

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

PARLIAMENT
OF KENYA
LIBRARY

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	06 DEC 2023
TAKEN BY:	Hon Naomi wago, mp Deputy majority whip
CLERK-AT THE TABLE:	Miriam mudo

THE AUDITOR-GENERAL

ON

**KENYA - SOUTH SUDAN LINK ROAD PROJECT
(REF. NO. 2020 62 065 AND BMZ NO.2020 83 939)**

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

KENYA NATIONAL HIGHWAYS AUTHORITY



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

02 NOV 2023

RECEIVED



MINISTRY OF ROADS & TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

PROJECT NAME: KENYA SOUTH SUDAN LINK (KITALE MORPUS) ROAD PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT GRANT/CREDIT NUMBER:
KfW FRANKFURT AM MAIN ("KfW")

PROJECT REF NO 202062065/202083939

ANNUAL REPORT AND AUDITED 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)

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

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	vii
4.Environmental and Sustainability reporting.....	viii
5.Statement of Project Management responsibilities	x
6.Report of the Independent Auditor on Financial Statements for the Kenya South Sudan Link (Kitale Morpus) Road Project	xi
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.....	11
13. Annexes	15

Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023

1. Acronyms and Glossary of Terms

CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIA	Environmental Impact Assessment
ESIA	Environmental Social Impact Assessment
ESMP	Environment and Social Management Plan
FY	Financial Year
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
KfW	Kreditanstalt für Wiederaufbau
Kshs.	Kenya Shillings
MoRT	Ministry of Roads and Transport
NEMA	National Environment Management Authority
TNT	National Treasury
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
SIA	Social Impact Assessment
SMART	Specific, Measurable, Achievable, Realistic and Time

2. Project Information and Overall Performance

2.1 Name and registered office

Kenya South Sudan Link (Kitale Morpus) Road Project

Objective:

The KfW FRANKFURT AM MAIN (“KfW”) approved Euro 113.5 million of loans and Grants to the Governments of Kenya the Government of the Republic of Kenya (GOK) for Rehabilitating / Upgrading of the, Kitale - Morpus Road Section (75 km). The road forms part of the Kenya - South Sudan international corridor.

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:	24 th April 2017
Project End Date:	31 st December 2021 revised to 31 st December, 2027
Project Engineer	Eng. Clarence Karot
Project Sponsor:	Kfw Frankfurt Am Main (“Kfw”)/ GoK

2.3 Project Overview

Line Department of the project	Ministry/State Department of the project	The project is under the supervision of the State Department of Roads on behalf of Ministry of Roads & Transport.
Project Ref number		202062065/202083939
Strategic goals of the project		<ul style="list-style-type: none"> The road is critical to promote and facilitate regional economic integration of South Sudan by providing access to the Mombasa Port, facilitate relief and reconstruction efforts in South Sudan and improve integration of Turkana district in the Kenyan economy.

Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023

Achievement of strategic goals	Implementation of the project in timely, efficient and effective manner.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: <ul style="list-style-type: none"> • Reducing Transport cost and travel time between Kenya and South Sudan • Improvement of economic and living standard of people in towns along the corridor
Project duration	

2.4 Bankers

Cooperative Bank of Kenya Ltd
Upper Hill Branch, Nairobi

National Bank of Kenya Ltd
Hill Branch, Nairobi

2.5 Independent Auditor

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

2.6 Roles and Responsibilities

List of the people who are working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng Henry Gakuru	Ag. Director Development	Registered Eng.	Oversight
Eng. Clarence Karot	Deputy Director, Development	Registered Eng.	Project Co-Ordinator
Mr W Nyatwanga	Deputy Director, Environment & Social	Environmental & Social Specialist	Safeguard Specialist
Mr Chanje Kera	Deputy Director, Finance & Accounts	CPA (K)	Financial Specialist
Mr R Kilel	Assistant Director, Supply Chain Services	Registered KIS	Procurement Specialist

Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023

Project information and overall performance (continued)

2.7 Funding summary

The Project has an approved budget of Euro 113,500,000 equivalent to Kshs 12,604,345,250 by the donor component and an amount of Kshs. 7,390,121 by GoK as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitments		Amount received to date (30th June 2023)		Undrawn balance to date (30th June 2023)	
	Euros (A)	Kshs (A')	Euros (B)	Kshs (B')	Euros (A)-(B)	Kshs (A')-(B')
(i) Grant						
Kfw Frankfurt Am Main ("Kfw") (Grant)	23,500,000	2,609,710,250	1,142,956	126,927,012	22,357,044	2,482,783,238
(ii) Loan						
Kfw Frankfurt Am Main ("Kfw") (Loan)	90,000,000	9,994,635,000	-	-	90,000,000	9,994,635,000
(iii) Counterpart Funds						
Government of Kenya	-	7,390,121	-	7,390,121	-	-
Total	113,500,000	12,611,735,371	1,142,956	134,317,133	112,357,044	12,477,418,238

B. Application of Funds

Application of funds	Amount received to date- (30th June 2023)		Cumulative Amount paid to date-(30th June 2023)		Unutilised balance to date	
	Euros (A)	Kshs (A')	Euros (B)	Kshs (B')	Euros (A)-(B)	Kshs (A')-(B')
(i) Grant						
Kfw Frankfurt Am Main ("Kfw") (Grant)	1,142,956	126,927,012	1,142,956	126,927,012	-	-
(ii) Loan						
Kfw Frankfurt Am Main ("Kfw") (Loan)	-	-	-	-	-	-
(iii) Counterpart Funds						
Government of Kenya	-	7,390,121	-	7,390,121	-	-
Total	1,142,956	134,317,133	1,142,956	134,317,133	-	-

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

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	2022/2023			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - Gok	2,500,000	2,500,000	100%	169,006,501	7,390,121	4%
Grant from External Development Partners	300,000,000	50,184,840	17%	966,000,000	126,927,012	13%
Total	302,500,000	52,684,840	17%	1,135,006,501	134,317,133	12%

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

The procurement process to secure works contractor is ongoing and the commencement of works is expected by December, 2023.

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

FY	Budget	Actual	%
2022/23	302,500,000	52,684,840	17%
2021/22	574,000,000	53,746,716	9%
2020/21	103,506,501	26,774,857	26%
2019/20	500,000	417,950	84%
2018/19	154,500,000	692,770	0%
TOTAL	1,135,006,501	134,317,133	12%

2.9 Summary of Project Compliance:

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

3. Statement of Performance against Project's Predetermined Objectives

Introduction

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

The key development objectives of the project are to:

- a) Improve road condition, safety and increase efficiency along the Sudan link corridor.
- b) Facilitate trade and transport both locally and internationally.

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
Improve road condition, safety and increase efficiency along the Sudan link corridor	Improve road condition, re-design of Kamatira hills to improve road safety due to numerous accidents reported in the area.	Improved road safety at Kamatira forest hills.	The procurement process to secure works contractor is ongoing and the commencement of works is expected by December 2023.
To facilitate trade and transport both locally and internationally.	Opening up of Northern Kenya to South Sudan and beyond to facilitated transport and trade.	Improved economic boost in the Northern Kenya.	The procurement process to secure works contractor is ongoing and the commencement of works is expected by December 2023.

4. Environmental and Sustainability reporting

Kenya South Sudan Link (Kitale Morpus) Road Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

4.1. 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

4.2. Environmental performance

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

Environmental and Sustainability Reporting (Continued)

4.3. 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.

4.4. 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.

4.5. 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 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.

The project is still under procurement phase, most of the CSR will be identified during the construction phase.

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

5. Statement of Project Management responsibilities

The Director General and the Project Implementation Team Leader for Kenya South Sudan Link (Kitale Morpus) Road Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 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 and the Project Implementation Team Leader Kenya South Sudan Link (Kitale Morpus) Road Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General and the Project Implementation Team Leader for Kenya South Sudan Link (Kitale Morpus) Road Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2023 and of the Project's financial position as at that date. The Director General and the Project Implementation Team Leader for Kenya South Sudan Link (Kitale Morpus) Road Project 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 and the Project Implementation Team Leader for Kenya South Sudan Link (Kitale Morpus) Road Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit 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 and the Project Implementation Team Leader for Kenya South Sudan Link (Kitale Morpus) Road Project on _____ and signed by them.



Eng. Kungu Ndungu
Director General



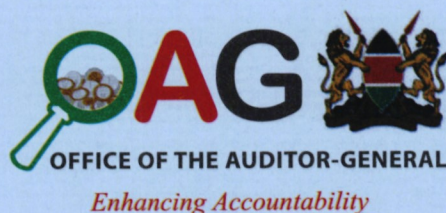
Eng. Henry Gakuru
Ag. Director -Development



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

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 KENYA - SOUTH SUDAN LINK ROAD PROJECT (REF. NO. 2020 62 065 AND BMZ NO.2020 83 939) 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

Opinion

I have audited the accompanying financial statements of Kenya - South Sudan Link Road Project - Kenya National Highways Authority, set out on pages 1 to 18 which comprise of the statement of financial assets as at 30 June, 2023, and the statement of receipts and

Report of the Auditor-General on Kenya - South Sudan Link Road Project (Ref. No. 2020 62 065 and BMZ No.202083939) for the year ended 30 June, 2023 - Kenya National Highways Authority

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, the financial statements present fairly, in all material respects, the financial position of the Kenya - South Sudan Link Road Project 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 complies with the Financing Agreements (Ref. No. 202062065 and BMZ No.202083939) between KfW, Frankfurt am Main ("KfW") and the Republic of Kenya, dated 24 April, 2017, and the Public Finance Management Act, 2012.

Basis for Opinion

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.302,500,000 and Kshs.52,684,840 respectively resulting to an under-funding of Kshs.249,815,160 or 83% of the budget.

Similarly, the Project spent Kshs.52,684,840 against an approved budget of Kshs.302,500,000 resulting to an under-expenditure of Kshs.249,815,160 or 83% of the budget.

The underfunding and under expenditure affected the planned activities of the Project and impacted negatively on service delivery to the public.

2. Pending Bills

Note 1 of other important disclosures and Annex 4 to the financial statements reflect pending accounts payables balance of Kshs.12,988,543 as at 30 June, 2023. The Project therefore runs the risk of incurring significant unquantified interest costs and penalties with the continued delay in settling invoiced bills. Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

My opinion is not modified on the effects of the above matters.

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 provided an 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

Delay in Project Implementation

The project information at paragraph 2.2 of the financial statements indicates that the Project started on 24 April, 2017 and was expected to end on 31 December, 2021 which was revised to 31 December, 2027. Further, the funding summary at paragraph 2.7 of the financial statements reflects total donor and GOK commitments amount to Kshs.12,611,735,371 out of which Kshs.12,604,345,250 was to be received from KfW Frankfurt am Main ("KfW"). However, as at 30 June, 2023, only Kshs.126,927,012 or 1% had been drawn from the donor despite the Project having been in existence for over six (6) years. The Project is at risk of not being implemented as scheduled due to continued delay in the draw down and in view of Section 3.2 of the Loan Agreement and Section 3.3 of the Financing Agreement which gives right to the financier to decline disbursements after 31 December, 2021.

Further, review of project information and overall performance indicated that construction work on rehabilitation/upgrading of the seventy-five (75) kilometers road had not started and only the road design and prequalification of bidders was in progress.

In the circumstances, Management was in breach of the law and value for money may not be ascertained.

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 KfW Frankfurt am Main ("KfW"), 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 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 review of compliance, I consider internal controls 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 controls 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 controls 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 non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 November, 2023

2003




**Kenya South Sudan Link (Kitale Morpus) Road Project
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	2022/23			2021/22			Cumulative to date (Restated)
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payments controlled by the entity (Restated)	Payments made by third parties (Restated)	Total	
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
RECEIPTS								
Transfer from Government entities	1	2,500,000	-	2,500,000	2,112,900	-	7,390,121	
Loan from external Development Partners	2	-	50,184,840	50,184,840	-	51,633,816	126,927,012	
TOTAL RECEIPTS		2,500,000	50,184,840	52,684,840	2,112,900	51,633,816	134,317,133	
PAYMENTS								
Purchase of Goods & Services	3	-	-	-	2,112,900	-	3,383,620	
Acquisition of non-financial assets	4	2,500,000	50,184,840	52,684,840	-	51,633,816	130,933,513	
TOTAL PAYMENTS		2,500,000	50,184,840	52,684,840	2,112,900	51,633,816	134,317,133	
SURPLUS/DEFICIT		-	-	-	-	-	-	

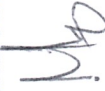
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


Eng. Kungu Ndungu
 Director General

26 SEP 2023
 Date


Eng. Henry Gakuru
 Ag. Director -Development

26 SEP 2023
 Date


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

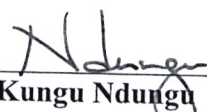
26 SEP 2023
 Date

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*


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

	Note	2022/23	2021/22
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances		-	-
TOTAL FINANCIAL ASSETS		-	-
FINANCIAL LIABILITIES			
Payables- Retentions		-	-
NET ASSETS		-	-
REPRESENTED BY:			
Cash and cash equivalents b/fwd		-	-
Surplus/Deficit for the year		-	-
NET FINANCIAL POSITION		-	-

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

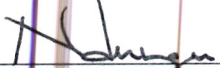

CPA Chanje Kera
Deputy Director (F&A)
ICPAK No.8279


*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

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

	Notes	2022/23 Kshs.	2021/22 Kshs.
RECEIPTS			
Transfers from Government entities	1	2,500,000	2,112,900
Proceeds from domestic & foreign grants	2	50,184,840	51,633,816
Net Receipts for operating income		52,684,840	53,746,716
Purchase of Goods and Services	3	-	(2,112,900)
Net Payments for operating expenses		-	(2,112,900)
Net cash flow from operating activities		52,684,840	51,633,816
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of road assets	4	(52,684,840)	(51,633,816)
Net cash flows from Investing Activities		(52,684,840)	(51,633,816)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		-	-
Cash and cash equivalent at Beginning of the year		-	-
Cash and cash equivalent at End of the year		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved 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

**Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023**

10. 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	% Var
	a	b	e=a+b	d	e=c-d	f=d/c %
Receipts						
Transfers from Government entities	10,000,000	(7,500,000)	2,500,000	2,500,000	-	100%
Proceeds from Loan-KfW	2,000,000,000	(1,800,000,000)	200,000,000	-	200,000,000	0%
Proceeds from Grant- KfW	300,000,000	(200,000,000)	100,000,000	50,184,840	49,815,160	50%
Total Receipts	2,310,000,000	(2,007,500,000)	302,500,000	52,684,840	249,815,160	17%
Payments						
Purchase of goods and services	2,310,000,000	(2,007,500,000)	302,500,000	-	249,815,160	17%
Acquisition of non-financial assets				52,684,840		
Total Payments	2,310,000,000	(2,007,500,000)	302,500,000	52,684,840	249,815,160	17%

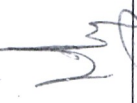
Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 2** to these financial statements.


Eng. Kungu Ndungu
Director General

26 SEP 2023

Date


Eng. Henry Gakuru
Ag. Director -Development


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

26 SEP 2023

Date

26 SEP 2023

Date

11. Significant Accounting Policies

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

a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

b) Reporting entity

The financial statements are for the Kenya South Sudan Link (Kitale Morpus) Road Project under the Kenya National Highways Authority. The financial statements encompass the reporting for Kenya South Sudan Link (Kitale Morpus) Road Project as specified in the relevant legislation 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

The Project 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 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 recognised in the financial statements 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 of employees

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

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 were incurred and paid for.

Significant Accounting Policies (Continued)

iv. Repayment of borrowing (principal amount)

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

v. Acquisition of fixed assets

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

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

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.

Significant Accounting Policies (Continued)

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 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

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

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

Significant Accounting Policies (Continued)

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.

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.

Significant Accounting Policies (Continued)

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/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 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). Explanations and details of these prior period adjustments are presented in note 12.5 of the financial statements.

12. Notes to the Financial Statements

1. Transfers from Government Entities

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

	2022/23	2021/22 (Restated)	Cumulative to- date (Restated)
	Kshs	Kshs	Kshs
Counterpart Funding through Ministry			
Counterpart funds Quarter 1	-	606,800	862,300
Counterpart funds Quarter 2	2,500,000	-	4,378,731
Counterpart funds Quarter 3	-	1,506,100	1,645,900
Counterpart funds Quarter 4	-	-	503,190
TOTAL (See Annex 3)	2,500,000	2,112,900	7,390,121

2. Loan from External Development Partners

Name of Donor	Date Received	Loans Received as Direct payments	Total amounts in Kshs.		Cumulative (Restated)
			FY 2022/23	FY 2021/22 (Restated)	
		Kshs	Kshs	Kshs	Kshs
Kfw Frankfurt Am Main	2022/23	50,184,840	50,184,840	51,633,816	126,927,012
Total		50,184,840	50,184,840	51,633,816	126,927,012

3. Purchase of Goods & Services

	FY 2022/23			FY 2021/22	Cumulative (Restated)
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments (Restated)	
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic travel and subsistence	-	-	-	2,112,900	3,098,660
Hospitality Supplies	-	-	-	-	284,960
Total	-	-	-	2,112,900	3,383,620

Notes to the Financial Statements (Continued)

4. Acquisitions of Non-Financial Assets

	FY 2022/23			FY 2021/22	Cumulative (Restated)
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments (Restated)	
	Kshs	Kshs	Kshs	Kshs	
Construction of roads	2,500,000	50,184,840	52,684,840	51,633,816	130,933,513
Total	2,500,000	50,184,840	52,684,840	51,633,816	130,933,513

5. Prior year adjustments

Description of the error	Balance b/f FY 2021/22 as per Financial Statements	Adjustments	Adjusted Balance b/f FY 2022/23
	Kshs	Kshs	Kshs
Loans from external Development Partners	57,379,274	-5,745,458	51,633,816
Transfer from Government entities	2,211,600	-98,700	2,112,900
Acquisition of non-financial assets	57,379,274	-5,745,458	51,633,816
Purchase of Goods & Services	2,211,600	-98,700	2,112,900
Summary of fixed asset register	83,994,131	-5,745,458	78,248,673

Note: Restatement relates to an overstatement of both receipt and payments for both Development partner and Government entity by Kshs. 5,745,458 and Kshs. 98,700 respectively.

Other Important Disclosures

1. Pending Accounts Payable (Annex 4)

	Balance b/f FY 2022/2023	Additions for the period	Paid during the year	Balance c/f FY 2022/2023
Description	Kshs	Kshs	Kshs	Kshs
Consultancy Services	6,024,205	59,649,178	52,684,840	12,988,543
Total	6,024,205	59,649,178	52,684,840	12,988,543

2. External Assistance

a) External assistance relating to loans and grants

	FY 2022/2023	FY 2021/2022 (Restated)
Description	Kshs	Kshs
External assistance received as grants	50,184,840	51,633,816
Total	50,184,840	51,633,816

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 - loans	Road works & consultancy services	9,994,635,000	9,994,635,000
Undrawn external assistance - grants	Road works & consultancy services	2,482,784,238	2,532,968,078
Total		12,477,419,238	12,527,603,078

c) Classes of providers of external assistance

	FY 2022/2023	FY 2021/2022 (Restated)
Description	Kshs	Kshs
Bilateral donors	50,184,840	51,633,816
Total	50,184,840	51,633,816

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

d) Non-monetary external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Goods	-	-
Services	-	-
Total	-	-

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Other Important Disclosures (Continued)

e) Purpose and use of external assistance

	FY 2022/2023	FY 2021/2022 (Restated)
Description	Kshs	Kshs
Acquisition of Assets	50,184,840	51,633,816
Total	50,184,840	51,633,816

f) 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 (Restated)
Description	Kshs	Kshs
Bilateral donors	50,184,840	51,633,816
Total	50,184,840	51,633,816

**Kenya South Sudan Link (Kitale Morphus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023**

**13. Annexes
Annex 1. Prior Year Auditor-General's Recommendations**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p><u>Basis for Qualified Opinion</u></p> <p>Lack of project Bank Account and Cashbook The statement of receipts and payments reflects transfer from Government entities through the parent Ministry of Kshs. 2,211,600 which was fully expensed in the year of review. The receipts were however not supported by an approved budget. In addition, the Authority did not maintain separate bank account and Cashbook for the project and as such none of the transactions could be confirmed.</p>	<p>An approved budget was availed during the audit exercise. Kindly note that the budget for the projects is based on a single line for the entire program. Attached find a copy for further verification. The Kenya South Sudan Link uses the Direct Payment Method where the Development Partner does not disburse any cash to the Authority but pay directly to the Consultant. Therefore, no separate bank account is required. However, the Authority maintains a single exchequer bank account and a cash book that provides amongst other details:</p> <ul style="list-style-type: none"> • The Project codes • The Project description <p>and</p> <ul style="list-style-type: none"> • The vendor to whom an amount relates to. <p>From this single cashbook therefore, transactions for a particular project can be filtered through the Project Code and Project Description.</p>	Resolved	Continuous
2	<p>Unsupported Expenditure on Domestic Travel and Subsistence As disclosed in Note 11.3 to the financial statements of receipts and payments expenditure on domestic travel and subsistence amounting to Kshs. 2,211,600. However, the expenditure was</p>	<p>The projects expenditure was fully supported by approved Consolidated Annual Procurement Plan FY 2021/2022.</p>	Resolved	Continuous

**Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023**


	not supported by an approved detailed workplan for the year under review.			
1	<p>Other Matters Delay in Project implementation</p> <p>The project information at Note 1.2 to the financial statements indicates that the project started in 2017 and was expected to end in 2025. According to the funding summary at Note 1.7 total donor and GOK commitments amounted to Kshs. 12,609,334,071 out of which Kshs. 12,604,345,250 was to be received from KFW Frankfurt am Main (KfW). However, as at 30th June 2022, only Kshs. 82,487,630 had been withdrawn despite the project having been in existence for over five years.</p>	<p>We wish to bring to your attention that while both the Loan and the Grant were scheduled to expire on December 31, 2021. However, Pursuant to Section 3.2 of Loan Agreement [<i>Deadline for requesting Disbursements</i>], upon the request by the Government of Kenya for extension of Loan and Grant Period, KfW extended the disbursement period by an additional period of 72 months (6 years); thereby revising the date of the last disbursement to December 31, 2027. This will enable payments during the implementation of civil works and facilitate achievement of the envisioned project development objectives as well as proper closure. We note that the commencement of the project was adversely affected by the delays in effectiveness of the financing package initially and later by the outbreak of COVID-19 pandemic. However, the Consultant has now completed Phase(s) I, II and III of Part A of the services and is finalizing Phase IV - preparation of tender documents and final safeguards documentation. The process of procuring a contractor for civil works is currently on. Furthermore, the Bank on March, 2021, gave a No – Objection to the procurement plan that envisages completion of civil works in July 2026.</p>	Resolved	Continuous
2	<p>Pending Bills</p> <p>Note 12.1 to the financial statements and Annex 3 to the financial statement reflect pending accounts payable balance of Kshs. 6,024,205 as at 30 June, 2022. Review of the financial statements indicate that the entire pending bills balance was contracted during the year under review. The project therefore runs the risk of incurring significant unqualified interests costs and penalties with the continued delay in settling invoiced bills.</p>	<p>Delay in payments of Kshs. 6,026,205 was as a result of failure to release GoK/Exchequer funds in time to facilitate prompt contractual payments. A part payment of Kshs. 2,500,000 (Equivalent to Euros 22,512.08) has been made in the current financial year.</p>	Resolved	Continuous

**Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023**


Budgetary Control and Performance			
3	<p>The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 574,000,000 and Kshs. 59,590,874 respectively resulting in an under-funding of Kshs. 514,409,126 or 90% of the budget. Similarly, the project spent Kshs. 59,590,874 against an approved budget of Kshs. 574,000,000 resulting to an under expenditure of Kshs. 514,409,126 or 90% of the budget. The underfunding and under expenditure affected the planned activities of the project and impacted negatively on service delivery to the public</p>	<p>We agree with the observation. The global COVID-19 pandemic that had led to containment measures on movement of people and supplies availability had caused unanticipated overall delays and affected the project implementation and performance due to the non-commencement of field activities. However, the project is at the stage of securing a contractor whereby no objection for prequalified contractors has been issued and currently The Authority is in the process of preparing final bidding documents. The underperformance therefore was due to the fact that civil works had not commenced.</p>	<p>Resolved</p> <p>Continuous</p>
	<p>Basis for Conclusion Unapproved variation of Contract Period and amount The Management entered into contract with an international contractor under Contract No. KENHA/1871/2018 for consultancy services for the design finalization of safeguard documents, procurement support, construction supervision and contract administration of Kenya South Sudan Road Link (Kitale – Morpus Road) on 15th October 2019 with the original expected completion date of 9th July, 2025. The contract sum was set at EURO 4,404,560 plus Kshs. 12,392,721. Review of addendum No. 1 dated 30th July, 2021 on the contract revealed that the original contract sum was varied from EURO 4,404,560 plus Kshs. 12,392,721 to EURO 4,786,485 plus Kshs. 19,088,992 thus resulting in variation of EURO 381,925 or 9% and Kshs. 6,696,271 or 54%. Further, the contract expected completion date was also extended by twelve (12) months from 09th July 2025 to 09th July, 2026</p>	<p>The request for extension of the contract period by twelve (12) months and the cost variation was affected under Addendum No.1 which was occasioned by:</p> <ol style="list-style-type: none"> Additional Topographical Survey for the 65km section: In absence of the old survey data or the editable version of Plan and Profile drawings, the Consultant was actually unable to review any design. This request was pursuant to the agreed actions during the Project Launch Workshop held on February 10-14, 2020. Detailed Design of extended end point of the project road by 8km (up to Moruni River Bridge): The bridge is in vulnerable condition and will affect the serviceability of the proposed road section. The costs comprise the additional site investigations and the associated engineering designs. This request was pursuant to the agreed actions during the Project Launch Workshop held on February 10-14, 2020. 	<p>Resolved</p> <p>Continuous</p>

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

	<p>3. Procurement Assistance Services: This request was pursuant to the agreed actions during the monthly meeting with KfW held on October 12, 2020, to include the component as part of the services by the Consultant. The services involve providing technical support to KeNHA for all procurements of works and other services as envisioned in the approved Procurement Plan.</p> <p>4. Communication and Visibility Services: This request was pursuant to the agreed actions during the monthly meeting with KfW held on October 12, 2020, to include the component as part of the services by the Consultant.</p> <p>Supporting the above are; letter from LEA Associates requesting for extension of time and scope of work, the evaluation report and the Authority's request for no Objection.</p>	
--	--	--


Eng. Kungu Ndungu
 Director General

26 SEP 2023
 Date


Eng. Henry Gakuru
 Ag. Director Development

26 SEP 2023
 Date

Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023


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 (Below 90% and Over 100%)
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	2,500,000	2,500,000	-	100%	The project is at tendering phase and not many activities taking place to absorb the Direct Payment portion.
External financing	300,000,000	50,184,840	249,815,160	17%	
Total receipts	302,500,000	52,684,840	249,815,160	17%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	302,500,000	-	249,815,160	17%	The project is at tendering phase and not many activities taking place to absorb the Direct Payment portion.
Acquisition of non-financial assets		52,684,840			
Total Payments	302,500,000	52,684,840	249,815,160	17%	

*Kenya South Sudan Link (Kitale Morpus) Road Project
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Annex 3 - Reconciliation of inter -entity transfers

PROJECT NAME:	Kenya South Sudan Link (Kitale Morpus) Road Project		
Breakdown of Transfers from the State Department of Roads & Transport			
a. Government Counterpart Funding			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
Quarter 1	30-Sept-22	2,500,000	FY 2022/23
	Total	2,500,000	


Eng. Kungu Nduvigi
 Director General


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

*Kenya South Sudan Link (Kitale Morpus) Road Project
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 Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance		Comments
				2023	2022	
	a	b		c=a-b		
Consultancy Services						
LEA Associates South Asia	21/06/2022	38,295,124	34,770,918.64	3,524,205	6,024,205	4
LEA Associates South Asia	07/03/2023	34,708,215	28,684,010.41	6,024,205	-	5
LEA Associates South Asia	23/02/2023	24,940,962	21,500,829.19	3,440,133	-	6
Grand Total		97,944,301	84,955,758.24	12,988,543	6,024,205	

Annex 5 - Summary of Fixed Asset Register

Asset class	Opening Cost (Restated)		Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KShs)	(KShs)			
	2022/23	2022/23	2022/23	2022/23	2022/23
	(a)	(b)	(c)	(d) = (a) + (b) - (c)	
Consultancy Services	78,248,673	52,684,840	-	-	130,933,513
Total	78,248,673	52,684,840	-	-	130,933,513

