004662

2100150042250

PROJECT GRANT No: 5110155000755

PROJECT ID: P-ZI-DBO-129

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)



Table Contents	Page
1. Acronyms and Glossary of Terms.....	ii
2. Project Information and Overall Performance	iii
3. Statement of Performance Against Project’s Predetermined Objectives	ix
4. Environmental and Sustainability reporting.....	x
5. Statement of Project Management Responsibilities.....	xii
6. Report of the Independent Auditor on Financial Statements for (Bagamoyo-Horohoro-Lunga Lunga- Malindi Road Project Phase I).....	xiii
7. Statement of Receipts and Payments for the year ended 30th June 2023	1
8. Statement of Financial Assets as at 30th June 2023.....	2
9. Statement of Cashflow for the year ended 30th June 2023	3
10. Statement of Comparison of Budget and Actual amounts for the year ended 30 th June 2023	4
11. Significant Accounting Policies	5
12. Notes to the Financial Statements	12
13. Annexes.....	17

1. Acronyms and Glossary of Terms

ADB	African Development Bank
ADF	African Development Fund
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIK	Environment Institute of Kenya
EU	European Union
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
Kshs.	Kenya Shillings
KISM	Kenya Institute of Supplies Management
LSK	Law Society of Kenya
MRT	Ministry of Roads and Transport
NEMA	National Environment Management Authority
PAGDA	Pillar Assessed Grant or Delegation Agreement
PAP	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
TNT	National Treasury
UA	Unit of Account

2. **Project Information and Overall Performance**

2.1 **Name and registered office**

Name

The project's official name is (Bagamoyo–HoroHoro-Lunga Lunga - Malindi Road Project: Phase I).

Objective

The key objective of the project is to boost regional integration by reducing transit times, facilitating trade and cross-border movement of people, opening up access to touristic attractions, linking the ports of Dar es Salaam, Tanga and Mombasa, and stimulating the blue economy.

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

Project Information and Overall Performance (Continued)

2.2 Project Information

Project Start Date:	The project start date is 10 th June, 2020 for ADB and ADF Loans The project start date is 25 th November, 2022 for EU PAGoDA Grant
Project End Date:	The project end date is 31 st December, 2025 for ADB and ADF Loans The project end date is 31 st December, 2026 for EU PAGoDA Grant
Project Manager:	The project manager is Eng. Cleophas Makau
Project Sponsor:	The project sponsor is: African Development Bank, African Development Fund, The European Union & The Government of Kenya

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the State Department of Roads under the Ministry of Roads and Transport
Project number	P-Z1-DBO-129
Strategic goals of the project	The strategic goals of the project are as follows: (i) Integration of East African Transport Corridors Networks (ii) Connecting Kenya and Tanzania
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Realisation of the regional road improvements, implementation of effective transit operations on the corridor and an efficient One Stop Border Post operation at Lunga Lunga/Horohoro (ii) Scaling up the quantity and quality of road infrastructure, which carry significant proportion of freight transport, about 90%, has gained prominence in both countries' development plans.
Other important background information of the project	The project will enhance regional integration, trade, tourism, blue economy and socio-economic development in the coastal corridor of the two Countries and by extension to the EAC Region and Horn of Africa.

Project Information and Overall Performance (Continued)

Areas that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Contribution to increased regional and international trade between Kenya and Tanzania using the Lunga Lunga/Horohoro border. (ii) Reduction of cost of travel
Project duration	The ADB and ADF loans started on 10 th June 2020 and is expected to run until 31 st December 2025 while the EU grant started on 25 th November, 2022 and is expected to run until 31 st December 2026

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the current year:

- (i) Co-operative Bank of Kenya
 Upper Hill Branch
 Nairobi
 Account No: 01141160979900

2.5 Independent Auditor

Auditor General
 Office of the Auditor General
 P.O Box 30084-0100
 Nairobi

2.6 Roles and Responsibilities

Below is the list the different people who are working on the project;

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

Project Information and Overall Performance (Continued)

2.7 Funding summary

The Project was for a duration of five and half years with an approved budget of Euro 108,000,000 by ADB, Euro 30,000,000 by EU & UA 46,360,000 by ADF equivalent to Kshs 29,634,340,257 at the closing exchange rates of 152.9815 for the Euro and 183.8415284 for the UA, and an amount of Kshs 151,021,266 by GK as highlighted in the table below:

A. Sources of Funds

Source of funds	Donor Commitment		Amount Received to date – (30.06.2023)		Undrawn balance to date – (30.06.2023)		
	Donor Currency	Amount in Donor Currency	Kshs	Amount in Donor Currency	Kshs	Amount in Donor Currency	Kshs
		(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan							
African Development Bank (ADB)	Euro	108,000,000	16,522,002,000	11,246,080	1,720,442,161	96,753,920	14,801,559,839
African Development Fund (ADF)	UA	46,360,000	8,522,893,257	11,429,414	2,101,200,990	34,930,586	6,421,692,267
(ii) Grants							
European Union (EU)	Euro	30,000,000	4,589,445,000	1,388,421	212,402,794	28,611,579	4,377,042,206
(iii) Counterpart funds							
Government of Kenya	Kshs	-	151,021,266	-	151,021,266	-	-
Total			29,785,361,523		4,185,067,211		25,600,294,312

B. Application of Funds

Application of funds	Donor Currency	Amount received to date – (30th June 2023)		Cumulative Amount paid to date – (30th June 2023)		Unutilised balance to 30th June 2023	
		(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
		Amount in Donor Currency	KSHS	Amount in Donor Currency	KSHS	Amount in Donor Currency	KSHS
(i) Loan							
African Development Bank (ADB)	Euro	11,246,080	1,720,442,161	11,246,080	1,720,442,161	-	-
African Development Fund (ADF)	UA	11,429,414	2,101,200,990	11,429,414	2,101,200,990	-	-
(ii) Grant							
European Union (EU)	Euro	1,388,421	212,402,794	1,388,421	212,402,794	-	-
(iii) Counterpart funds							
Government of Kenya		-	151,021,266	-	126,948,721	-	24,072,545
Total			4,185,067,211		4,160,994,666		24,072,545

Project Information and Overall Performance (Continued)

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			Cummulative to Date		
	Budget	Actual	Percentage (%)	Budget	Actual	Percentage (%)
Counterpart Funds - GK	100,000,000	75,927,455	76%	155,000,000	126,948,721	82%
Proceeds from External Development Partners:						
Direct Payments	2,655,218,836	2,655,218,836	100%	4,255,218,836	4,034,045,945	95%
TOTAL	2,755,218,836	2,731,146,291	99%	4,410,218,836	4,160,994,666	94%

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

As at 30th June, 2023 lot 1 (Mombasa – Mtwapa Section) had achieved 1.5% progress while Lot 2 (Mtwapa – Kilifi Section) had achieved 30.71% progress

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

Financial Year	Budget	Actual	Percentage (%)
FY 2022/23	2,755,218,836	2,731,146,291	99%
FY 2021/22	1,555,000,000	1,410,098,820	91%
FY 2020/21	100,000,000	19,749,555	20%
TOTAL	4,410,218,836	4,160,994,666	94%

2.9 Summary of Project Compliance:

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

3. Statement of Performance Against Project’s Predetermined Objectives

Introduction

- The key objective of the project is to improve the trading environment in the Region through the provision of improved transport infrastructure and addressing soft barriers to the free movement of goods, services and people along the corridor.
- To fully exploit the benefits of regional integration, complementary ‘soft’ components aimed at tackling key constraints to trade and improving transit time and overall corridor efficiency have been integrated in the Project. In particular, the Project has identified the need to operationalize coordinated border management (CBM) system at the Lunga Lunga/Horohoro border post as a priority.

Progress on attainment of Strategic development objectives

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

Objective	Outcome	Indicator	Performance
Contribution to increased regional and international trade between Kenya and Tanzania using the Lunga Lunga/Horohoro border	Total import export trade using the Lunga Lunga/Horohoro border to increase by at least 20% (USD 169 million) by 2025	Volume of Import Export trade handled at Lunga-Lunga/Horohoro border	The project had achieved progress of 1.5% for lot 1 and 30.71% for lot 2. The completion of the project will facilitate achievement of the objectives by the year 2025
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	Through technical and vocational trainings undertaken during the financial year, employment opportunities have been created.

4. Environmental and Sustainability reporting

Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road Project: Phase I 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 attainment of peace and prosperity. Five out of the seventeen goals are pertinent to management of projects being undertaken by the Authority. These are being addressed through the following initiatives;

a) *Good health and well-being (SDG 3)*: The Authority strives to undertake Road Safety Audits to identify accident black spots, implement intervention measures and provide road safety education to reduce accidents;

b) *Gender Equality (SDG 5)*: The Authority encourages mainstreaming of gender equality in project and programmes by incorporating compliance to one third gender rule in procurement and recruitment;

c) *Industry, innovation and infrastructure (SDG 9)*: The Authority develops quality, reliable, sustainable and resilient infrastructure including regional and trans-border infrastructure to support economic development and human wellbeing with a focus on affordable and equitable access for all;

d) *Sustainable cities and communities (SDG 11)*: The Authority endeavours to extend the paved road network to hitherto underserved areas in the region to improve nationwide access to high speed and all – weather connectivity; and

e) *Climate action (SDG 13)*: The Authority endeavours to combat negative impacts of road development through environmental mitigation, climate change measures and compliance with National Environment Management Authority (NEMA) requirements in all development projects

2. Environmental performance

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

Environmental and Sustainability reporting (Continued)

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 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 social economic development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility initiatives.

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 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 (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) 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.

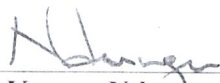
The Director General, KeNHA and the Project Implementation Team Leader for (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General, KeNHA and the Project Implementation Team Leader for (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) 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 (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) 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 (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) 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 (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) on 26 SEP 2023 and signed by them.



Eng. Kungu Ndungu
Director General
Date 26 SEP 2023



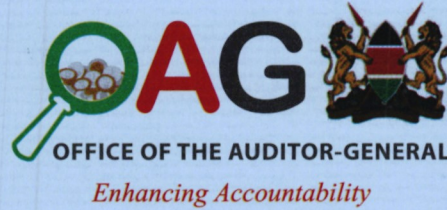
Eng. Henry Gakuru
Ag. Director-Development
Date 26 SEP 2023



CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279
Date 26 SEP 2023

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON BAGAMOYO - HORO HORO - LUNGA LUNGA - MALINDI ROAD PROJECT (PHASE I) ID NO: PZI-DBO-129 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 that the 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 Bagamoyo- Horohoro - Lunga Lunga - Malindi Road Project (Phase I) set out on pages 1 to 22, which comprise of the

Report of the Auditor-General on Bagamoyo - Horo Horo - Lunga Lunga - Malindi Road Project (Phase I) ID NO: PZI-DBO-129 for the year ended 30 June, 2023 - Kenya National Highways Authority

statement of financial assets as at 30 June, 2023 and the statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Bagamoyo – Horohoro - Lunga Lunga - Malindi Road Project (Phase I) 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 Agreements Credit No.2000200004662 and No.2100150042250 dated 10 June, 2020 between African Development Bank and African Development Fund and the Republic of Kenya respectively and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unsupported Expenditure on Acquisition of Land

The statement of receipts and payments reflects an expenditure of Kshs.2,711,042,314 in respect of acquisition on non-financial assets which as disclosed in Note 5 to the financial statements includes an amount of Kshs.36,928,659 incurred on acquisition of land. The latter amount was paid to the National Land Commission (NLC) for onward transmission to the beneficiaries, for land acquired by the Project. Although Management provided the payment voucher for the amount of Kshs.36,928,659, the supporting documentation such as acknowledgement and returns from the NLC, the valuations of the land being acquired and the eventual payees for the land acquired were not provided for audit review.

In the circumstances, the accuracy and completeness of the acquisition on non-financial assets amount of Kshs.36,928,659 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Bagamoyo - Horohoro - Lunga Lunga - Malindi Road Project (Phase I) 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.

Emphasis of Matter

Pending Bills

Note 1 of other important disclosures on pending accounts payable and Annex 4 to the financial statements reflect a balance of Kshs.3,183,107,062 in respect of pending bills.

The balance includes amounts of Kshs.3,132,536,161 and Kshs.50,570,901 in relation to acquisition of land and supply of services respectively. Management did not provide any explanation for the non-settlement of the bills within the financial year under review. Failure to settle bills during the year in which they relate adversely affects the provisions of the subsequent year to which they have to be the first charge.

My opinion is not modified on the effects of the matter.

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 Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not given any explanation on how the issues were resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Slow Project Implementation-Lot 1

The contract agreement for Bagamoyo - Horo Horo - Lunga Lunga - Malindi Road Project-Lot 1, was signed on 18 March, 2022 for a contract amount of Kshs.7,590,747,593. The contract period was 48 months broken down into 36 months for construction and 12 months for defect notification period. Further, the loan agreement between the Republic of Kenya and the Africa Development Bank was signed on 10 June, 2020. According to Section 4.07 of the Financing Agreement, the closing date for the loan is 31 December, 2025.

Review of the project documentation, including the monthly progress report (MPR) No.10, revealed that as at 30 June, 2023, the contractor's amount certified to date was Kshs.744,572,077 (including interim payment certificate (IPC) No.1 - advance payments and IPC No.2. Further, the report revealed that the amount paid to date to the contractor

was Kshs.585,332,008. However, and despite the payments made and a project time elapse of 7.5 months or 20.8% of the expected contract period, the contractor had only completed 1.5% of the works. This was an indication that the project was significantly behind schedule and may not be delivered within the timelines provided in the contract agreement.

In the circumstances, the delay in the implementation of the road works will adversely affect the completion of the project which will negatively affect service delivery to the public.

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 Bank and 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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the 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 Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

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

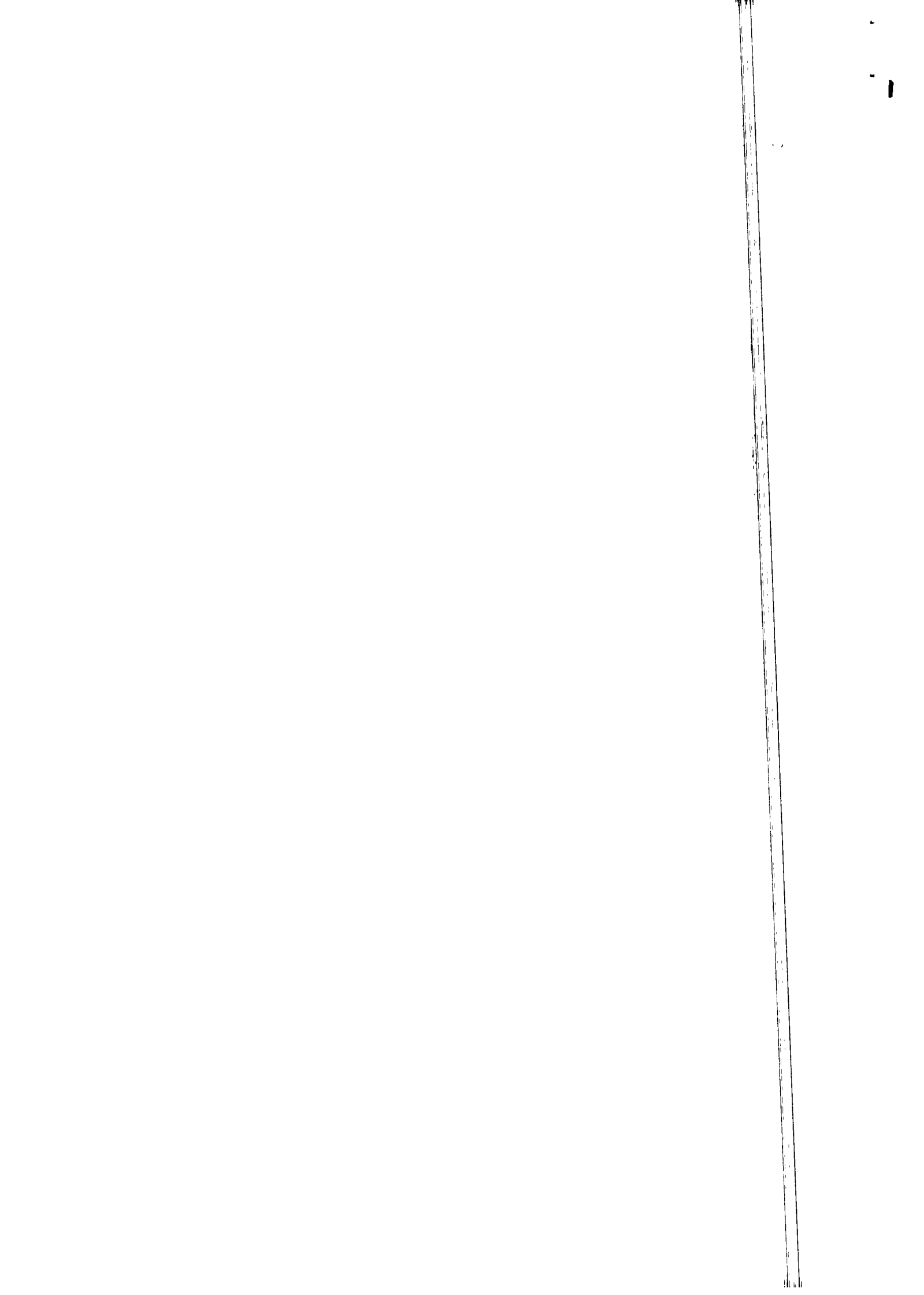
I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and 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

17 November, 2023




*(Bagamoyo – Horohoro - Lunga Lunga - Malindi Road Project: Phase I)
Annual Report and Financial Statements for the financial year ended June 30, 2023*


1. 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	Payments Made by the Third Parties	Total	Receipts & Payments Controlled by the Entity	Payments Made by the Third Parties	Total	
		KSh	KSh	KSh	KSh	KSh	KSh	
Receipts								
1	Transfer from Government entities	100,000,000	-	100,000,000	51,021,266	-	51,021,266	151,021,266
2	Proceeds from domestic and foreign grants	-	212,402,794	212,402,794	-	-	-	212,402,794
3	Loan from external development partners	-	2,442,816,042	2,442,816,042	-	1,359,077,554	1,359,077,554	3,821,643,151
	Total Receipts	100,000,000	2,655,218,836	2,755,218,836	51,021,266	1,359,077,554	1,410,098,820	4,185,067,211
Payments								
4	Purchase of goods and services	14,931,535	5,172,442	20,103,977	51,021,266	7,863,377	58,884,643	98,738,175
5	Acquisition of non-financial assets	60,995,920	2,650,046,394	2,711,042,314	-	1,351,214,177	1,351,214,177	4,062,256,491
	Total Payments	75,927,455	2,655,218,836	2,731,146,291	51,021,266	1,359,077,554	1,410,098,820	4,160,994,666
	Surplus (Deficit) for the year	24,072,545	-	24,072,545	-	-	-	24,072,545

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


Eng. Kungu Ndungu
 Director General
 26 SEP 2023

Date


Eng. Henry Gakuru
 Ag. Director -Development

Date

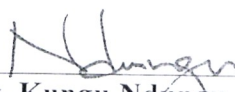

CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK No.8279
 26 SEP 2023

Date


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

	Note	2022/23 Kshs	2021/22 Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	6	24,072,545	-
Total Financial Assets		24,072,545	-
Financial Liabilities			
Third Party Payables - Retentions	7	-	-
Net Assets		24,072,545	-
Represented By:			
Cash and cash equivalents b/fwd		-	-
Surplus (Deficit) for the year		24,072,545	-
Net Financial Position		24,072,545	-

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 No.8279

Date 26 SEP 2023

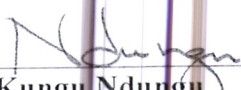
Date 26 SEP 2023


Date 26 SEP 2023

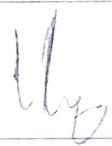
3. Statement of Cashflow for the year ended 30th June 2023

	Note	2022/2023	2021/2022
Receipts for operating income			
Transfer from Government entities	1	100,000,000	51,021,266
Proceeds from foreign grants	2	212,402,794	-
Miscellaneous receipts		-	-
Payments for operating expenses			
Compensation of employees		-	-
Purchase of goods and services	4	(20,103,977)	(58,884,643)
Net cash flow from operating activities		292,298,817	(7,863,377)
Cashflow from Investing Activities			
Acquisition of Assets	5	(2,711,042,314)	(1,351,214,177)
Net cash flows from Investing Activities		(2,711,042,314)	(1,351,214,177)
Cashflow from Borrowing Activities			
Proceeds from Foreign Borrowings	3	2,442,816,042	1,359,077,554
Net cash flow from financing activities		2,442,816,042	1,359,077,554
Net Increase in Cash and Cash Equivalents		24,072,545	-
Cash and cash equivalent at BEGINNING of the year		-	-
Cash and cash equivalent at END of the year		24,072,545	-

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 No.8279

Date 26 SEP 2023

Date 26 SEP 2023


Date 26 SEP 2023

*(Bagamoyo – Horohoro - Lunga Lunga - Malindi Road Project: Phase I)
Annual Report and Financial Statements for the financial year ended June 30, 2023*

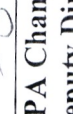
4. Statement of Comparison of Budget and Actual amounts for the year ended 30th June 2023

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	100,000,000	-	100,000,000	100,000,000	-	100%
Proceeds from external development partners	2,000,000,000	655,218,836	2,655,218,836	2,655,218,836	-	100%
Total Receipts	2,100,000,000	655,218,836	2,755,218,836	2,755,218,836	-	100%
Payments						
Purchase of goods and services				20,103,977		
Acquisition of non-financial assets	2,100,000,000	655,218,836	2,755,218,836	2,711,042,314	24,072,545	99%
Total Payments	2,100,000,000	655,218,836	2,755,218,836	2,731,146,291	24,072,545	99%
Surplus (Deficit)	-	-	-	24,072,545	24,072,545	

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
 26 SEP 2023


Eng. Henry Gakufu
 Ag. Director -Development
 26 SEP 2023


CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK No. 8279
 26 SEP 2023

Date _____

Date _____

Date _____

5. 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 (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) under the Kenya National Highways Authority. The financial statements are for the reporting entity (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

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

d) Recognition of receipts

(Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) recognises all receipts from the various sources when the event occurs, and the related cash has actually been received.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

e) Recognition of payments

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

i) Compensation to employees

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

Significant Accounting Policies (Continued)

ii) Use of goods and services

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

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by 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.

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:

Significant Accounting Policies (Continued)

- i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- ii) The amount of the obligation cannot be measured with sufficient reliability.

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

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

There were no contingent liabilities in the year.

k) Contingent Assets

(Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) 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 (Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road project: phase I) 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' 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.

Significant Accounting Policies (Continued)

p) Comparative figures

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

q) Subsequent events

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

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments in the current year

6. Notes to the Financial Statements

1. Transfers from Government entities

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

	FY 2022/2023	FY 2021/2022	Cumulative to-date
	Kshs	Kshs	
Counterpart funding through Ministry of Transport and Infrastructure			
Counterpart funds Quarter 1	25,000,000	26,380,351	51,380,351
Counterpart funds Quarter 2	-	5,938,722	5,938,722
Counterpart funds Quarter 3	-	11,920,430	11,920,430
Counterpart funds Quarter 4	25,500,000	6,781,763	32,281,763
Total	50,500,000	51,021,266	101,521,266
<i>Other transfers from government entities</i>			
Annuity fund			
Annuity funds Quarter 1	-	-	-
Annuity funds Quarter 2	-	-	-
Annuity funds Quarter 3	-	-	-
Annuity funds Quarter 4	49,500,000	-	49,500,000
Total	49,500,000	-	49,500,000
Appropriations-in-Aid	-	-	-
Total	-	-	-
Grand Total	100,000,000	51,021,266	151,021,266

2. Proceeds from domestic and foreign grants

During the financial period to 30 June 2023, we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment	Grants received in kind	Total amount	Total amount	Cumulative to date
						FY 2022/23	FY 2021/22	
		Euro	Kshs	Kshs		Kshs	Kshs	Kshs
EU	FY 2022/23	1,388,421		212,402,794	-	212,402,794	-	212,402,794
Total		1,388,421	-	212,402,794		212,402,794	-	212,402,794

Notes To The Financial Statements (Continued)

3. Loan from External Development Partners

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

Name of Donor	Date Received	Amount in loan currency	Loans received in actual amount	Loans received as direct payment	Total amount	Total amount	Cumulative to date
					FY 2022/23	FY 2021/22	
		Euro / UA	Kshs	Kshs	Kshs	Kshs	Kshs
ADB	FY 2022/23	8,362,391	-	1,279,291,191	1,279,291,191	441,150,970	1,720,442,161
ADF	FY 2022/23	6,328,955	-	1,163,524,851	1,163,524,851	917,926,584	2,101,200,990
Total			-	2,442,816,042	2,442,816,042	1,359,077,554	3,821,643,151

4. Purchase of Goods and Services

Description	FY 2022/23			FY 2021/22	Cumulative
	Payments Made by the Entity in Cash	Payments made by third parties	Total Payments	Total	
	KSh	KSh	KSh	Kshs	
Domestic Travel & Subsistence	12,183,641	-	12,183,641	43,023,066	55,206,707
Communication, Services & Supplies	2,747,894	-	2,747,894	7,998,200	10,746,094
Training of Unemployed Youths	-	5,172,442	5,172,442	7,863,377	32,785,374
Total	14,931,535	5,172,442	20,103,977	58,884,643	98,738,175

Notes To The Financial Statements (Continued)

5. Acquisition of Non-Financial Assets

Item	FY 2022/23			FY 2021/22	Cumulative to-date
	Payments made by the entity	Payments made by third parties	Total Payments	Total	
	KSh	KSh	KSh	Kshs	
Construction of roads	-	2,479,601,881	2,479,601,881	1,351,214,177	3,830,816,058
Research, studies, project preparation, design & supervision	24,067,261	170,444,513	194,511,774	-	194,511,774
Acquisition of land	36,928,659	-	36,928,659	-	36,928,659
Total	60,995,920	2,650,046,394	2,711,042,314	1,351,214,177	4,062,256,491

6. Cash And Cash Equivalents

	2022/2023 Kshs	2021/2022 Kshs
Bank accounts (Note 6.A)	24,072,545	-
Total	24,072,545	-

6.A Bank Accounts

	2022/2023 Kshs	2021/2022 Kshs
Co-operative Bank of Kenya Ltd A/C: '01141160979900	24,072,545	-
Total	24,072,545	-

7. Accounts Payables-Retention

Description	2022/2023 Kshs	2021/2022 Kshs
Retention - Payments controlled by the entity	-	-
Total	-	-

Other Important Disclosures

1. Pending Accounts Payable (Annex 4)

Description	Balance b/f FY 2022/2023	Additions for the period	Paid during the year	Balance c/f FY 2022/2023
	Kshs	Kshs	Kshs	Kshs
Construction of roads	-	2,479,601,881	2,479,601,881	-
Acquisition of Land	-	3,169,464,820	36,928,659	3,132,536,161
Supply of services	20,208,746	244,977,905	214,615,751	50,570,901
Total	20,208,746	5,894,044,607	2,731,146,291	3,183,107,062

2. Accounts Payables – Retentions (Annex 6)

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Retention Controlled by Third Parties	308,166,638	17,625,955
Total	308,166,638	17,625,955

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

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Retentions as at 1 st July	17,625,955	-
Closing accounts payables as at 30 th June	308,166,638	17,625,955
Change in payables	290,540,684	17,625,955

4. External Assistance

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
External assistance received as Grants	212,402,794	-
External assistance received as loans	2,442,816,042	1,359,077,554
Total	2,655,218,836	1,359,077,554

a. External assistance relating loans and grants

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
External assistance received as Grants	212,402,794	-
External assistance received as loans	2,442,816,042	1,359,077,554
Total	2,655,218,836	1,359,077,554

b. Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	FY 2022/2023	FY 2021/2022
Description		Kshs	Kshs
Undrawn external assistance - grants	Acquisition Of Non-Financial Assets	4,377,042,206	-
Undrawn external assistance - loans		21,223,252,106	19,675,555,121
Total		25,600,294,312	19,675,555,121

c. Classes of providers of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Multilateral donors	2,655,218,836	1,359,077,554
Total	2,655,218,836	1,359,077,554

d. Purpose and use of external assistance

Payments Made by Third Parties	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Acquisition of Non-financial Assets	2,655,218,836	1,359,077,554
TOTAL	2,655,218,836	1,359,077,554

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

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Multilateral donors	2,655,218,836	1,359,077,554
Total	2,655,218,836	1,359,077,554

*(Bagamoyo – Horohoro – Lunga Lungu – Malindi Road Project: Phase I)
Annual Report and Financial Statements for the financial year ended June 30, 2023*

7. Annexes

Annex 1 - PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITORS RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time Frame
1.	<p>Basis for Qualified opinion</p> <p>Lack of Project Bank Account and Cashbook</p> <p>The statement of receipts and payments reflects transfer from Government entities through the parent Ministry of Kshs. 51,021 ,266 which was fully expensed in the year review. The receipts could however not be confirmed since the Authority did not maintain separate bank account and cashbook for projects. In the circumstances, the accuracy and completeness of the transfer from other Government entities of Kshs.51 ,021 ,266 could not be confirmed.</p>	<p>We agree with the audit observation that the project did not have a separate Project Bank Account</p> <p>The Authority does not maintain a separate bank account but maintains one development exchequer bank account for all the Authority's Projects funded by the Exchequer in line with the Authority's finance policy which provides for the opening of a distinct special-purpose bank accounts for the head office operations. We further wish to clarify the Authority's accounting system is able to segregate all transactions incurred per individual project, hence all transactions incurred through the GK Exchequer account can be allocated to the various projects, hence accuracy of the amounts reported under the project.</p>	Resolved	Closed
2.	<p>Purchase of Goods and Services</p> <p>The statement of receipts and payments reflects payments totalling to Kshs.51,021 ,266 under purchase of goods and services. The following anomalies were noted.</p>			

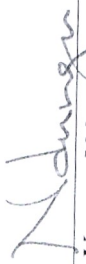
	<p>2.1 Lack of Project Detailed Budget The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs. 1,555,000,000 and actual expenditure of Kshs. 1,410,098,820. The statement of receipts and payments indicated that the total expenditure of Kshs. 1,410,098,820 comprised of kshs. 58,884,643 relating to purchase of goods and services and Kshs. 1,351,214,177 relating to acquisition of non-financial assets. However, Management did not provide itemized budget showing the detailed budget items for which the expenditure was intended.</p>	<p>We agree with the audit observation that the project budget was not itemized per expenditure. We wish to clarify that appropriation to projects by the National Assembly is per project total amounts and not itemized per nature of expenditure. This is the form in which the project budget is uploaded into IFMIS & availed for expenditure. However, for purpose of reporting, the PSASB reporting template requires agencies to group accounting transactions as provided in the template.</p>	Resolved	Closed
	<p>2.2 Unsupported Expenditure The Statement of receipts and payment reflects purchase of goods and services expenditure of Kshs 51,021,266. As disclosed at Note 3 to the financial statements, the expenditure is mainly in respect to domestic travel and subsistence. However, this expenditure was not supported by a detailed and approved work plan for the financial year ended 30 June 2022.</p>	<p>We disagree with the audit observation that there was unsupported expenditure. We wish to clarify that all expenditure in respect to domestic travel and subsistence are pre-authorized by the Director General. Payments vouchers relating to these expenses with their approvals were availed to the audit team during the audit exercise. These expenses were also incurred within the approved project budget and procurement plans which were availed to the audit teams during the audit exercise.</p>	Resolved	Closed
	<p>2.3 Irregular and Unjustified Payments During the year under review, the project</p>	<p>We disagree with the auditor observation that there was an irregular and Unjustified Payments</p>		

<p>made payments totaling to Kshs 20,489,359 to East Africa Community Secretariat being remittance for logistics resources for project implemented within the East Africa Community. There was no explanation, justification or support to show how this cost was allocated to the project. The amount was not supported by any work plan or budget.</p>	<p>The Bagamoyo-Lunga Lunga-Malindi Phase 1 Road Project is a Multinational project being financed by the AfDB under the East Africa Community Multimodal roads projects. The planning, financing and implementation of these projects are coordinated by the East Africa Community Secretariat. To facilitate the co-ordination of these multinational projects, the EAC partner states through the sectorial council ratified and directed all partner states to be contributing towards the logistical resources.</p> <p>In the FY 2016/17 – FY 2019/20 the Bagamoyo-Lunga Lunga-Malindi Phase 1 Road Project was at planning stage under the co-ordination of the EAC Multimodal road projects secretariat. The fee notes relating to the coordination costs for this planning phase were subsequently submitted and approved for payment in the current financial year under audit.</p> <p>The bill was received in FY 2021/22 hence could not have been accounted for in the previous financial year.</p>	Resolved	Closed
<p>Further, included in these payments is Kshs 13,946,712 relating to payments of arrears for the Financial years 2016/2017 and 2018/2019 which do not relate to the project while the project financing agreements was signed by the government of Kenya and Development partner on 20 June, 2020. Management did not explain how the payments in arrears of Kshs 13,946,712 arose since the project financing agreement was signed in June, 2020. Further, the amount paid was not disclosed in the project financial statements for 2020/2021 as pending bills.</p>	<p>We agree with the audit observation that there was a wrong classification of expenditure in the initial draft financial statements submitted for audit in August 2022. The wrong classification was however corrected by re-classifying the</p>	Resolved	Closed
<p>2.4 Domestic Travel and Subsistence Misallocation of Expenditure</p> <p>Included under domestic travel and subsistence expenditure of Kshs 51,021,266 as disclosed at Note 3 to the financial statement is an expenditure of</p>			

	<p>Kshs 7,860,300 paid to a firm in respect of consultancy services for documentary shooting which was however reported under domestic travel and subsistence.</p>	<p>expenditure from domestic travel to Communication, Services & Supplies as per the amended audited financial Statements that were subsequently submitted to the Auditor General. We also wish to clarify that this expenditure amounted to Kshs 7,998,200 and not Kshs 7,860,300 as indicated in the audit report.</p>		
<p>3</p>	<p>Accuracy of Accumulated Project Costs</p> <p>The statement of receipts and payments reflects accumulated payments amounting to Kshs 78,634,198 in respect of purchase of goods and services. However, the amount included payments amounting to Kshs 19,749,555 in respect of payments made in financial year 2020/2021 yet the project contract was signed on 5 November, 2021.</p>	<p>We disagree with the auditor observation that there were inaccuracies on accumulated project costs.</p> <p>We wish to clarify that the loan agreements for the project were signed on 10th June 2020 and an amount of Kshs 19,749,555 was subsequently incurred in FY 2020/21 and Kshs 7,863,377 in FY 2021/22. These payments were incurred towards training of unemployed youth which is a component under the project financing agreements.</p>	<p>Resolved</p>	<p>Closed</p>
	<p>Other Matter</p> <p>Budgetary Control and Performance</p> <p>The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis of Kshs 1,555,000,000 and Kshs 1,410,098,820 respectively resulting in an underfunding of Kshs 144,901,180 or 91%</p>	<p>We agree with the audit observation that the project experienced an under expenditure of 9% in the financial year.</p> <p>The under expenditure was mainly as a result of lengthy process of getting a no</p>	<p>Resolved</p>	<p>Closed</p>


<p>of budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs 1,555,000,000 and Kshs 1,410,098,820 respectively, resulting in an under expenditure of Kshs 144,901,180 or 91% of the budget.</p> <p>The underfunding and under performance affected the planned activities and may have impacted negatively on services delivery to the public.</p>	<p>objection from the financier, legal opinion from the solicitor General and concurrence from the National Treasury as well as the Covid-19 pandemic this significantly affected the progress of the project thus affecting Budget performance.</p>	
<p>Basis for Conclusion</p> <p>Slow Project Implementation</p> <p>The contract agreement for Multinational Bagamoyo Horohoro/Lunga Lunga Malindi Road Project Phase one project with contract number is KENHA/RD/D/3567/2022 was signed on 18/03/2022 between Hunan Road and Bridge Construction Group Company Ltd and Kenya National Highway Authority. The contract period according to the contract agreement was 48 Months, of which 36 Months are for construction period and 12 Months for defect notification period. Further, the loan agreement between the Republic of Kenya and the Africa Development Bank was signed on 10/06/2020. According to section 4.07 of the agreement the closing date for the loan is 31 December 2025. Review of the project documentation</p>	<p>We agree with the audit observation that there was slow Project implementation.</p> <p>During the audit period, the consultant was mapping out utilities needed for relocation e.g. powerlines, water and sewerage line to give right of way before commencement of the project by the contractor. NLC is also finalizing the valuations before issuing the awards to the project affected persons. The Authority awaits final completion from the Consultant report on mapping and NLC Paps findings in order to issue instructions for the commencement of the project. Upon commencement, the Authority will review the project implementation program in order to ensure that the project is implemented within the set timelines. The issuance of order to commence without clearance of road would result in escalated cost due to contract delays and claims by the</p>	<p>Not Resolved</p> <p>Ongoing</p>

	<p>review that as at 30th June 2022, the contractor had been paid advance payments/Mobilization totalling to Kshs.585,332,008. However, and despite the advance payment made, the contractor had not been given commencement instructions to start work.</p>	contractor.	
--	---	-------------	--


Eng. Kungu Ndungu
 Director General

26 SEP 2023

Date


Eng. Henry Gakuru
 Ag. Director -Development

26 SEP 2023

Date

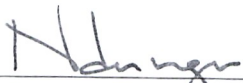
Annex 2 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR CURRENT FY

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget	Comments
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	100,000,000	100,000,000	-	100%	
Proceeds from external development partners	2,655,218,836	2,655,218,836	-	100%	
TOTAL RECEIPTS	2,755,218,836	2,755,218,836	-	100%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	2,755,218,836	20,103,977	24,072,545	99%	
Acquisition of non-financial assets		2,711,042,314			
TOTAL PAYMENTS	2,755,218,836	2,731,146,291	24,072,545	99%	

Annex 3: Reconciliation of Inter-Entity Transfers

Break down of Transfers from the State Department of Roads			
	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
a.	Government Counterpart Funding		
	30-Sep-22	25,000,000	FY 2022/23
	27-Jun-23	25,500,000	FY 2022/23
	Total	50,500,000	
b.	Direct Payments		
	NONE	-	
	Total	-	
c.	Other transfers from government entities		
	Annuity fund	-	
	25-May-23	49,500,000	FY 2022/23
	Total	-	
	TOTAL(a+b+c)	100,000,000	

The above amounts have been communicated to and reconciled with the parent Ministry/ state department


Eng. Kungu Ndungu
Director General

26 SEP 2023

Date


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

26 SEP 2023

Date

*(Bagamoyo – Horohoro - Lunga Lunga - Malindi Road Project: Phase I)
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Annex 4 – Analysis of Pending Bills

Supplier of Goods or Services	Date invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance FY 2022/2023	Outstanding Balance FY 2021/2022	Comments
	b	a	C	d=a-c		
Construction of Roads						
Sub-Total		-	-	-	-	
Acquisition of Land						
Acquisition Of Land		3,169,464,820	36,928,659	3,132,536,161		
Sub-Total		3,169,464,820	36,928,659	3,132,536,161	-	
Supply of services						
SARI Consulting Ltd.	14/12/2022	20,208,746	20,072,785	135,961	20,208,746	1
SARI Consulting Ltd.	15/12/2022	2,753,565	2,312,926	440,639	-	2
SARI Consulting Ltd.	14/12/2022	3,874,326	3,254,434	619,892	-	3
SARI Consulting Ltd.	10/01/2023	2,755,700	2,314,788	440,912	-	4
SARI Consulting Ltd.	06/03/2023	2,023,272	1,744,200	279,072	-	5
SARI Consulting Ltd.	22/02/2023	5,072,538	4,372,878	699,660	-	6
SARI Consulting Ltd.	16/03/2023	6,764,234	5,831,236	932,998	-	7
SARI Consulting Ltd.	08/05/2023	6,932,020	-	6,932,020	-	8
SARI Consulting Ltd.	18/05/2023	7,501,640	-	7,501,640	-	9
SARI Consulting Ltd.	20/06/2023	9,224,548	-	9,224,548	-	10
CAS Consultants Ltd.	15/03/2023	4,562,234	3,932,960	629,274	-	1
Apex Consulting Ltd	16/06/2023	4,931,392	-	4,931,392	-	1
Delta Health Consultants Ltd.	30/01/2023	13,743,000	11,847,414	1,895,586	-	1
Tekfen Engineering	30/03/2023	11,861,639	10,006,164	1,855,476	-	14
Tekfen Engineering	30/03/2023	12,441,639	10,506,163	1,935,476	-	15
Tekfen Engineering	16/06/2023	12,064,639	-	12,064,639	-	16
Mosound Group Ltd	19/01/2023	1,999,608	1,947,894	51,714	-	009
Sub-Total		128,714,742	78,143,842	50,570,901	20,208,746	
Grand-Total		3,298,179,562	115,072,501	3,183,107,062	20,208,746	

*(Bagamoyo – Horohoro - Lunga Lunga - Malindi Road Project: Phase I)
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Annex 5 – Summary of Fixed Assets Register

Asset class	Opening Cost	Donations in form of assets	Purchases/ Additions in the Year	Disposals in the Year	Transfers in/(out)	Closing Cost
	(KSh)	(KSh)	(KSh)	(KSh)	(KSh)	(KSh)
	2022/23	2022/23	2022/23	2022/23	2022/23	2022/23
	(a)	(b)	(c)	(d)	(e)	(f)= (a)+ (b)+(c)-(d)+(-)e
Land	-	-	36,928,659	-	-	36,928,659
Infrastructure assets roads	1,351,214,177	-	2,674,113,655	-	-	4,025,327,832
Total	1,351,214,177	-	2,711,042,314	-	-	4,062,256,491

Annex 6 – Retentions Controlled by Third Parties

DATE	NAME OF CONTRACTOR	IPC No.	AMOUNT 30 JUNE 2023	AMOUNT 30 JUNE 2022
23.06.2023	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	9	60,915,264	-
23.06.2023	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	8	42,057,657	-
03.04.2023	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	7	55,213,464	-
09.02.2023	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	6	38,077,897	-
13.01.2023	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	5	18,212,329	-
07.12.2022	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	4	42,518,631	-
16.11.2022	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	3	33,545,441	-
28.06.2022	JIANGXI TRANSPORTATION ENGINEERING GROUP LTD in JV with VICTORIA ENG	2	17,625,955	17,625,955
TOTALS			308,166,638	17,625,955