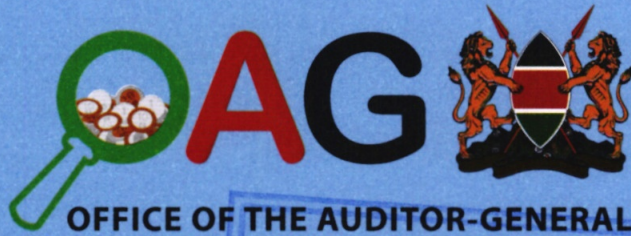


REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY
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REPORT

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**NAIROBI-THIKA HIGHWAY IMPROVEMENT
PROJECT LOT 3 GOVERNMENT
CONCESSIONAL LOAN AGREEMENT
NO.(2009) 39 TOTAL NO.(290) –
1290003022009110585**

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

KENYA NATIONAL HIGHWAYS AUTHORITY



MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

PROJECT NAME: NAIROBI – THIKA HIGHWAY IMPROVEMENT PROJECT LOT 3

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT CREDIT: CHINA EXIM BANK GCL NO. (2009) 39 TOTAL NO. (290) -
1290003022009110585

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2024

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

*Nairobi -Thika Highway Improvement Project Lot 3
Annual Report and Financial Statements for the financial year ended June 30, 2024*

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1. Acronyms and Definition of Terms

CBK	Central Bank of Kenya
CPA	Certified Public Accountant
CIPS	Chartered Institute of Purchasing & Supply
ICPAK	Institute of Certified Public Accountants of Kenya
ENG.	Engineer
EXIM	The Export–Import Bank of China
F&A	Finance and Accounts
FY	Financial Year
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority`
KISM	Kenya Institute of Supply Management
Kshs.	Kenya Shillings
MRT	Ministry of Roads and Transport
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RMB	Renminbi
SDG	Sustainable Development Goals

2. Project Information and Overall Performance

2.1 Name and registered office

Name: Nairobi–Thika Road Improvement Project (Kenyatta University – Thika) Lot 3

Objective: The objective of the Project was to improve the accessibility, affordability and reliability of the transport infrastructure system to promote economic growth and socio-economic development in Kenya.

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

Contacts: Director General
Kenya National Highways Authority
P.O. Box 49712-00100
Nairobi

Telephone: +254-21-495000

E-mail: dg@kenha.co.ke

Website: www.kenha.co.ke

2.2 Project Information

Project Start Date:	18 th December, 2009
Project End Date:	2014
Project Management :	Eng. Henry Gakuru Director Development Eng. Cleophas. Makau – Deputy Director – Special Projects
Project Sponsor:	1. Government of Kenya(GoK) 2. Export & Import Bank of China

2.3 Project Overview

Line Ministry/State Department of the Project	The project was under the supervision of the State Department of Roads under the Ministry of Roads and Transport.
Project Number	CHINA EXIMBANK GCL NO. (2009) 39 TOTAL NO. (290) - 1290003022009110585

*Nairobi -Thika Highway Improvement Project Lot 3
Annual Report and Financial Statements for the financial year ended June 30, 2024*

Project Information and Overall Performance (continued)

Strategic goals of the project	The project management aimed to achieve the goals through the following means:- (i) Increase efficiency of road transport along the Nairobi – Thika Road and open areas surrounding Nairobi and Thika for development investments and trade purposes. (ii) Promote private sector participation in the management, financing and maintenance of roads assets.
Achievement of strategic goals	(i) Construction of 23.88 Kms of road between Kenyatta University and Thika town.
Other important background information of the project	The Nairobi – Thika road is an important link on the Great North Trans-African Highway (Cape Town to Cairo) and is part of the East Africa Community Regional Trunk Road Network
Areas that the project was formed to intervene	(i) To rehabilitate and expand physical infrastructure. (ii) Promote regional transport and trade with Ethiopia and Tanzania.
Project duration	Six years The project has since been completed and handed over to the Government of Kenya.

2.4 Bankers

Co-operative Bank Limited
KUSSCO Branch
Nairobi

2.5 Independent Auditor

Auditor General
Office of the Auditor General
P.O. Box 30084 - 00100 GPO
Nairobi

2.6 Roles and Responsibilities

No	Names	Title designation	Key qualification	Responsibilities
1	Eng. Henry Gakuru	Director Development	Registered Engineer	Overall Development Projects oversight
2	Eng. Cleophas Makau	Deputy Director – Special Projects	Registered Engineer	Project Implementation Team Leader
3	Mr. Philip . Wachira	Chief Finance Officer	Financial Expert	Project Financial Management Specialist
4	Ms. Levinah Wanyonyi	Deputy Director Supply Chain Management	Registered KISM & CIPS Member	Project Procurement Specialist

*Nairobi -Thika Highway Improvement Project Lot 3
Annual Report and Financial Statements for the financial year ended June 30, 2024*

Project Information and Overall Performance (continued)

2.7 Funding summary

The project duration was 6 years from 2009 to 2014 with an approved budget of RMB 87,545,228 equivalent to Kshs. 8,423,271,316 as highlighted in the table below:

A) Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2024)		Undrawn balance to date (30.06.2024)	
	<i>RMB</i>	<i>Kshs</i>	<i>RMB</i>	<i>Kshs</i>	<i>RMB</i>	<i>Kshs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
China EXIM Bank	87,545,228	8,423,271,316	87,545,228	8,423,271,316	-	-
(ii) Counterpart funds						
	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>
Government of Kenya	1,384,798,280	1,384,798,280	1,384,798,280	1,384,798,280	-	-
Total		9,808,069,596		9,808,069,596	-	-

B) Application of Funds

Application of funds	Amount received to date – (30.06.2024)		Cumulative amount paid to date – (30.06.2024)		Unutilised balance to date (30.06.2024)	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>Kshs</i>	<i>RM B</i>	<i>Kshs</i>
	(B)	(B')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
China EXIM Bank	87,545,228	8,423,271,316	87,545,228	8,423,271,316	-	-
(ii) Counterpart funds						
	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>
Government of Kenya	1,384,798,280	1,384,798,280	1,378,475,129	1,378,475,129	-	6,323,151
Total		9,808,069,596		9,901,746,445	-	6,323,151

2.8 Summary of Overall Project Performance:

This project has since been completed and handed over to the Government of Kenya.

2.9 Summary of Project Compliance:

There were no instances 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 the Accounting Officer includes a statement of the Project’s performance against predetermined objectives at the end of the project.

The key development objectives of the project are to:

- (i) Improve road transport services along the Nairobi-Thika corridor and enhance urban mobility within the metropolitan area by reducing traffic congestion.
- (ii) Contribute to the development of a sustainable urban public transit system for the Nairobi Metropolitan Area
- (iii) Promote private sector participation in the management, operation, and financing of road infrastructure in Kenya

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 and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Nairobi – Thika Highway Improvement. Lot 3	<p>Improve road transport services along the Nairobi-Thika corridor and enhance urban mobility within the metropolitan area by reducing traffic congestion.</p> <p>Contribute to the development of a sustainable urban public transit system for the Nairobi Metropolitan Area</p> <p>Promote private sector participation in the management, operation, and financing of road infrastructure in Kenya</p>	<p>Improved service with reduced travel time reduced delays, and fewer accidents</p> <p>Policy measures, plans and investment programs to implement Nairobi Metro System prepared MOT contract concluded between the GOK and Private entity</p>	<p>Traffic flow volumes, vehicle delays, speed, number of accidents, transit/para-transit fare</p>	<p>Average travel time during peak hour from Nairobi to Thika reduced by 60% from 2.5 hours to 1 hour</p> <p>Average annual accident rate on the Nairobi-Thika section reduced by 70% from 230 to less than 70. The average public transport fare from Nairobi to Thika reduced by 30%.</p> <p>The Highway is already under Performance based maintenance contracts.</p>

4. Environmental and Sustainability Reporting

Nairobi -Thika Highway Improvement Project Lot 3 exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

i. Sustainability strategy and profile

Sustainable Development Goals (SDGs) 2115-2130 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

ii. Environmental performance

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

Environmental and Sustainability Reporting (Continued)

iii. Employee welfare

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

iv. Market place practices

The Authority strives to ensure responsible competition practices through undertaking annual governance audits in projects, monitoring the implementation of policies and further promotes ethical conduct in projects. The Authority equally sensitizes staff on corruption and integrity. The Authority undertakes to be actively involved in the negotiations during budget sector hearings in order to increase budgetary allocations for projects thus honouring contracts by paying its liabilities on time.

v. Community Engagements

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

The Contractor has been involved in various CSR activities geared towards improvement of access roads and enhancing learning and playing environment in schools along the project road. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues.

5. Statement of Project Management responsibilities

The Director General, KeNHA and the Project Implementation Team Leader were 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 (period) ended on June 30, 2024.

This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.


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

The Director General, KeNHA and the Project Implementation Team Leader were of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2024, and of the Project's financial position as at that date. Director General, KeNHA and the Project Implementation Team Leader further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the Project financial Statements

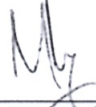
The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader on 10 SEP 2024 and signed by :



Eng. Kungu Ndungu, MBS
Director General



Eng. Henry Gakuru
Director Development



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

REPUBLIC OF KENYA



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

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

Enhancing Accountability

REPORT OF THE AUDITOR-GENERAL ON NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT LOT 3 GOVERNMENT CONCESSIONAL LOAN AGREEMENT NO.(2009) 39 TOTAL NO.(290) – 1290003022009110585 FOR THE YEAR ENDED 30 JUNE, 2024 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Nairobi-Thika Highway Improvement Project Lot 3 set out on pages 1 to 15, which comprise the statement of financial assets and liabilities as at 30 June, 2024 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and

Report of the Auditor-General on Nairobi-Thika Highway Improvement Project Lot 3 Government Concessional Loan Agreement No. (2009) 39 Total No. (290) – 1290003022009110585 for the year ended 30 June, 2024 - Kenya National Highways Authority

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 Nairobi-Thika Highway Improvement Project Lot 3 as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreement No.1290003022009110585 dated 18 December, 2009 between Export Import Bank of China and the Government of the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Nairobi-Thika Highway Improvement Project Lot 3 Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

1. Long Outstanding Pending Bills

Annex 4 to the financial statements and Note 7 on other important disclosures to the financial statements reflects opening pending accounts payable balance of Kshs.550,671,327. During the year under review, an amount of Kshs.207,898,548 was paid resulting to a closing balance of Kshs.342,772,779 as at 30 June, 2024. Management indicated that this relates to interest charged on delayed settlement of final payment certificates due to low Government of Kenya (GoK) development budget ceilings. Further, the donor commitment and GoK counterpart funding was fully received and paid out for the project which was completed and handed over to the GoK in 2014.

In the circumstances, the Project is at risk of incurring additional cost in form of interest and penalties for failure to settle project related costs as and when they fall due.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts final budget and actual on a comparable basis of Kshs.270,000,000 and Kshs.210,771,699 respectively resulting to under-funding of Kshs.59,228,301 or 22% of the budget. However, the Project spent an amount of Kshs.207,898,548 against actual receipts of Kshs.210,771,699 resulting to an under-utilization of Kshs.2,873,151 or 1% of the actual receipts.

The under-funding and under-utilization affected the planned activities and may have impacted negatively on project objectives.

3. Project Closure Report

Paragraph 2.8(ii) on Summary of Overall Project Performance indicates that the Project was completed and taken over by the employer. However, the project closure report was not provided for audit. Management did not provide an explanation for the failure to close the project.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues as at 30 June, 2024.

Other Information

Conclusion

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

Basis for Conclusion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with the ISSAI 3000 and ISSAI 4000. The standards requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, 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 the ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I also consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

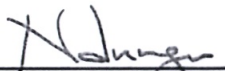
13 November, 2024


Nairobi -Thika Highway Improvement Project Lot 3
Annual Report and Financial Statements For the financial year ended June 30, 2024


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

	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	Cumulative to-date
		2023-2024			2022-2023			
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Receipts								
Transfers from Government	<i>1</i>	210,771,699	-	210,771,699	127,500,000	-	127,500,000	1,384,798,280
Loan from external development partners	<i>2</i>	-	-	-	-	-	-	8,423,271,316
Total Receipts		210,771,699	-	210,771,699	127,500,000	-	127,500,000	9,808,069,596
Payments								
Acquisition of non-financial assets	<i>3</i>	207,898,548	-	207,898,548	124,050,000	-	124,050,000	9,801,746,445
Total Payments		207,898,548	-	207,898,548	124,050,000	-	124,050,000	9,801,746,445
Surplus/(Deficit)		2,873,151	-	2,873,151	3,450,000	-	3,450,000	6,323,151

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


Eng. Kungu Ndungu, MBS
Director General


Eng. Henry Gakuru
Director Development

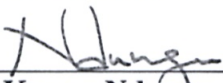

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

Nairobi -Thika Highway Improvement Project Lot 3
 Annual Report and Financial Statements for the financial year ended June 30, 2024


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

Description	Note	2023-2024 Kshs	2022-2023 Kshs
Financial Assets			
Cash and Cash equivalents	4	6,323,151	3,450,000
Imprest and Advances		-	-
Total Financial Assets (A)		6,323,151	3,450,000
Financial Liabilities			
Third party Deposits and Retention		-	-
Total Financial Liabilities (B)		-	-
Net Financial Assets (A-B)		6,323,151	3,450,000
Represented By:			
Fund Balance B/fwd	5	3,450,000	-
Prior Year adjustments		-	-
Surplus for the Year		2,873,151	3,450,000
Net Financial Assets		6,323,151	3,450,000

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 10 SEP 2024 and signed by:


 Eng. Kungu Ndungu, MBS
 Director General


 Eng. Henry Gakuru
 Director Development


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

9. Statement of Cashflows for the year ended 30th June 2024

Description		2023-2024	2022-2023
Cashflow from operating activities		Kshs	Kshs
Receipts	<i>Note</i>		
Transfers from Government entities	1	210,771,600	127,500,000
Proceeds from domestic and foreign grants		-	-
Miscellaneous receipts		-	-
Total Receipts		<u>210,771,699</u>	<u>127,500,000</u>
Payments			
Compensation of employees		-	-
Purchase of goods and services		-	-
Transfers to other government entities		-	-
Other grants and transfers		-	-
Total Payments		<u>-</u>	<u>-</u>
Adjustments during the year		-	-
Net cash flow from operating activities		<u>210,771,699</u>	<u>127,500,000</u>
Cashflow from Investing Activities			
Acquisition of non-financial assets	3	<u>(207,898,548)</u>	<u>(124,050,000)</u>
Net cash flows from Investing Activities		<u>(207,898,548)</u>	<u>(124,050,000)</u>
Cashflow from financing activities			
Proceeds From Foreign Borrowings		-	-
Net cash flow from financing activities		<u>-</u>	<u>-</u>
Net Increase in cash and cash equivalent		<u>2,873,151</u>	<u>3,450,000</u>
<i>Cash & cash equivalent at beginning of the year</i>	<i>4</i>	<u>3,450,000</u>	<u>-</u>
Cash and cash equivalent at end of the year	<i>4</i>	<u>6,323,151</u>	<u>3,450,000</u>

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

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Receipts						
Transfer from Government entities	170,000,000	100,000,000	270,000,000	210,771,699	59,228,301	78%
Total Receipts	170,000,000	100,000,000	270,000,000	210,771,699	59,228,301	78%
Payments						
Acquisition of non-financial assets	170,000,000	100,000,000	270,000,000	207,898,548	62,101,452	77%
Total Payments	170,000,000	100,000,000	270,000,000	207,898,548	62,101,452	77%
Surplus or Deficit	-	-	-	2,873,151	(2,873,151)	-

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

11. Significant Accounting Policies

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

a) Statement of compliance and basis of preparation

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

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

b) Reporting entity

The financial statements are for the Nairobi – Thika Highways Improvement Project-Lot 3 under Kenya National Highways Authority. The financial statements are for the reporting entity as required by Section 81 of the PFM Act, 2012.

c) Reporting currency

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

d) Recognition of receipts

The Project recognises all receipts from various sources when an event occurs, and the related cash is received.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

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 , wages, Allowances and Statutory Contribution for employees are recognized 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 when goods/services are consumed, they shall be disclosed as pending bills.

Significant Accounting Policies (Continued)

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

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

f) In-kind donations

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

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.

Significant Accounting Policies (Continued)

Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

h) Restriction on cash

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

i) Imprests and Advances

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

j) Contingent Liabilities

A contingent liability is:

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

Significant Accounting Policies (Continued)

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

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

l) Pending bills

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

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,

Significant Accounting Policies (Continued)

as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

n) Third party payments

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

o) Exchange rate differences

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

p) Comparative figures

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

q) Subsequent events

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

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There was no prior year adjustment during the year.

12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	2023-2024	2022-2023	Cumulative to-date (from inception)
	Kshs	Kshs	Kshs
<i>Counterpart funding through the line Ministry</i>			
Counterpart funds Quarter 1	-	12,500,000	143,943,460
Counterpart funds Quarter 2	-	-	240,238,223
Counterpart funds Quarter 3	210,771,699	-	260,771,699
Counterpart funds Quarter 4	-	115,000,000	739,844,898
Total (See Annex 3)	210,771,699	127,500,000	1,384,798,280

2. Loan from External Development Partners

This Financing Agreement lapsed in FY 2014/15 hence no funding was received from development partners in the form of loans negotiated by the National Treasury. However cumulatively an amount of Kshs 8,423,271,316 has been received.

Description	2023-2024				2022-2023	Cumulative to date
	Name of Donor	Amount in loan currency	Loans received in actual amount	Loans received as direct payment	Total amount in Kshs	
		RMB	Kshs	Kshs	Kshs	Kshs
Loans received from bilateral Donors (Foreign Governments)						
The Export – Import Bank of China						8,423,271,316
Total						8,423,271,316

Notes to the Financial Statements (Continued)

3. Acquisition of Non-Financial Assets

Description	2023-2024			2022-2023	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	
Construction of roads	207,898,548	-	207,898,548	124,050,000	9,801,746,445
Total	207,898,548	-	207,898,548	124,050,000	9,801,746,445

4. Cash and Cash equivalents

Project Bank Account

Details	2023-2024	2022-2023
	Kshs	Kshs
<u>Local Currency Accounts</u>		
Co-operative Bank of Kenya [A/C No.01141160979900]	6,323,151	3,450,000
Total local currency balances	6,323,151	3,450,000
Total bank account balances	6,323,151	3,450,000

The Co-operative Bank Account -Exchequer Account above is the bank account where all Exchequer cash is transacted from.

5. Fund Balance Brought Forward

Description	2023-2024	2022-2023
	Kshs	Kshs
		Re-stated
Bank account	6,323,151	3,450,000
Total	6,323,151	3,450,000

Notes to the Financial Statements (Continued)

6. Changes in Accounts Payable

Description	2023-2024	2022-2023
	Kshs	Kshs
Opening accounts payables as at 1 st July	550,671,327	674,721,327
Closing accounts payables as at 30 th June	(342,772,779)	550,671,327
Change in payables	207,898,548	(124,050,000)

Other Important Disclosures

7. Pending Accounts Payable (Annex 4)

	Balance b/f from 2022/23	Additions for the year	Paid during the year	Balance c/f 2023/24
Description	Kshs	Kshs	Kshs	
Construction of roads	550,671,327	-	207,898,548	342,772,779
Total	550,671,327	-	207,898,548	342,772,779
	=====	=====	=====	=====

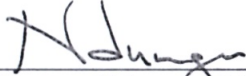
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13. Annexes

Annex 1: Prior Year Auditor-General’s Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Basis for Conclusion Unqualified Opinion Apparent Comingling of Project Funds</p> <p>As disclosed in Note 3 to the financial statements the statement of financial assets reflects bank balances amounting to Kshs. 3,540,000. The amount is held in a development fund account in Co-operative Bank of Kenya, that included funds from other all totalling to Kshs. 3,583,579,601. It was therefore not possible to separate and reconcile the project bank balance amount of Kshs. 3,540,000 from the composite balance of Kshs. 3,583,579,601.</p> <p>In the circumstances, Management ought to keep separate books of accounts existence of the bank balance of Kshs. 3,540,000 could not be confirmed.</p>	<p>We disagree with the audit observation that the the accuracy and existence of the fund balance and deposits bank balance of Kshs 3,540,000,000 could not be confirmed.</p> <p>Was received in the Authority’s Exchequer bank account at the Co-operative Bank of Kenya , which is the Account operated by the Authority for all Exchequer related transactions.</p> <p>This amount has since been paid in the financial year 2023/2024 on 18th July, 2023 being withholding tax for the reported payment made in June 2023</p>	Not Resolved	Ongoing
2	<p>Avoidable Expenditure on Pending Bills</p> <p>Annex 4 to the financial statements reflects pending bills payable of Ksh.550,671,327.</p>	<p>We agree with the observation that the Project had a pending bill amount of Kshs 550,671,327 as at 30 June 2023.</p> <p>Pending bills are as a result of inadequate or reductions in budgetary allocations and or</p>	Not Resolved	Ongoing

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)
	<p>Management indicated that this relates to interest charged on delayed settlement of the final payment certificates due to low Government of Kenya (GoK) development budget ceilings. Further, the donor commitment and GoK counterpart funding totalling to Kshs. 9,469,797,897 was fully received and paid out for the project, which was completed and handed over to the GoK in 2014.</p> <p>In the circumstances, the project continues to incur avoidable expenditure in form of accrued interest due to delayed payments that could have been avoided leading to wasteful utilization of public resources.</p>	<p>exchequer receipts to the Authority. The project will therefore be fully funded once the Government budgets and releases all the funds relating to the project outstanding amounts.</p> <p>The Authority shall endeavour to allocate adequate budget, subject to the provided ceiling, in the subsequent years until the pending bills are fully settled.</p>		


 Eng. Kungu Ndungu, MBS
 Director General


 Eng. Henry Gakuru
 Director Development

Nairobi -Thika Highway Improvement Project Lot 3

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Annex 2 - Variance explanations - Comparative Budget and Actual amounts for FY 2023-2024

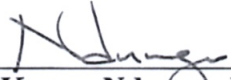
	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
	Kshs	Kshs	Kshs	Kshs	
Receipts					
Transfer from Government entities	270,000,000	210,771,699	59,228,301	78%	Budgeted amount not received in full
Total Receipts	270,000,000	210,771,6990	59,228,301	78%	
Payments					
Acquisition of non-financial assets	270,000,000	207,898,548	62,101,452	77%	Budgeted amount not received in full
Total Payments	270,000,000	207,898,548	62,101,452	77%	

*Nairobi -Thika Highway Improvement Project Lot 3
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Annex 3: Reconciliation of inter-entity transfers

<i>Nairobi -Thika Highway Improvement Project Lot 3</i>				
Break down of Transfers from the State Department of Roads				
A	Counterpart funding through Ministry			
		Bank Statement Date	Amount (Kshs)	Financial Year
	Quarter 1	-	-	-
	Quarter 2	18-Dec-23	210,771,699	2023/24
	Quarter 3	-	-	-
	Quarter 4	-	-	-
	Total		210,771,699	
B.	Direct payments			
		Bank Statement Date	Amount (Kshs)	
			-	
	Total		-	
C.	Others		--	
		Bank Statement Date	Amount (Kshs)	
			-	
			-	
	Total		--	
		Total (A+B+C)	210,771,699	

The above amounts have been communicated to and reconciled with the parent Ministry/ State Department


Eng. Kungu Ndungu, MBS
Director General


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

*Nairobi -Thika Highway Improvement Project Lot 3
Annual Report and Financial Statements for the financial year ended June 30, 2024*

Annex 4 - Analysis of Pending Bills

Supplier of Goods or Services	Date Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance 2023/2024	Outstanding Balance 2022/2023	Comments
		a	b	C - a- b		
Construction of road						
Shengli Engineering	22/06/2023	674,721,327	331,948,548	342,772,779	550,671,327	Interest
Total		674,721,327	331,948,548	342,772,779	550,671,327	

Annex 5 – Summary of Fixed Assets Register

Asset class	Opening Cost (Kshs) 2023/23	Donations in form of assets (Kshs) 2023/23	Purchases/Additions in the Year (Kshs)	Disposals in the Year (Kshs)	Transfers in/(out) Kshs 2023/23	Closing Cost (Kshs) 2023/23
	(a)	(b)	(c)	(d)	(e)	(e)= (a)+ (b)+c)-(d)+(-)e
Road Assets	9,593,847,897	-	207,898,548	-	-	9,801,746,445
Total	9,593,847,897	-	207,898,548	-	-	9,801,746,445