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**REPORT**

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**THE AUDITOR-GENERAL**

**ON**

**SUPPORT TO ROAD SECTOR POLICY:  
10<sup>TH</sup> EDF RURAL ROADS  
REHABILITATION PROJECT IN KENYA  
(AGREEMENT NO. KE/FED/023-571)**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

**KENYA RURAL ROADS AUTHORITY**









**Project Name: SUPPORT TO ROAD SECTOR POLICY: 10<sup>TH</sup>  
EDF RURAL ROADS REHABILITATION PROJECT IN KENYA  
FINANCING AGREEMENT NO: KE/FED/023-571**

**Implementing Entity: Kenya Rural Roads Authority**

**FINANCING AGREEMENT NO: KE/FED/023-571**



**EUROPEAN UNION**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2020**

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



*Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya Reports and Financial Statements*  
*For the financial year ended June 30, 2020*

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## **PROJECT INFORMATION AND OVERALL PERFORMANCE**

### **1.1 Name and registered office**

**Name:** The project's official name is **Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya**

**Objective:** The overall objective of the project is to support the Kenya's Government's efforts to improve rural transport infrastructure through the Roads 2000 Maintenance Strategy as a key component of the economic recovery effort described in the national policy "Vision 2030".

**Address:** The project headquarters offices are Nairobi, Nairobi County, Kenya.

The address of its registered office is:

**Kenya Rural Roads Authority,**

Barabara Plaza, Block B,

Airport South Rd, JKIA

P.O. Box 48151-00100 Nairobi

**Contacts:** The following are the project contacts

Telephone: (254) (20) 2710464/0724735568/0733619197

E-mail: [kerra@kerra.go.ke](mailto:kerra@kerra.go.ke)/[dgkerra@kerra.go.ke](mailto:dgkerra@kerra.go.ke)

Website: [www.kerra.go.ke](http://www.kerra.go.ke)

### **1.2 Project Information**

|                     |                                                                                          |
|---------------------|------------------------------------------------------------------------------------------|
| Project Start Date: | The project start date is <b>10<sup>th</sup> September, 2012</b>                         |
| Project End Date:   | The project end date is <b>9<sup>th</sup> September, 2021</b>                            |
| Project Engineer:   | <b>Eng. Samuel N. Mwangi</b>                                                             |
| Project Sponsors:   | Government of Kenya (GOK), contributing 31% and the European Commission contributing 69% |

### **1.3 Project Overview**

|                                               |                                                                                                                                                                                                     |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Line Ministry/State Department of the project | The project Supervisor is Kenya Rural Roads Authority which falls under the State Department of Infrastructure, Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. |
| Project number                                | KE/FED/023-571                                                                                                                                                                                      |



*Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya*  
*Reports and Financial Statements*  
*For the financial year ended June 30, 2020*

|                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic goals of the project | <p>The overall objective of the project is to support the Kenya's Government's efforts to improve rural transport infrastructure through the Roads 2000 Maintenance Strategy as a key component of the economic recovery effort described in the national policy "Vision 2030".</p> <p>The project's specific purpose is as follows:</p> <ul style="list-style-type: none"> <li>➤ To introduce low volume paved road construction using an optimum mix of labor intensive methods and equipment to address the maintenance backlog on the rural road network, improve durability and create jobs.</li> <li>➤ To enhance skills and capacity of local contractors, increase knowledge and experience in the use of local materials in road construction works.</li> </ul> <p>The overall goals of the project include but are not necessarily limited to:-</p> <ul style="list-style-type: none"> <li>➤ The upgrading of approximately 100km of priority rural road links in 5 agricultural regions of Eastern Province to a durable low volume sealed pavement standard.</li> <li>➤ Capacity building for KeRRA road Agency staff and local Contractors in labor intensive construction of Roads using innovative techniques and locally available materials.</li> <li>➤ Employment creation, increased house hold incomes and improved access to and marketing availability for Agricultural and other products across the targeted intervention locations.</li> </ul> |
| Achievement of strategic goals | <p>The Authority contracted the overall supervision component of the Works Contracts to Nicholas O'Dwyer &amp; Co Ltd (Supervisor's Representative) following an international tender bid process.</p> <p>The Mobilization Works are complete across the five lots.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                |             |               |                                   |                                                            |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------|---------------|-----------------------------------|------------------------------------------------------------|
| Other important background information of the project | The project Formulation Study occurred from November 2011 up to December 2012. It was executed on behalf of the Authority by COWI A/S of Denmark.                                                                                                                                                                                                                                                                                                                                                                                              |                |             |               |                                   |                                                            |
|                                                       | The initial Study centred on a total of 1,463 Km across the 5 Regions, 654 Km of which were rehabilitated using EC Stabex Funds under Phase 2. The final listing, following a detailed Cost Benefit Assessment, was whittled down to 14 roads comprising 193Km of road network. The 14 roads were then assessed under a Road Economic Decision (RED) Model and those which showed a positive Net Present Value and an Internal Rate of Return of 12% or higher were considered economically viable and justifiable in terms of rehabilitation. |                |             |               |                                   |                                                            |
|                                                       | The final adopted listing of roads, as presented below, were considered suitable and in this regard Tender Documents were prepared in July 2012, amended and reproduced in December 2012 by COWI A/S of Denmark.                                                                                                                                                                                                                                                                                                                               |                |             |               |                                   |                                                            |
|                                                       | Following the preparation of Contract Documents in 2012 by COWI A/S, amendments were subsequently made (provision of Horizontal & Vertical alignment) to the documents by the Authority prior to the Tender Launch.                                                                                                                                                                                                                                                                                                                            |                |             |               |                                   |                                                            |
|                                                       | The roads comprise Class D and E type routes described in the Kenyan Road Design Manual Part I as:<br><b>Class D:</b> Roads that link locally important centres to either each other or to a centre of higher importance or to a higher class Road.<br><b>Class E:</b> Roads that link to minor centres.                                                                                                                                                                                                                                       |                |             |               |                                   |                                                            |
|                                                       | The project intervention area is geographically spread across the upper and lower Eastern Province across 5 Regions under 5 No project Locations and noted in the following Table.                                                                                                                                                                                                                                                                                                                                                             |                |             |               |                                   |                                                            |
|                                                       | Lot No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Region/ County | Road No     | Km            | Contactor                         | Description                                                |
|                                                       | Lot 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Embu           | D470        | 11.07         | Westbuild General Contractors Ltd | Kyeni – Kathanjire - Karurumo Road                         |
|                                                       | Lot 2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Tharaka/Nithi  | D472        | 29.48         | Westbuild General Contractors Ltd | Chuka - Kaanwa – Karen Road                                |
|                                                       | Lot 3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Meru           | E773<br>R24 | 5.55<br>18.19 | Nariana and Kabuito Joint Venture | Ndurumo -- Kathirune – Giaki Road<br>Giaki – Miamponi Road |



*Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya*  
*Reports and Financial Statements*  
*For the financial year ended June 30, 2020*

|                                                                                                                                                                                                                        |                                                                                                                                             |          |              |               |                                        |                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------|---------------|----------------------------------------|-----------------------------------------------------------|
|                                                                                                                                                                                                                        | <b>Lot 4</b>                                                                                                                                | Machakos | E480<br>E477 | 5.78<br>10.12 | Coastal<br>Kenya<br>Enterprises<br>Ltd | Kivandini –<br>Kango Road<br>Kango-Kakalia<br>– Kali Road |
|                                                                                                                                                                                                                        | <b>Lot 5</b>                                                                                                                                | Makueni  | D515         | 19.80         | Coastal<br>Kenya<br>Enterprises<br>Ltd | Katuaa – Kee –<br>Nunguni Road                            |
| <p><b>Total Length 99.99Km</b></p> <p>The works contracts commencement orders were issued in September 2015 and the Contractors confirmed a commencement date of 5th October 2015 across the five individual Lots.</p> |                                                                                                                                             |          |              |               |                                        |                                                           |
| Current situation that the project was formed to intervene                                                                                                                                                             | <p>The project was formed to intervene in the following areas:</p> <p>(i) Creation of employment</p> <p>(ii) Infrastructure development</p> |          |              |               |                                        |                                                           |
| Project duration                                                                                                                                                                                                       | <p>The project started on 10<sup>th</sup> September 2012 and is expected to run until 9<sup>th</sup> September, 2021.</p>                   |          |              |               |                                        |                                                           |

#### 1.4 Bankers

The following are the bankers for the current year:

**Kenya Commercial Bank**  
 Kencom House, Moi Avenue Branch,  
 P.O. Box 48400-00100  
 Nairobi Kenya  
 GoK Counterpart Account Number 1179736370

#### 1.5 Auditors

The project is audited by

**The Auditor General**  
 Office of the Auditor General  
 Anniversary Towers, University Way  
 P.O. Box 30084-00100 Nairobi Kenya

## **Roles and Responsibilities**

### **Project Governance**

The Project's governance framework requires the stakeholders to uphold the highest professional, ethical, moral and legal standards. This is achieved through effective segregation of duties with clear checks and balances as articulated in the Project Loan/Credit Agreement, PFM Act 2012, the Project Design Report, the Implementation Manual and the Finance and Procurement Manuals.

#### **1. The Parent Ministry**

The Parent Ministry ensures that the Project's budget is captured in its development projects and disburses the government counterpart funding. The parent ministry is the contracting authority for the project.

#### **2. The European Commission (EU)**

The European Union (EU) are the project sponsors. They are responsible for reviewing and approving the project's withdrawal applications, expenditure justifications, no objection requests, expenditure category reallocation request, and participating in implementation support missions.

#### **3. The Project Management Consultant**

The Authority contracted the overall supervision component of the Works Contracts to Nicholas O'Dwyer & Co Ltd (Supervisor's Representative) following an international tender bid process.

#### **4. The Auditor**

The Supreme Audit Institution in Kenya, that is, the Office of the Auditor General, is mandated by the Constitution of Kenya Chapter 12, Part 6, Article 229 which establishes the Office of the Auditor General. Chapter 15, Article 248, Section 3 and Article 249, Section 2 (a) and (b) and section 10 of the Public Audit Act, 2015 provide for the independence of the Office of the Auditor General.

The Auditor General is mandated to audit all national government entities, which include government development projects and present these statutory financial statements to the Parliament. This facilitates the submission of the audited report to the project's sponsors by 31 December each year.



## 5. Project Coordinating Team (PCT)

This team is based in Nairobi and is responsible for the project management and coordination functions. The PCT comprises of the Project Coordinator and a team of Technical Officers. The PCT is also supported by other administrative staff.

The key staff, who form the project coordinating team that is involved in the day to day management of the project and its implementation are:

| Name and Contact Details                                                                                               | Title designation                       | Key qualification                         | Responsibilities                                |
|------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------------------------|-------------------------------------------------|
| Eng. Philemon K. Kandie<br>+254 (20) 2710464<br><a href="mailto:dgkerra@kerra.go.ke">dgkerra@kerra.go.ke</a>           | Ag. Director General                    | <i>P. Eng, Bsc. Hons., MIEK, MSc.</i>     | Accounting Officer                              |
| Eng. E. Ariga<br>+254 (20) 2710464<br><a href="mailto:enock.ariga@kerra.go.ke">enock.ariga@kerra.go.ke</a>             | Director Planning, Design & Environment | <i>P. Eng., MA (Planning), BSc., MIEK</i> | Supervisor                                      |
| Eng. Samuel N. Mwangi<br>+254 (20) 2710464<br><a href="mailto:samuel.mwangi@kerra.go.ke">samuel.mwangi@kerra.go.ke</a> | Project Engineer                        | <i>BSc MIEK, R.Eng</i>                    | Coordination of the activities of the programme |

## 1.6 Funding summary

The Project is for duration of nine (9) years from 2012 to 2021 with an approved budget of Euros 20,000,000 equivalent to Kshs. 2,000,000,000 as highlighted in the table below:

### Source of funding summary:

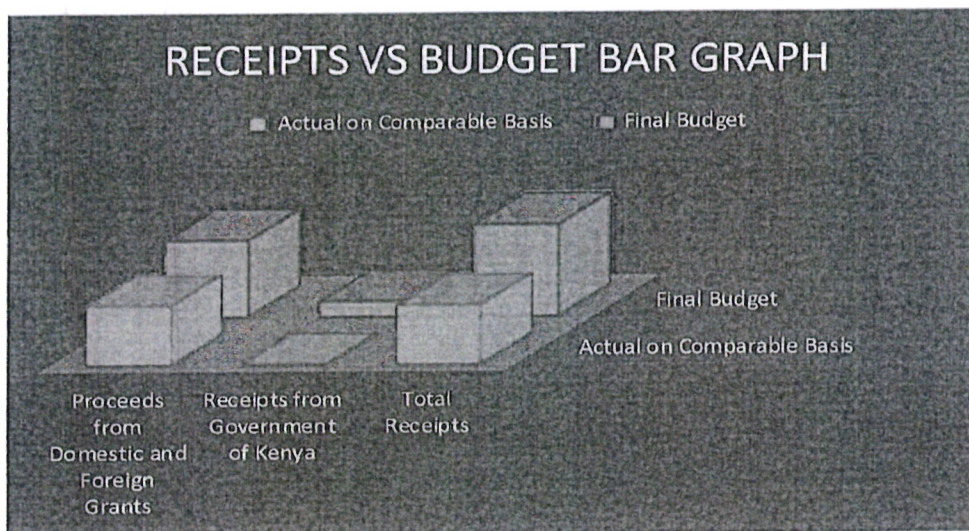
| Source of Funds                  | Donor Commitment  |                      | Amount Received as at 30th June 2020 |                      | Undrawn Balance as at 30th June 2020 |                    |
|----------------------------------|-------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|--------------------|
|                                  | Euros             | Kshs                 | Euros                                | Kshs                 | Euros                                | Kshs               |
|                                  | (A)               | (A")                 | (B)                                  | (B')                 | (A)-(B)                              | (A')-(B')          |
| <b>GRANT SUMMARY</b>             |                   |                      |                                      |                      |                                      |                    |
| Grant European Commission        | 14,850,000        | 1,605,136,500        | 14,678,032.32                        | 1,586,548,513        | 171,968                              | 18,587,987         |
| <b>Total Grants</b>              | <b>14,850,000</b> | <b>1,605,136,500</b> | <b>14,678,032</b>                    | <b>1,586,548,513</b> | <b>171,968</b>                       | <b>18,587,987</b>  |
| <b>LOAN SUMMARY</b>              |                   |                      |                                      |                      |                                      |                    |
| <b>COUNTERPART FUNDS SUMMARY</b> |                   |                      |                                      |                      |                                      |                    |
| (iii) Counterpart Funds          |                   |                      |                                      |                      | -                                    | -                  |
| Government of Kenya              | 5,150,000         | 556,663,500          | 4,302,550                            | 465,062,619          | 847,450                              | 91,600,881         |
| <b>Total GoK Counterpart</b>     | <b>5,150,000</b>  | <b>556,663,500</b>   | <b>4,302,550</b>                     | <b>465,062,619</b>   | <b>847,450</b>                       | <b>91,600,881</b>  |
| <b>Total Funding Summary</b>     | <b>20,000,000</b> | <b>2,161,800,000</b> | <b>18,980,582</b>                    | <b>2,051,611,132</b> | <b>1,019,418</b>                     | <b>110,188,868</b> |

### 1.7 Summary of Overall Project Performance:

During the year under review, the project received Kshs. 232,898,577 and incurred a total expenditure of Kshs. 314,387,915.

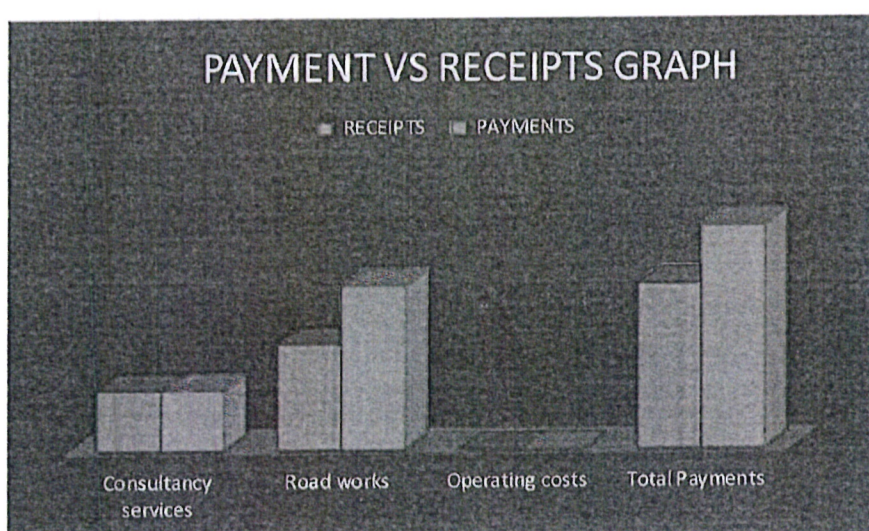
#### Funding Receipts

The project received Kshs. 232,898,577 against a final budget of Kshs. 358,948,651. This represented a receipt of 64.88%. The funds receipt is as shown in the bar graph below:



#### Receipts Utilisation

The project paid Ksh 314,387,915 against actual total receipts of Kshs. 232,898,577. This represented a receipts utilisation of 135%. Some of the expenditures were funded from accumulated surplus b/f of Kshs. 158,000,410. The funds receipt is as shown in the bar graph below:





## **Implementation Status**

### **a. Scope**

The project aims at upgrading 99.99 Km of Rural Roads in the Eastern Region of Kenya under five Lots covering five Works Contracts.

Part of the funds is being provided by the European Union under the 10th European Development Fund (EDF) Rural Roads Component in Kenya with the balance of the funds provided by the Government of Kenya. The funding split is approximately 69% - 31% respectively.

### **b. Implementation Status**

The Authority contracted the overall supervision component of the Works Contracts to Nicholas O'Dwyer & Co Ltd (Supervisor's Representative) following an international tender bid process. The Mobilization Works are complete across the five lots. The Contractors have focused on the ETB & Asphalt across all the Lots.

As at the close of the financial year 2019/2020, the Asphalt/Blacktop across the five lots is **55.6 Km** as summarized below;

| <b>Lot No.</b>                         | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> | <b>Total</b> |
|----------------------------------------|----------|----------|----------|----------|----------|--------------|
| <b>Asphalt Cover Per Project (Kms)</b> | 6.9      | 6.5      | 23.5     | 9.9      | 8.8      | <b>47.03</b> |

Total works contract expenditure consented to date is indicated at **63.33%** of the total Budget equivalent to KES 1.223B against a time lapse of **45 months** with a **187.5% time lapse** (100x45x5/120) averaged across the 5 projects. In terms of the exemption process, the secondary consents have been issued for the 5 project lots.

The end date of the service contract was extended under Addendum 3 to 74 months from 20<sup>th</sup> April 2015 to 19th June 2021.

### **c. Environmental Issues:**

The securing of the NEMA permits for the Projects was confirmed and availed to the Resident Engineer during FY 15/16. All the five lots submitted their EMP documents which are updated from time to time.

In terms of utilities, particularly across the major routes, the Kenya Power company (KP) electricity poles are sufficiently far away from the alignment and are thus not considered for relocation.

A significant number of water lines have been relocated on a need basis and ducts provided following liaison with the utility providers across the various lots.



**d. Health & Safety Issues including HIV/AIDS Awareness and Prevention**

Commencement of such awareness and prevention activities has not occurred on all of the 5 Lots except Lot 3.

In addition, such submissions of execution progress are not noted to date in any case by way of sub-reports submission omission except for Lot 3.

**Accident Schedules**

Accidents are now being reported across the Lots 1 to 3. Lot 4 and 5 commenced to records such incidents and accidents in August 2017 reporting period.

From October 2015 to June 2019, the summary register indicates five direct human fatalities and three accidents which have resulted in permanent limb loss/damage.

The summary indicates that for the 5 project lots up to end of **June 2019**, **107** incidents/Accidents are recorded and a total of only **15** accidents/incidents have been reported by the various three Contractors across the five sites

**Challenges Encountered**

There was equipment down time across all lots leading to low productivity during the period.

There were mobilization challenges for sufficient manpower resource by contractors during the period with a number of Contractor's staff strikes. This is with the exception of Lot 3 who substantially completed works in early July 2019.

The Contractor Lot 1 and 2 did not resume works in the reporting period. It subsequently commenced arbitration proceedings over disputes relating to testing cold asphalt and measurements. The contractor at the same time commenced litigation to bar the Contracting Authority from terminating the contract. No determination had been made in both instances. The COVID-19 Pandemic caused a general slow down to the hearing of the two cases.

**1.8 Summary of Project Compliance:**

The Programme has ensured that all the activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed.

The project has therefore fully complied with both the financing agreement and other statutory requirements.

## **STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Accounting Officer, Director of Corporate Services Kenya Rural Roads Authority and the Project Engineer 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, 2020. 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.

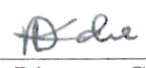
The Accounting Officer, Director of Corporate Services Kenya Rural Roads Authority and the Project Engineer for Support to Road Sector policy: 10th EDF Rural Roads Rehabilitation Project in Kenya accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

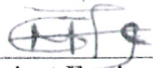
The Accounting Officer, Director of Corporate Services Kenya Rural Roads Authority and the Project Engineer for Support to Road Sector policy: 10th EDF Rural Roads Rehabilitation Project in Kenya are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2020, and of the Project's financial position as at that date. The Accounting Officer, Director of Corporate Services Kenya Rural Roads Authority and the Project Coordinator for Support to Road Sector policy: 10th EDF Rural Roads Rehabilitation Project in Kenya 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.

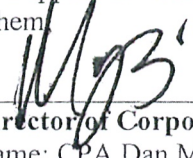
The Accounting officer, Director of Corporate Services Kenya Rural Roads Authority and the Project Engineer for Support to Road Sector policy: 10th EDF Rural Roads Rehabilitation Project in Kenya confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period 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 Accounting Officer, Director of Corporate Services Kenya Rural Roads Authority and the Project Engineer for Support to Road Sector policy: 10th EDF Rural Roads Rehabilitation Project in Kenya and signed by them:

  
**Ag Director General**  
Name: Eng. Philemon K. Kandie

  
**Project Engineer**  
Name: Eng. S.N. Mwangi

  
**Director of Corporate Services**  
Name: CPA Dan Manyasi  
ICPAK Member Number: 6407



# REPUBLIC OF KENYA

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*Enhancing Accountability*

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

## **REPORT OF THE AUDITOR-GENERAL ON SUPPORT TO ROAD SECTOR POLICY: 10<sup>TH</sup> EDF RURAL ROADS REHABILITATION PROJECT IN KENYA (AGREEMENT NO. KE/FED/023-571) FOR THE YEAR ENDED 30 JUNE, 2020 – KENYA RURAL ROADS AUTHORITY**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

I have audited the accompanying financial statements of Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya Agreement No. KE/FED/023-571 set out on pages 1 to 11, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flow and the statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No. KE/FED/023-571 signed on 10 September, 2012 between the European Commission and the Republic of Kenya and the Public Finance Management Act, 2012.

#### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **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.

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*Report of the Auditor-General on Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya (Agreement No. KE/FED/023-571) for the year ended 30 June, 2020 – Kenya Rural Roads Authority*



## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

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

### Basis for Conclusion

#### 1. Project Implementation Inconsistencies

During the 2019/2020 audit, field inspections were undertaken on three of the five (lots) project implementation sites. The following unsatisfactory issues were however noted: -

##### 1.1. Lot 1 - Embu County Roads - 11.7 KM

The contractor had not provided a laboratory and all the laboratory equipment as outlined in the contract but continued to share with the engineer contrary to the contractual terms. This could have hindered the smooth running of the project including running tests.

Further, the performance guarantee for the Lot expired on 12 August, 2018 and was yet to be renewed as at the time of the audit. Instead, the Authority indicated having held back cash deposit in lieu of performance guarantee and as provisioned for in the contract. However, there is no evidence of an account having been opened in accordance with the guidelines set out under Section 28(1) of the PFM Act, 2012 on obtaining express permission of The National Treasury to open and operate the account.

In addition, the asphalt testing on some sections of the road had failed and required the contractor to stop its usage and redo the parts of the road that was done using the defective material. However, the contractor did not adhere to the instructions despite being communicated to as stipulated in the contract. Consequently, the sections of the road have failed before the Project completion. The contractor had also not put in place safety measures by erecting signages, barriers and protection of the works area raising the risk of accidents due to open culvert.

The Project was behind schedule and pursuant to the Management meeting held on 28 August, 2018, it was agreed that the employer (Authority) would deduct liquidated damages. However, no deductions have been effected in the subsequent Interim Payment Certificates.

The contractor had abandoned the site and the equipment withdrawn thus stalling the project.

Consequently, it has not been possible to confirm if the money being held was for the purpose of performance guarantee and whether value for money would be achieved.



## **1.2. Lot 2 - Tharaka Nithi County Roads - 29.48 KM**

The contract for construction of Lot 2 roads was varied from the original contract sum of Kshs.499,365,944 to Kshs.644,149,313, an increment of Kshs.144,783,369 or 29% contrary to the contract provisions without being subjected to fresh tender. This was also contrary to Section 139 4(e) of the Contract provides for which contract variations provided the cumulative value does not result in an increment of more than twenty-five per cent of the original contract sum.

The contractor had abandoned the site and withdrawn all the equipment. The works had stalled at 49.7% since February, 2019. The contracted Project time had also been exhausted.

## **1.3. Lot 3 - Meru County Roads - 23.74 KM - Unaccounted for Assets - Laboratory and Survey Equipment**

The contract provided that the laboratory and survey equipment were to revert to the employer upon completion of the project. However, there is no evidence on whether the equipment handed over have been received and stored. Further, the project three (3) vehicles and two (2) motor cycles have not been included in the handing over report.

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

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

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

#### **Basis for Conclusion**

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

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the European Commission, I report based on my audit that:

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*Report of the Auditor-General on Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya (Agreement No. KE/FED/023-571) for the year ended 30 June, 2020 – Kenya Rural Roads Authority*

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such 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 overall governance.

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

Management is also responsible for the submission of its 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 financial reporting process, reviewing the effectiveness of how the Project 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor General's Responsibilities for the Audit**

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



or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

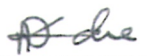
**31 December, 2020**

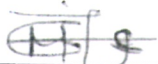


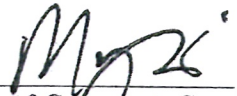
STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2020

|                                           | Note | FY 2019/2020                                   |                                             | FY 2018/2019                                   |                                             | Cumulative to Date   |
|-------------------------------------------|------|------------------------------------------------|---------------------------------------------|------------------------------------------------|---------------------------------------------|----------------------|
|                                           |      | Receipts and payments controlled by the entity | Receipts and payments Made by third parties | Receipts and payments controlled by the entity | Receipts and payments Made by third parties |                      |
|                                           |      | Kshs                                           |                                             | Kshs                                           |                                             | Kshs                 |
| <b>RECEIPTS</b>                           |      |                                                |                                             |                                                |                                             |                      |
| Receipts from Government of Kenya         | 2    | -                                              | -                                           | 150,000,000                                    |                                             | 580,000,000          |
| Proceeds from Domestic and Foreign Grants | 3    |                                                | 232,898,577                                 |                                                | 284,229,407                                 | 1,682,548,513        |
| <b>Total Receipts</b>                     |      | -                                              | <b>232,898,577</b>                          | <b>150,000,000</b>                             | <b>284,229,407</b>                          | <b>2,262,548,513</b> |
| <b>PAYMENTS</b>                           |      |                                                |                                             |                                                |                                             |                      |
| Consultancy                               | 4    | -                                              | 83,926,064                                  | -                                              | 50,926,212                                  | 302,225,854          |
| Other operating costs                     | 5    | 81,887                                         |                                             | 66,022                                         |                                             | 657,100              |
| Road Works Expenditure                    | 6    | 81,407,450                                     | 148,972,513                                 | 70,516,235                                     | 233,303,195                                 | 1,883,154,487        |
| <b>Total Payments</b>                     |      | <b>81,489,338</b>                              | <b>232,898,577</b>                          | <b>70,582,257</b>                              | <b>284,229,407</b>                          | <b>2,186,037,442</b> |
| <b>Surplus/Deficit</b>                    |      | <b>(81,489,338)</b>                            | -                                           | <b>79,417,743</b>                              | <b>(0)</b>                                  | <b>76,511,071</b>    |

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

  
Ag. Director General  
Name: Eng. Philemon K. Kandie

  
Project Engineer  
Name: Eng. S.N. Mwangi

  
Director of Corporate Services  
Name: CPA Dan Manyasi  
ICPAK Member Number: 6407

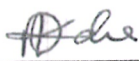
(IPSAS 1.3.24 requires an entity to separately disclose third party payments separately on the statement of receipts and payments. These are payments made by development partners directly on behalf of the entity. In recognising these transactions, the receipts must be equal to the payments made and therefore there is no surplus or deficit.)

*Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya Reports and Financial Statements*  
*For the financial year ended June 30, 2020*

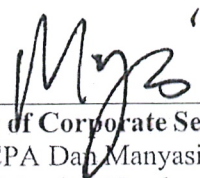
**STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2020**

|                                  |      | 2019/2020         | 2018/2019          |
|----------------------------------|------|-------------------|--------------------|
|                                  | Note | Kshs              | Kshs               |
| <b>FINANCIAL ASSETS</b>          |      |                   |                    |
|                                  |      |                   |                    |
| <b>Cash and Cash Equivalents</b> |      |                   |                    |
| Bank Balances                    | 7    | 76,511,071        | 158,000,410        |
| <b>Total Cash Equivalents</b>    |      | <b>76,511,071</b> | <b>158,000,410</b> |
|                                  |      |                   |                    |
| <b>REPRESENTED BY</b>            |      |                   |                    |
|                                  |      |                   |                    |
| Fund balance brought forward     |      | 158,000,410       | 78,582,667         |
| Surplus/Deficit for the year     |      | (81,489,338)      | 79,417,743         |
|                                  |      |                   |                    |
| <b>Net Financial Position</b>    |      | <b>76,511,072</b> | <b>158,000,410</b> |

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

  
**Ag. Director General**  
 Name: Eng. Philemon K. Kandie

  
**Project Engineer**  
 Name: Eng. S.N. Mwangi

  
**Director of Corporate Services**  
 Name: CPA Dan Manyasi  
 ICPAK Member Number: 6407

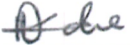


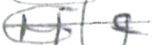
*Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya*  
*Reports and Financial Statements*  
*For the financial year ended June 30, 2020*

**STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020**

|                                                        |      | 2019/2020           | 2018/2019          |
|--------------------------------------------------------|------|---------------------|--------------------|
|                                                        | Note | Kshs                | Kshs               |
| <b>Cash flow from operating activities</b>             |      |                     |                    |
| Transfer from Government Entities                      | 2    | -                   | 150,000,000        |
| Proceeds from domestic and foreign grants              | 3    | 232,898,578         | 284,229,407        |
| <b>Payments for operating activities</b>               |      |                     |                    |
| Purchase of goods and services                         |      | (314,387,915)       | (354,811,664)      |
| <b>Net Cash flow from operating activities</b>         |      | <b>(81,489,337)</b> | <b>79,417,743</b>  |
| <b>Cash flow from borrowing activities</b>             |      |                     |                    |
| Proceeds from foreign borrowings                       |      | -                   | -                  |
| <b>Net Cash flow from borrowing activities</b>         |      | <b>-</b>            | <b>-</b>           |
| <b>Net increase in cash and cash equivalents</b>       |      | <b>(81,489,337)</b> | <b>79,417,743</b>  |
| Cash and cash equivalents at the beginning of the year |      | 158,000,410         | 78,582,667         |
|                                                        |      |                     |                    |
| Cash and cash equivalents at the end of the year       |      | <b>76,511,072</b>   | <b>158,000,410</b> |

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

  
**Ag. Director General**  
 Name: Eng. Philemon K. Kandie

  
**Project Engineer**  
 Name: Eng. S.N. Mwangi

  
**Director of Corporate Services**  
 Name: CPA Dan Manyasi  
 ICPAK Member Number: 6407

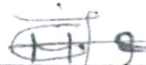
**STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

| Consolidated                              | Original Budget    | Adjustments          | Final Budget       | Actual on comparable basis | Budget Utilisation Variance | % of Utilisation |
|-------------------------------------------|--------------------|----------------------|--------------------|----------------------------|-----------------------------|------------------|
|                                           | A                  | B                    | C=a+b              | D                          | E=c-d                       | F=d/c%           |
| <b>Receipts/Payment Item</b>              |                    |                      |                    |                            |                             |                  |
| <b>RECEIPTS</b>                           |                    |                      |                    |                            |                             |                  |
| Receipts from Government of Kenya         | 83,948,651         | (25,000,000)         | 58,948,651         | -                          | 58,948,651                  | 0%               |
| Proceeds from Domestic and Foreign Grants | 584,900,000        | (284,900,000)        | 300,000,000        | 232,898,577                | 67,101,423                  | 78%              |
| <b>Total receipts</b>                     | <b>668,848,651</b> | <b>(309,900,000)</b> | <b>358,948,651</b> | <b>232,898,577</b>         | <b>126,050,074</b>          |                  |
| <b>PAYMENTS</b>                           |                    |                      |                    |                            |                             |                  |
| Consultancy services                      | 200,000,000        | (108,000,000)        | 92,000,000         | 83,926,064                 | 8,073,936                   | 91%              |
| Road works                                | 468,757,651        | (201,900,000)        | 266,857,651        | 230,379,963                | 36,477,688                  | 86%              |
| Operating costs                           | 91,000             | -                    | 91,000             | 81,887                     | 9,113                       | 90%              |
| <b>Total Payments</b>                     | <b>668,848,651</b> | <b>(309,900,000)</b> | <b>358,948,651</b> | <b>314,387,915</b>         | <b>44,560,736</b>           |                  |

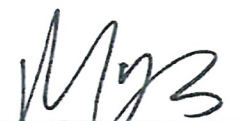
Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.



**Ag. Director General**  
 Name: Eng. Philemon K. Kandie



**Project Engineer**  
 Name: Eng. S.N. Mwangi



**Director of Corporate Services**  
 Name: CPA Dan Manyasi  
 ICPAK Member Number: 6407



## **1. NOTES TO THE FINANCIAL STATEMENTS**

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

### **Basis of Preparation**

#### **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 Project Support to Road Sector Policy: 10<sup>th</sup> EDF Rural Roads Rehabilitation Project in Kenya under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

#### **c) Reporting currency**

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

### **Significant Accounting Policies**

#### **a) Recognition of receipts**

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

- **Transfers from the Exchequer**

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

- **External Assistance**

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

## **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **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.

### **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.

### **Undrawn external assistance**

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

#### **• Other receipts**

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

### **b) 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 incurred and paid for.



**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **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.

- **Acquisition of fixed assets**

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

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

**c) 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.

**d) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**Restriction on cash**

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

## **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **e) Accounts receivable**

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.

### **f) 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.

### **g) 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.

### **h) Third party payments**

Included in the receipts and payments, are payments made on the project's behalf by 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 **Kshs. 232,898,577.00** being grants were received in form of direct payments from third parties.



**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) 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.

**j) 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.

**k) 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, 2020.

**l) Errors**

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**2. Receipts from Government of Kenya**

|                                    | 2019/2020<br>Kshs | 2018/2019<br>Kshs  | Cumulative to Date |
|------------------------------------|-------------------|--------------------|--------------------|
| GoK Counterpart Funds              |                   | 150,000,000        | 465,062,619        |
| <b>Total GoK Counterpart Funds</b> | <b>-</b>          | <b>150,000,000</b> | <b>465,062,619</b> |

**Note**

**3. Proceeds from Domestic and Foreign Grants**

|                                                        |                    |                    |                      |
|--------------------------------------------------------|--------------------|--------------------|----------------------|
| Supervision Consultancy Services                       | 83,926,064         | 50,926,212         | 302,225,854          |
| Road Works AIA Direct Payments                         | 148,972,513        | 233,303,195        | 1,380,322,659        |
| <b>Total Proceeds from Domestic and Foreign Grants</b> | <b>232,898,577</b> | <b>284,229,407</b> | <b>1,682,548,513</b> |

**4. Consultancy Services**

|                                  |                   |                   |                    |
|----------------------------------|-------------------|-------------------|--------------------|
| Supervision Consultancy Services |                   |                   |                    |
| Nicholas O'Dwyer                 | 83,926,064        | 50,926,212        | 302,225,854        |
| <b>Total consultancy costs</b>   | <b>83,926,064</b> | <b>50,926,212</b> | <b>218,299,790</b> |

**5. Other Operating Costs**

|                                     |               |               |                |
|-------------------------------------|---------------|---------------|----------------|
| Travelling and subsistence expenses | 73,500        | 58,800        | 610,400        |
| Bank Charges                        | 8,387         | 7,222         | 46,700         |
| <b>Total operating costs</b>        | <b>81,887</b> | <b>66,022</b> | <b>657,100</b> |

**6. Road Works Expenditure**

|                                     |                    |                    |                      |
|-------------------------------------|--------------------|--------------------|----------------------|
| GoK Counterpart                     | 81,407,450         | 70,516,235         | 502,831,828          |
| Donor Direct Payments               | 148,972,513        | 233,303,195        | 1,380,322,659        |
| <b>Total Road Works Expenditure</b> | <b>230,379,963</b> | <b>303,819,430</b> | <b>1,883,154,487</b> |

**7. Cash and Bank Balances**

| Bank Balances                                | Kshs              | Kshs               |
|----------------------------------------------|-------------------|--------------------|
| KCB-GoK Development Head Office              |                   |                    |
| KCB-GoK Counterprt EU A/c No. 1179736370     | 26,511,071        | 158,000,410        |
| Net Amount due to GoK Account No. 1114343528 | -                 | -                  |
| Fixed Deposit                                | 50,000,000        | -                  |
| <b>Total Project cash at bank</b>            | <b>76,511,071</b> | <b>158,000,410</b> |

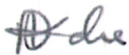


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**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

| Reference No. on the external audit Report | Issue / Observations from Auditor                                | Management comments | Focal person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--------------------------------------------|------------------------------------------------------------------|---------------------|----------------------------------------------------------|-----------------------------------|------------------------------------------------------------------|
|                                            | All the Audit issues/observations for FY 2018/2019 were resolved |                     |                                                          |                                   |                                                                  |
|                                            |                                                                  |                     |                                                          |                                   |                                                                  |
|                                            |                                                                  |                     |                                                          |                                   |                                                                  |
|                                            |                                                                  |                     |                                                          |                                   |                                                                  |
|                                            |                                                                  |                     |                                                          |                                   |                                                                  |
|                                            |                                                                  |                     |                                                          |                                   |                                                                  |



Ag. Director General



Project Engineer

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**ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS**  
**Financial Year Ended 30th June 2020**

|                                           | Final Budget       | Actual on comparable basis | Utilisation Variance | % of Utilisation | Comments on variance                                                                                       |
|-------------------------------------------|--------------------|----------------------------|----------------------|------------------|------------------------------------------------------------------------------------------------------------|
|                                           | Kshs               | Kshs                       | Kshs                 |                  |                                                                                                            |
|                                           | a                  | b                          | c=a-b                | d=b/a%           |                                                                                                            |
| <b>RECEIPTS</b>                           |                    |                            |                      |                  |                                                                                                            |
| Receipts from Government of Kenya         | 58,948,651         | -                          | 58,948,651           | 0%               | The amount of Ksh. 41M requested under cash request No. 8 was not received.                                |
| Proceeds from Domestic and Foreign Grants | 300,000,000        | 232,898,577                | 67,101,423           | 78%              | Slow progress and eventual termination of Lot 1 and 2 contracts highly affected the utilisation for works. |
| <b>Total receipts</b>                     | <b>358,948,651</b> | <b>232,898,577</b>         | <b>126,050,074</b>   |                  |                                                                                                            |
| <b>PAYMENTS</b>                           |                    |                            |                      |                  |                                                                                                            |
| Consultancy services                      | 92,000,000         | 83,926,064                 | 8,073,936            | 91%              | N/A                                                                                                        |
| Road works                                | 266,857,651        | 230,379,963                | 36,477,688           | 86%              | Slow progress and eventual termination of Lot 1 and 2 contracts highly affected the utilisation for works. |
| Operating costs                           | 91,000             | 81,887                     | 9,113                | 90%              | N/A                                                                                                        |
| <b>Total Payments</b>                     | <b>358,948,651</b> | <b>314,387,915</b>         | <b>44,560,736</b>    |                  |                                                                                                            |

*Explain all variance below 90% and above 100%*



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**ANNEX 2A - ANALYSIS OF PENDING BILLS**

| Supplier of Goods or Services      | Original Amount | Date Contracted | Amount Paid To-Date | Outstanding Balance 2019 | Outstanding Balance 2018 | Comments |
|------------------------------------|-----------------|-----------------|---------------------|--------------------------|--------------------------|----------|
|                                    | a               | b               | c                   | d=a-c                    |                          |          |
| <b>Construction of buildings</b>   |                 |                 |                     |                          |                          | None     |
| 1. None                            |                 |                 |                     |                          |                          |          |
| 2.                                 |                 |                 |                     |                          |                          |          |
| 3.                                 |                 |                 |                     |                          |                          |          |
| <b>Sub-Total</b>                   |                 |                 |                     |                          |                          |          |
| <b>Construction of civil works</b> |                 |                 |                     |                          |                          | None     |
| 4. None                            |                 |                 |                     |                          |                          |          |
| 5.                                 |                 |                 |                     |                          |                          |          |
| 6.                                 |                 |                 |                     |                          |                          |          |
| <b>Sub-Total</b>                   |                 |                 |                     |                          |                          |          |
| <b>Supply of goods</b>             |                 |                 |                     |                          |                          | None     |
| 7. None                            |                 |                 |                     |                          |                          |          |
| 8.                                 |                 |                 |                     |                          |                          |          |
| 9.                                 |                 |                 |                     |                          |                          |          |
| <b>Sub-Total</b>                   |                 |                 |                     |                          |                          |          |
| <b>Supply of services</b>          |                 |                 |                     |                          |                          | None     |
| 10. None                           |                 |                 |                     |                          |                          |          |
| 11.                                |                 |                 |                     |                          |                          |          |
| 12.                                |                 |                 |                     |                          |                          |          |
| <b>Sub-Total</b>                   |                 |                 |                     |                          |                          |          |
| <b>Grand Total</b>                 |                 |                 |                     |                          |                          |          |

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**ANNEX 2B - ANALYSIS OF PENDING STAFF BILLS**

| Name of Staff                           | Job Group | Original Amount | Date Payable Contracted | Amount Paid To-Date | Outstanding Balance 2019 | Outstanding Balance 2018 | Comments |
|-----------------------------------------|-----------|-----------------|-------------------------|---------------------|--------------------------|--------------------------|----------|
|                                         |           | a               | b                       | c                   | d=a-c                    |                          |          |
| <b>Permanent Employees - Management</b> |           |                 |                         |                     |                          |                          | None     |
| 1. None                                 |           |                 |                         |                     |                          |                          |          |
| 2.                                      |           |                 |                         |                     |                          |                          |          |
| 3.                                      |           |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                        |           |                 |                         |                     |                          |                          |          |
| <b>Permanent Employees - Others</b>     |           |                 |                         |                     |                          |                          | None     |
| 4. None                                 |           |                 |                         |                     |                          |                          |          |
| 5.                                      |           |                 |                         |                     |                          |                          |          |
| 6.                                      |           |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                        |           |                 |                         |                     |                          |                          |          |
| <b>Temporary employees</b>              |           |                 |                         |                     |                          |                          | None     |
| 7. None                                 |           |                 |                         |                     |                          |                          |          |
| 8.                                      |           |                 |                         |                     |                          |                          |          |
| 9.                                      |           |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                        |           |                 |                         |                     |                          |                          |          |
| <b>Others (specify)</b>                 |           |                 |                         |                     |                          |                          | None     |
| 10. None                                |           |                 |                         |                     |                          |                          |          |
| 11.                                     |           |                 |                         |                     |                          |                          |          |
| 12.                                     |           |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                        |           |                 |                         |                     |                          |                          |          |
| <b>Grand Total</b>                      |           |                 |                         |                     |                          |                          |          |



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**ANNEX 2C - ANALYSIS OF OTHER PENDING PAYABLES**

| Name                                         | Brief Transaction Description | Original Amount | Date Payable Contracted | Amount Paid To-Date | Outstanding Balance 2019 | Outstanding Balance 2018 | Comments |
|----------------------------------------------|-------------------------------|-----------------|-------------------------|---------------------|--------------------------|--------------------------|----------|
|                                              |                               | a               | b                       | c                   | d=a-c                    |                          |          |
| <b>Amounts due to National Govt Entities</b> |                               |                 |                         |                     |                          |                          | None     |
| 1. None                                      |                               |                 |                         |                     |                          |                          |          |
| 2.                                           |                               |                 |                         |                     |                          |                          |          |
| 3.                                           |                               |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                             |                               |                 |                         |                     |                          |                          |          |
| <b>Amounts due to County Govt Entities</b>   |                               |                 |                         |                     |                          |                          | None     |
| 4. None                                      |                               |                 |                         |                     |                          |                          |          |
| 5.                                           |                               |                 |                         |                     |                          |                          |          |
| 6.                                           |                               |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                             |                               |                 |                         |                     |                          |                          |          |
| <b>Amounts due to Third Parties</b>          |                               |                 |                         |                     |                          |                          | None     |
| 7. None                                      |                               |                 |                         |                     |                          |                          |          |
| 8.                                           |                               |                 |                         |                     |                          |                          |          |
| 9.                                           |                               |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                             |                               |                 |                         |                     |                          |                          |          |
| <b>Others (specify)</b>                      |                               |                 |                         |                     |                          |                          | None     |
| 10. None                                     |                               |                 |                         |                     |                          |                          |          |
| 11.                                          |                               |                 |                         |                     |                          |                          |          |
| 12.                                          |                               |                 |                         |                     |                          |                          |          |
| <b>Sub-Total</b>                             |                               |                 |                         |                     |                          |                          |          |
| <b>Grand Total</b>                           |                               |                 |                         |                     |                          |                          |          |

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**ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER**

| Asset class                                     | Opening Cost<br>(KShs)<br>2019/20<br>(a) | *Purchases/Additions<br>in the Year<br>(KShs)<br>2019/20<br>(b) | **Disposals in the<br>Year<br>(KShs)<br>2019/20<br>(c) | Closing Cost<br>(KShs)<br>2019/20<br>(d)= (a)+ (b)-(c) |
|-------------------------------------------------|------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| Land                                            | None                                     | None                                                            | None                                                   | None                                                   |
| Buildings and structures                        | None                                     | None                                                            | None                                                   | None                                                   |
| Transport equipment                             | None                                     | None                                                            | None                                                   | None                                                   |
| Office equipment, furniture<br>and fittings     | None                                     | None                                                            | None                                                   | None                                                   |
| ICT Equipment, Software<br>and Other ICT Assets | None                                     | None                                                            | None                                                   | None                                                   |
| Other Machinery and<br>Equipment                | None                                     | None                                                            | None                                                   | None                                                   |
| Heritage and cultural assets                    | None                                     | None                                                            | None                                                   | None                                                   |
| Intangible assets                               | None                                     | None                                                            | None                                                   | None                                                   |
| <b>Total</b>                                    |                                          |                                                                 |                                                        |                                                        |

Notes

\* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

\*\* The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold.



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**APPENDICES**

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Bank Reconciliations

10/10/1978

10/10/1978

10/10/1978

10/10/1978

