

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY PAPERS L.A.I.D.	
DATE: 29 NOV 2023	DAY: WED
TABLED OF:	Hon Owen Bayo CBS, MP Deputy majority leader
CLERK-AT THE-TABLE:	Enyaya Munkh

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**MOMBASA SPECIAL ECONOMIC ZONE
DEVELOPMENT PROJECT (I)**

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

**KENYA NATIONAL
HIGHWAYS AUTHORITY**



MINISTRY OF ROADS AND TRANSPORT



PROJECT NAME: MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT
(I)

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT LOAN NUMBER: KE – P35

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)

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2023

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1. Acronyms and Glossary of Terms

AIE	Authority to Incur Expenditure
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
Comparative FY	Financial year preceding the current financial year.
EIA	Environmental Impact Assessment
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
KeNHA	Kenya National Highways Authority
Kshs.	Kenya Shillings
TNT	National Treasury
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
SMART	Specific, Measurable, Achievable, Realistic and Time-bound

2. Project Information and Overall Performance

2.1 Name and registered office

Name: Mombasa Special Economic Zone Development Project

Objective:

The objective of the Project is to enhance transportation capacity and to stabilize power supply condition, by constructing a berth, main road and electric facilities for Mombasa Special Economic Zone which is located in Dongo Kundu. This will thereby contribute to improvement of investment environment of the area.

Registered Office 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:	27 th February 2020
Project End Date:	31 st December 2024
Project Engineer	Eng. Samuel O. Ogege
Project Sponsor:	1. Government of Kenya (GK) 2. Japan International Cooperation Agency (JICA)

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of State Department for Roads
Project number	KE-P35
Strategic goals of the project	The strategic goals of the project are as follows: (i) To enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance social economic development of the people at Dongo Kundu area
Achievement of strategic goals	The project management aims at implementation of the project in timely, efficient and effective manner.
Other important	There are two components under this project that are being implemented

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background information of the project	by Kenya National Highways Authority (KeNHA). 1. Civil Engineering works for the construction of a main road to Dongo Kundu Special Economic Zone 2. Consultancy services for the civil engineering works
Current situation that the project was formed to intervene	The project was formed to intervene in the following area; (i) Enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance socio-economic development of the people living around Dongo Kundu area.
Project duration	The project is for duration of 4 years

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

2.5 Auditors Auditor General
 Office of the Auditor General
 Po Box 30084-00100
 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 Civil Engineer	Project Implementing Team Leader
Eng. Samuel Ogege	Deputy Director-Special Projects	Registered Civil Engineer	Project Engineer
Ms Levina Wanyoyi	Deputy Director-Supply Chain Management	Registered Member KISM	Project Procurement Specialist
Mr. Walter Nyatwanga	Deputy Director-Environment & Social Interest	NEMA Lead Expert	Project Safeguards Specialist
Mr Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist

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2.7 Funding summary

The Project is for duration of 4 years from 27th February 2020 to 31st December 2024 with an approved budget of Japanese Yen 37,090,000,000 equivalent to Kshs. 33,887,278,500 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2023)		Undrawn balance to date - (30.06.2023)	
	JPY	Kshs	JPY	Kshs	JPY	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
Japan International Cooperation (JICA)	37,090,000,000	33,887,278,500	731,675	73,973,910	37,089,268,325	33,813,304,590
Total	37,090,000,000	33,887,278,500	731,675	73,973,910	37,089,268,325	33,813,304,590
(ii) Counterpart Funds						
Government of Kenya (GK)		2,469,255		2,469,255	-	-
Total	37,090,000,000	33,887,278,500	731,675	76,443,165	37,089,268,325	33,813,304,590

B. Application of Funds

Application of funds	Amount received to date - (30.06.2023)		Cumulative Amount paid to date - (30.06.2023)		Unutilised balance to date - (30.06.2023)	
	JPY	Kshs	JPY	Kshs	JPY	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
Japan International Cooperation (JICA)	80,965,260	73,973,910	80,965,260	73,973,910	-	-
(ii) Counterpart funds						
Government of Kenya (GK)		2,500,000		2,469,255	-	30,745
Total	80,965,260	76,473,910	80,965,260	76,443,165	-	30,745

2.8 Summary of Overall Project Performance:

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

	FY 2022/2023			Cumulative to-date		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - GK	2,500,000	2,469,255	99%	2,500,000	2,469,255	99%
Loan from Development Partners						
Japan International Cooperation (JICA)	100,000,000	-	-	250,000,000	73,973,910	30%
Total	102,500,000	2,469,255	2%	252,500,000	76,443,165	30%

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

There was no physical progress as at 30th June 2023

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

Financial Year	Budget	Actual	Percentage (%)
FY 2022/23	102,500,000	2,469,255	2%
FY 2021/22	150,000,000	73,973,910	49%
Total	252,500,000	76,443,165	30%

(iv) **Comment on value for money achievements.**

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

2.9 Summary of Project Compliance:

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

3. Statement of Performance Against Project's Predetermined Objectives

Introduction

The key development objectives of the project are:

- a) To enhance transportation capacity & power supply stability at Dongo Kundu area
- b) To enhance social economic development of the people at Dongo Kundu area.

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
To enhance transportation capacity & power supply stability at Dongo Kundu area	Improved accessibility to Dongo Kundu Special Economic Zone	Reduced travel time between SEZ and other parts of the country	Project at its initial preparation stage
Enhance social economic development of the people at Dongo Kundu area	Enhanced population access to social services.	Improved living standards of people living in Dongo Kundu.	Project at its initial preparation stage

4. Environmental and Sustainability Reporting

Mombasa Special Economic Zone Development Project (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 people and their prosperity. Five out of the seventeen goals are pertinent to management of projects being undertaken by the Authority. These are being addressed through the following initiatives;

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

2. Environmental performance

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

Environmental and Sustainability Reporting (Continued)

Audits, carries out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

While executing works, the Contractor continued to perform air quality management such as regularly dampening of deviations and other dust-prone accesses to lay dust; Sprinkling of stockpiles (mainly the quarry dust) at the construction camp; control of construction vehicle speed limits along the deviations and dusty accesses; regularly servicing of vehicles and other machinery to control exhaust gas emissions, maintenance of the asphalt and concrete batching plants including the dust collection systems to ensure effectiveness in dust collection.

3. Employee welfare

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

4. Market place practices

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

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

5. Community Engagements

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to

Environmental and Sustainability Reporting (Continued)

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.

During the project execution, the Contractor is encouraged to offer employment opportunities to the locals as casuals, carry out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

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 Mombasa Special Economic Zone Development Project (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.

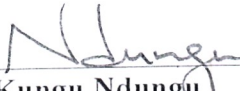
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies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

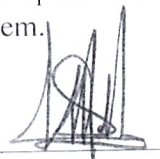
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2023, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development 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.

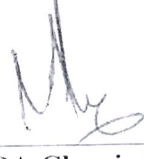
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the 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 Mombasa Special Economic Zone Development Project (I) on 23 SEP 2023 and signed by them.

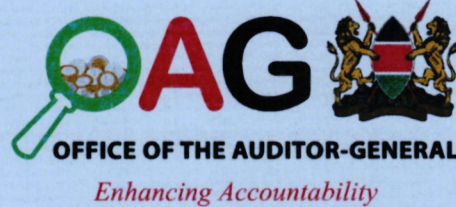

Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Ag. Director-Development


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

REPUBLIC OF KENYA

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Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT (I) FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mombasa Special Economic Zone Development Project (I) set out on pages 1 to 15, which comprise of the statement

Report of the Auditor-General on Mombasa Special Economic Zone Development Project (I) for the year ended 30 June, 2023 - Kenya National Highways Authority

of financial assets as at 30 June, 2023 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of Mombasa Special Economic Zone Development Project (I) as at 30 June, 2023, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and Project Loan No. KE - P35.

Basis for Qualified Opinion

Inaccuracy in Cash and Cash Equivalents

The statement of financial assets and explanatory Note 5 to the financial statement reflects bank balance of Kshs.30,745 as at 30 June, 2023. However, the bank reconciliation statements and cash book provided in support of the bank balance reflected a balance of Kshs.3,613,156,401 resulting into an unreconciled and unexplained variance of Kshs.3,613,125,656.

In the circumstances, the validity and accuracy of the cash and cash equivalents balance of Kshs.30,745 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mombasa Special Economic Zone Development Project (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 audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.102,500,000 and Kshs.2,500,000 respectively,

resulting to an underfunding of Kshs.100,000,000 or 98%, mainly in respect of proceeds from borrowings - direct payments budget amount of the Kshs.100,000,000 out of which Kshs.Nil was received. Similarly, Kshs.2,469,255 was spent by the Project against an approved expenditure budget of Kshs.102,500,000, resulting to an under expenditure of Kshs.100,030,745 or 98%. meaning that no physical progress was registered on the Project.

The underfunding and under-performance affected the implementation of planned activities and it was not possible to confirm whether the Project implementation was on course and whether its strategic goals would be realized.

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

Failure to Open and Maintain a Project Bank Account

The statement of financial assets reflects cash and cash equivalents balance of Kshs.30,745 being bank balance in a commercial bank. However, the project funds were comingled in the Kenya National Highways Authority's operational bank account instead of handling them in a separate bank account contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 that provides that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

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.

Responsibilities of Management and those Charged with Governance

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

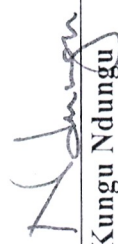
09 November, 2023

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2023


7. Statement of Receipts and Payments for the Period Ended 30th June 2023

	Note	FY 2022/23		FY 2021/22		Total	Payments Made by Third Parties	Receipts & Payments Controlled by the Entity	Total	Cumulative to date
		Kshs	Kshs	Kshs	Kshs					
Receipts										
Transfer from Government entities	1	2,500,000	-	2,500,000	-	-	-	-	-	2,500,000
Loan from external Development Partners	2	-	-	-	-	73,973,910	73,973,910	-	73,973,910	73,973,910
Total Receipts		2,500,000	-	2,500,000	-	73,973,910	73,973,910	-	73,973,910	76,473,910
Payments										
Purchase of goods and services	3	2,469,255	-	2,469,255	-	-	-	-	-	2,469,255
Acquisition of non-financial assets	4	-	-	-	-	-	73,973,910	-	73,973,910	73,973,910
Total Payments Surplus/Deficit		2,469,255	-	2,469,255	-	-	73,973,910	-	73,973,910	76,443,165
		30,745	-	30,745	-	-	-	-	-	30,745

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


Eng. Kungu Ndungu
 Director General

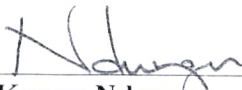

Eng. Henry Gakuru
 Ag. Director-Development


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


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

Description	Notes	FY 2022/23	2021/22
		Kshs	Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	5A	30,745	-
Total Cash and Cash equivalents		30,745	-
Total Financial Assets		30,745	-
Financial Liabilities			
Deposits and Retention		-	-
Net Assets		30,745	-
Represented By:			
Fund Balance B/fwd.	6	-	-
Prior Year adjustments		-	-
Surplus/Deficit for the year		30,745	-
Net Financial Position		30,745	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 23 SEP 2023 and signed by:


Eng. Kungu Ndungu
Director General

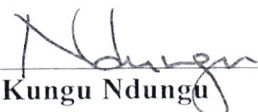

Eng. Henry Gakuru
Ag. Director-Development

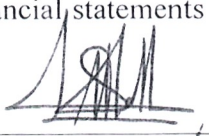

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279


9. Statement of Cashflow For the Year Ended 30th June 2023

Description	Note	FY 2022/23 Kshs	FY 2021/22 Kshs
Cashflow from operating activities			
Receipts			
Transfer from Government entities	1	2,500,000	-
Total receipts		2,500,000	-
Payments			
Purchase of goods and services	3	(2,469,255)	-
Total payments		(2,469,255)	-
Net cash flow from operating activities		30,745	-
Cashflow from investing activities			
Acquisition of Assets	4	-	(73,973,910)
Net cash flows from Investing Activities		-	(73,973,910)
Cashflow from financing activities			
Proceeds from Foreign Borrowings	2	-	73,973,910
Net cash flow from financing activities		-	73,973,910
Net Increase in Cash and Cash Equivalent		30,745	-
Cash and cash equivalent at BEGINNING of the year	5	-	-
Cash and cash equivalent at END of the year	5	30,745	-

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 23 SEP 2023 and signed by:


Eng. Kungu Ndungu
Director General

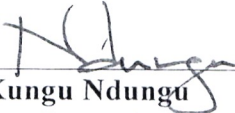

Eng. Henry Gakuru
Ag. Director-Development


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


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	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	10,000,000	(7,500,000)	2,500,000	2,500,000	-	100%
Proceeds from borrowings-Direct Payments	2,500,000,000	(2,400,000,000)	100,000,000	-	100,000,000	
Total Receipts	2,510,000,000	(2,407,500,000)	102,500,000	2,500,000	100,000,000	2%
Payments						
Purchase of goods and services	2,510,000,000	(2,407,500,000)	102,500,000	2,469,255	100,030,745	2%
Acquisition of non-financial assets				-		
Total Payments	2,510,000,000	(2,407,500,000)	102,500,000	2,469,255	100,030,745	2%
Surplus/Deficit	-	-	-	30,745	(30,745)	

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


 Eng. Kungu Ndungu
 Director General


 Eng. Henry Gakuru
 Ag. Director-Development


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

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 Mombasa Special Economic Zone Development Project (I) under Kenya National Highways Authority. The financial statements are for the reporting entity's Mombasa Special Economic Zone Development Project (I) as required by Section 81 of the PFM Act, 2012.

c) Reporting currency

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

d) Recognition of receipts

Mombasa Special Economic Zone Development Project (I) recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

e) Recognition of payments

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

- **Compensation of employees**

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

- **Use of goods and services**

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

- **Interest on borrowing**

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

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

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

Significant Accounting Policies (Continued)

- **Acquisition of fixed assets**

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

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

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

f) In-kind donations

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

g) Cash and cash equivalents

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

h) Restriction on cash

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

i) Imprests and Advances

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

Significant Accounting Policies (Continued)

j) Contingent Liabilities

A contingent liability is:

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

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities.

Letters of comfort/ support, insurance, Public Private Partnerships,

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

k) Contingent Assets

Mombasa Special Economic Zone Development Project (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 Mombasa Special Economic Zone Development Project (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' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

Significant Accounting Policies (Continued)

m) Budget

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

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

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

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

n) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments. During the year **nil** disbursements were received in form of direct payments from third parties.

o) Exchange rate differences

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

p) Comparative figures

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

Significant Accounting Policies (Continued)

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). There were no prior year adjustments on the financial statements for the year ended June 30, 2023.

12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	FY 2022/23	FY 2021/22	Cumulative to-date
	Kshs	Kshs	
Counterpart funding through Ministry of Transport and Infrastructure			
Counterpart funds Quarter 1	2,500,000	-	2,500,000
Counterpart funds Quarter 2	-	-	-
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	-	-
Total	2,500,000	-	2,500,000

2. Loan from External Development Partner

Name of Donor	Date Received	Amount in loan currency	Loans received in actual amount	Loans received as direct payment	Total amount in Kshs	Total amount in Kshs	Cumulative to date
					FY 2022/23	FY 2021/22	
			Kshs	Kshs	Kshs	Kshs	Kshs
Loans Received from Multilateral Donors							
Japan International Cooperation	FY 2021/22	-	-	-	-	73,973,910	73,973,910
Total		-	-	-	-	73,973,910	73,973,910

3. Purchase of Goods and Services

Description	FY 2022/23			FY 2020/22	Cumulative to Date
	Payments made by the entity in Cash	Payments made by third parties	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic Travel & Subsistence	2,469,255	-	2,469,255	-	2,469,255
Total	2,469,255	-	2,469,255	-	2,469,255

Notes to the Financial Statements (Continued)

4. Acquisition of Non-Financial Assets

Description	FY 2022/23			FY 2021/22	Cumulative to-date
	Payments made by the entity in Cash	Payments made by third parties	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Research, studies, project preparation, design & supervision	-	-	-	73,973,910	73,973,910
	-	-	-	73,973,910	73,973,910

5. Cash and Cash Equivalents Carried Forward

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Bank accounts (Note 5A)	30,745	-
Total	30,745	-

5A Bank Accounts

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Local Currency Accounts		
Co-operative Bank of Kenya [A/c No. 01141160979900]	30,745	-
National Bank of Kenya [A/c No. 0100132733200]		
Total bank account balances	30,745	-

6. Fund Balance Brought Forward

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Bank accounts	-	-
Retention	30,745	-
Total	30,745	-

13. Other Important Disclosures

1. Pending Accounts Payable (See Annex 3)

Description	Balance b/f FY 2022/2023	Additions for the year	Paid during the year	Balance c/f FY 2022/23
	Kshs	Kshs	Kshs	Kshs
Construction of civil works	-	-	-	-
Lands Compensation	-	-	-	-
Supply of services	-	-	-	-
Total	-	-	-	-

2. External Assistance

a) External assistance relating loans and grants

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
External assistance received as loans	-	73,973,910
Total	-	73,973,910

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	Civil works & consultancy services	33,813,304,590	33,813,304,590
Total		33,813,304,590	33,813,304,590

c) Classes of providers of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Multilateral donors	-	73,973,910
Total	-	73,973,910

External assistance for road construction works & supervision consultancy services.

d) Non-monetary external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Goods	-	-
Services	-	-
Total	-	-

Other Important Disclosures (Continued)

e) Purpose and use of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Acquisition of Assets	-	73,973,910
Total	-	73,973,910

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
Description	Kshs	Kshs
Multilateral donors	-	73,973,910
Total	-	73,973,910

Mombasa Special Economic Zone Development Project (I)
Annual Report and Financial Statements for the financial year ended June 30, 2023

14. Annexes


Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p>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 comparable basis of Kshs 150,000,000 and Kshs. 73,973,910 respectively resulting to an underfunding of Kshs. 76,026,090 or 51%. Similarly, Kshs. 73,973,910 was spent on the project against an approved budget of Kshs. 150,00,000, resulting to an under expenditure of Kshs. 76,026,090 or 51%.</p>	<p>Detailed Design and draft bidding documents for Mombasa Special Economic Zone Development Project (I) was to be undertaken by a Consultant appointed by JICA and paid for through a grant. Although the Consultant procured under KeNHA to undertake among other duties, Tender Assistance and Construction Supervision was procured in August 2021 and an Advance payment made, commencement to the Consultant could not have been issued since, as stipulated in the Consultant's Contract <i>sub-clause 2.3.1</i>, commencement of the services will be upon issuance of Draft Bidding Documents to the Tender Assistance and Construction Supervision Consultant. Further, there was a delay in completion of the Detailed Design occasioned by the effects of COVID-19.</p> <p>The Authority received the draft bidding documents from JICA and a committee for Technical Inspection has been proposed to finalize the inspection before issuance of the final design documents to the Supervision Consultant.</p>	Continuous	Continuous


Eng. Kungu Ndungu
Director General

23 SEP 2023

Date


Eng. Henry Gakuru
Ag. Director-Development

23 SEP 2023

Date

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

	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Government of Kenya	2,500,000	2,500,000	-	100%	
External financing	100,000,000	-	100,000,000	1%	Project in preparation stage
Total Receipts	102,500,000	2,500,000	100,000,000	2%	
Payments					
Purchase of goods and services	102,500,000	2,469,255	100,030,745	2%	Project in preparation stage
Acquisition of non-financial assets		-			
Total Payments	102,500,000	2,469,255	100,030,745	2%	

Annex 3: Reconciliation of inter-entity transfers

Project Name:		Mombasa Special Economic Zone Development Project (I)	
Break down of Transfers from the State Department of Infrastructure			
a. Government Counterpart Funding			
<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>	
30-Sep-22	2,500,000	FY 2022/23	
Total	2,500,000		

Annex 4: Analysis of Pending Bills

Supplier of Goods/Services	Date Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2023	2022	
		a	b	c=a-b		
Sub-Total						
Consultancy Services						
	-		-	-	-	
Civil Works						
	-		-	-	-	
Sub-total	-		-	-	-	
Land Compensation						
	-		-	-	-	
Grand-Total	-		-	-	-	

Annex 5 – Summary of Fixed Asset Register

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
	FY 2022/23	FY 2022/23	FY 2022/23	FY 2023
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	73,973,910	-	-	73,973,910
Total	73,973,910	-	-	73,973,910

