


REPUBLIC OF KENYA



Enhancing Accountability

PARLIAMENT
OF KENYA
LIBRARY

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 28 NOV 2024	DAY: Thur
TABLED BY:	Hon. Naomi Wago, MP Deputy Chief Whip - Maj. Party
CLERK-AT-THE-TABLE:	Vivian Wambui

REPORT
OF

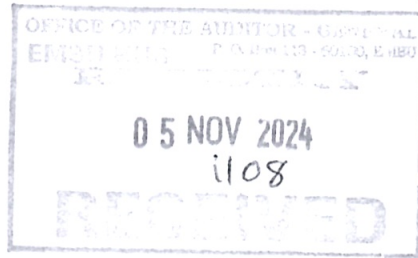
THE AUDITOR-GENERAL

ON

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

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

KENYA RURAL ROADS AUTHORITY



**SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS REHABILITATION
PROJECT IN KENYA**

KENYA RURAL ROADS AUTHORITY

PROJECT GRANT/CREDIT No.: KE/FED/023-571



EUROPEAN UNION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2024

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

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2024

Table of Contents

1. ACRONYMS AND GLOSSARY OF TERMS	ii
2. PROJECT INFORMATION AND OVERALL PERFORMANCE	iii
3. STATEMENT OF PERFORMANCE AGAINST PROJECT’S PREDETERMINED OBJECTIVES.....	xii
4. ENVIROMENTAL AND SUSTAINABILITY REPORTING	xiii
5. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES	xv
6. REPORT OF THE INDEPENDENT AUDITOR ON THE 10TH EDF RURAL ROADS REHABILITATION PROJECT	xvii
7. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2024	1
8. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2024.....	2
9. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2024	3
10. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 TH JUNE,2024	4
11. SIGNIFICANT ACCOUNTING POLICIES	5
12. NOTES TO THE FINANCIAL STATEMENTS.....	12
13. ANNEXES	31

I. ACRONYMS AND GLOSSARY OF TERMS

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
Comparative FY	Financial year preceding the current financial year.
EU	European Union

2. PROJECT INFORMATION AND OVERALL PERFORMANCE

2.1 Name and registered office

Name

The project's official name is support for Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya

Objective

The key objective of the project is to support the Kenya 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 Road
P.O. Box 48151 – 00100 Nairobi.

Contacts: The following are the project contacts

Telephone: +254 711 851103

E-mail: dg@kerra.go.ke

Website: www.kerra.go.ke

2.2 Project Information

Project Start Date:	The project start date is 10th September, 2012
Project End Date:	The project end date is 9th September, 2025
Project Manager:	The project manager is Eng. S. N. Mwangi
Project Accountant	The project Accountant is CPA Jane Murage
Project Sponsor:	The project sponsors are, the Government of Kenya (GOK) with a 31% contribution, and the European Commission, the Delegation of the European Union in Kenya with a 69% contribution.

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Kenya Rural Roads Authority which falls under the State Department for Roads and Infrastructure, Ministry of Roads and Transport.
Project number	KE/FED/023 – 571
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 “<i>Vision 2030</i>”.</p> <p>The project’s specific purpose is as follows: -</p> <ul style="list-style-type: none"> (i) To introduce low volume paved road construction using an optimum mix of labour-intensive methods and equipment to address the maintenance backlog on the rural road network, improve durability and create jobs. (ii) To enhance skills and capacity of local contractors, increase knowledge and experience in the use of local materials in road construction works. <p>The overall goals are: -</p> <ul style="list-style-type: none"> (i) Upgrading of approximately 99Km of priority rural road links in 5 agricultural counties of the Eastern region of Kenya to durable low sealed pavement standard.

	<p>(ii) Capacity building for the Authority staff and local contractors in labour intensive construction of roads using innovative techniques and locally available local materials.</p> <p>(iii) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations</p>
<p>Achievement of strategic goals</p>	<p>The project management aims to achieve the goals through the following means:</p> <p>(i) Provide contract management to ensure upgrading of the link roads to low volume seal standard.</p> <p>(ii) Ensure locals population gain direct employment to uplift their economic wellbeing.</p> <p>(iii) Support capacity building for local contractor especially in Roads 2000- maintenance strategy.</p>

Challenges Encountered in executing the project:

- i) There were Financial constraints faced by Lot 5 contractors, who were not able to consistently mobilize sufficient manpower due to non-paid wages. The Contract was terminated in March 2024 due to contractor’s non-performance.
- ii) The Contractor Lot 1 & Lot 2 abandoned sites before completions & instituted litigation & arbitration cases against the contracting Authority Culminating in eventual termination of works. The matter is awaiting the High court’s Decision in regards to an arbitration Award.
- iii) The new Contracts faced initial -delay in release of advance payment from the European Union(EU)

Other important background information of the project	<p>The project Formulation Study was undertaken from November 2011 up to December 2012. It was executed on behalf of the KeRRA by COWI A/S Consultants of Denmark.</p> <p>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.</p> <p>The final listing following a detailed cost Benefit Assessment was whittled down to the final adopted listing of roads, as presented below. Tender Documents were prepared in July 2012, amended and reproduced in December 2012 by COWI A/S of Denmark.</p> <p>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 KeRRA prior to the Tender Launch.</p> <p>The roads comprise Class D and E type routes described in the Kenyan Road Design Manual Part I as:</p> <p style="margin-left: 40px;">Class D Roads that link locally important centres to either each other or to a centre of higher importance or to a higher-class Road.</p> <p style="margin-left: 40px;">Class E Roads that link to minor centres.</p> <p>The project intervention area is geographically spread across the upper and lower Eastern Region of Kenya across 5 Regions under 5 No project.</p> <p>Locations and noted in the following Table.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Lot No</th> <th>Region/County</th> <th>Road No</th> <th>Km</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>Lot 1</td> <td>Embu</td> <td>D470</td> <td>10.5</td> <td>Kyeni – Kathanjure – Karurumo Rd</td> </tr> <tr> <td>Lot 2</td> <td>Tharaka/Nithi</td> <td>D472</td> <td>29.2</td> <td>Chuka – Kaanwa – Kareni Rd</td> </tr> <tr> <td rowspan="2">Lot 3</td> <td rowspan="2">Meru</td> <td>E773</td> <td>5.5</td> <td>Ndurumo – Kathirune – Giaki Rd</td> </tr> <tr> <td>R24</td> <td>18.2</td> <td>Giaki – Birikene Miamponi – Rd</td> </tr> <tr> <td rowspan="2">Lot 4</td> <td rowspan="2">Machakos</td> <td>E480</td> <td>5.8</td> <td>Kivandini – Kango Rd</td> </tr> <tr> <td>E477</td> <td>10.1</td> <td>Kango-Kakalia – Kali Rd</td> </tr> <tr> <td>Lot 5</td> <td>Makueni</td> <td>D515</td> <td>20.5</td> <td>Katuaa – Kee – Nunguni Rd</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th colspan="2">CONTRACT SUM</th> <th>NEW CONTRACTED</th> </tr> </thead> <tbody> <tr> <td>LOT 1</td> <td>231,570,571.00</td> <td>162,399,327.20</td> </tr> <tr> <td rowspan="3">LOT 2</td> <td rowspan="3">537,264,086.70</td> <td>233,196,528.40</td> </tr> <tr> <td>221,386,000.00</td> </tr> <tr> <td>174,343,899.40</td> </tr> <tr> <td>LOT 3</td> <td>695,023,763.80</td> <td></td> </tr> <tr> <td>LOT 4</td> <td>377,939,319.85</td> <td></td> </tr> <tr> <td>LOT 5</td> <td>362,001,255.00</td> <td></td> </tr> <tr> <td>TOTAL</td> <td></td> <td>Ksh.2,203,798,996 & 791,325,755</td> </tr> </tbody> </table> <p>Total Length 99.0Km</p> <p>The works contracts commencement orders were issued in September 2015 and the Contractors had previously confirmed a commencement date of 5th October 2015 across the five individual Lots.</p> <p>The summary is noted below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>Lot 1</td> <td>10.5Km</td> <td>Westbuild General Contractors Ltd (Terminated</td> </tr> </table>	Lot No	Region/County	Road No	Km	Description	Lot 1	Embu	D470	10.5	Kyeni – Kathanjure – Karurumo Rd	Lot 2	Tharaka/Nithi	D472	29.2	Chuka – Kaanwa – Kareni Rd	Lot 3	Meru	E773	5.5	Ndurumo – Kathirune – Giaki Rd	R24	18.2	Giaki – Birikene Miamponi – Rd	Lot 4	Machakos	E480	5.8	Kivandini – Kango Rd	E477	10.1	Kango-Kakalia – Kali Rd	Lot 5	Makueni	D515	20.5	Katuaa – Kee – Nunguni Rd	CONTRACT SUM		NEW CONTRACTED	LOT 1	231,570,571.00	162,399,327.20	LOT 2	537,264,086.70	233,196,528.40	221,386,000.00	174,343,899.40	LOT 3	695,023,763.80		LOT 4	377,939,319.85		LOT 5	362,001,255.00		TOTAL		Ksh.2,203,798,996 & 791,325,755	Lot 1	10.5Km	Westbuild General Contractors Ltd (Terminated
Lot No	Region/County	Road No	Km	Description																																																											
Lot 1	Embu	D470	10.5	Kyeni – Kathanjure – Karurumo Rd																																																											
Lot 2	Tharaka/Nithi	D472	29.2	Chuka – Kaanwa – Kareni Rd																																																											
Lot 3	Meru	E773	5.5	Ndurumo – Kathirune – Giaki Rd																																																											
		R24	18.2	Giaki – Birikene Miamponi – Rd																																																											
Lot 4	Machakos	E480	5.8	Kivandini – Kango Rd																																																											
		E477	10.1	Kango-Kakalia – Kali Rd																																																											
Lot 5	Makueni	D515	20.5	Katuaa – Kee – Nunguni Rd																																																											
CONTRACT SUM		NEW CONTRACTED																																																													
LOT 1	231,570,571.00	162,399,327.20																																																													
LOT 2	537,264,086.70	233,196,528.40																																																													
		221,386,000.00																																																													
		174,343,899.40																																																													
LOT 3	695,023,763.80																																																														
LOT 4	377,939,319.85																																																														
LOT 5	362,001,255.00																																																														
TOTAL		Ksh.2,203,798,996 & 791,325,755																																																													
Lot 1	10.5Km	Westbuild General Contractors Ltd (Terminated																																																													

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

			Awarded to Markline Civil & Allied Works Ltd.
	Lot 2	29.2Km	Westbuild Genaral Contractors Ltd (Terminated) New Tender spilit to 3 Lots. Awarded to 1. Asset Construction Ltd (8.4Km) 2. Elikar Enterprises Ltd (9.2Km) 3. Nariana Enterprises Ltd (11.6Km)
	Lot 4 & 5	36.4Km	Coastal Kenya Enterprises Ltd Note: Lot 5 terminated in March 2024
	Lots 1-5	99.0Km	Total Length
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: <ul style="list-style-type: none"> i. Upgrade rural link roads to low volume seal standard ii. Create local employment and increased house hold income. iii. Enhance skills and capacity of Local Contractors 		
Project duration	The project started on 10th September 2012 and is expected to run until 9th September, 2025		

2.4 Bankers

The following are the bankers for the current year:

- (i) KCB Kenya Ltd.
- (ii) NCBA Bank Kenya Ltd.

2.5 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

2.6 Roles and Responsibilities

The table below indicates the roles and responsibility of personnel who are involved in the project implementation.

Names	Title designation	Key qualification	Responsibilities
Eng. Philemon K. Kandie dg@kerra.go.ke philemon.kandie@kerra.go.ke +254 0777851103,0207807600	Director General	BSc Hons, P. Eng., MIEK, MSc. MBS.	Accounting Officer
Eng. Enoch K. Ariga dpde@kerra.go.ke Enock.ariga@kerra.go.ke +254 0777851103,0207807602	Director (Planning, Design & Environment)	BSc Hons, P. Eng., MIEK, MA (Planning)	Supervisor
Eng. Samuel N. Mwangi dpde@kerra.go.ke samuel.mwangi@kerra.go.ke +254 0777851103,0207807602	Project Manager	BSc MIEK, R. Eng.	Coordinator of the Program Activities
CPA Jane K. Murage dcs@kerra.go.ke jane.murage@kerra.go.ke +254 0777851103,0207807601	Project Accountant	BBA(Acc), CPA(K), ICPAK, MBA (Acc.)	Accountant, support the project team regarding compliance, payments and reports.

2.7 Funding summary

The Project is for duration of 12 years from 2012 to 2025 with an approved budget of Euro 20,000,000 equivalent to KShs. 2,161,800,000 as highlighted in the table below: Also, the funds usage reflects a Variation for a structure in place.

Below is the funding summary:

A. Source of Funds

Source of Funds	Development partner Commitment		Amount Received as at 30th June 2024	Cummulative Amount as at 30th June 2024	Undrawn Balance as at 30th June 2024	
	Euros	Kshs	Euros	Kshs	Euros	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
GRANT SUMMARY						
(i) Grant European Commission	14,850,000	1,605,136,500	20,798,937	2,248,157,132	(5,948,937)	(643,020,632)
Total Grants	14,850,000	1,605,136,500	20,798,937	2,248,157,132	(5,948,937)	(643,020,632)
COUNTERPART FUNDS						
(ii) Counterpart Funds					-	-
Government of Kenya	5,150,000	556,663,500	7,246,365	783,259,620	(2,096,365)	(226,596,120)
Total GoK Counterpart	5,150,000	556,663,500	7,246,365	783,259,620	(2,096,365)	(226,596,120)
Total Funding Summary	20,000,000	2,161,800,000	28,045,303	3,031,416,752	(8,045,303)	(869,616,752)
1 EUR = 100.00KES						

1.The Consultants service was varied from 1,600,000 to 2,175,000.

2.The Lot 3 contract (Ndururumo-Giaki-Miamponi) Varied from Kes 499,365,944 to Kes 695,023,763.

variation.

APPLICATION FUNDS

Application of funds	Amount received to date – (30 th June 2024)		Cumulative Amount paid to date – (30 th June 2024)	Unutilised balance to date (30th June 2024)		
	<i>Development partner currency</i>	<i>Kshs</i>		<i>Kshs</i>	<i>Development partner currency</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>		<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
(i) Grant						
European Union	20,798,937	2,248,157,132	2,248,157,132	0.00	-	
(ii) Counterpart funds						
Government of Kenya	7,246,365	783,259,620	781,492,424	16,235	1,767,196	
Total	28,045,303	3,031,416,752	3,029,649,556	16,235	1,767,196	

2.8 Summary of Overall Project Performance:

- i) During the financial year 2023/2024, the project utilised 50% of its allocated budget, the effect is only in the EU component.
- ii) Physical progress based on outputs, outcomes and impacts since project commencement,
- iii) Comment on value-for-money achievements,
- iv) The absorption rate for the project over the years has been:

Year	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/2020	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Absorption rate	52%	68%	41%	88%	54%	13%	75%	100%

2.9 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.

3. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Introduction

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

The key development objectives of the project's agreement/ plan are:

- a) Upgrading of approximately 99Km of priority rural road links in 5 agricultural counties of the Eastern region of Kenya to durable low sealed pavement standard.
- b) Capacity building for the Authority staff and local contractors in labour intensive construction of roads using innovative techniques and locally available local materials.
- c) Employment creation, increased household incomes and increased access to markets for agricultural and other products across the targeted intervention locations

Progress on attainment of Strategic development objectives

Project	Objective	Outcome	Indicator	Performance
Public Works, Roads & Transport	To develop and maintain roads and storm water drainage to global standards	Increased efficient transportation of people, goods and services	% of motorable and passable roads within the rural areas	In FY 22/23 we increased motorable and passable roads by 86%. 85.2Km of the 99Km has been upgraded to LVS

4. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The 10th EDF Rural Roads Rehabilitation Project in Kenya Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

a) Sustainability strategy and profile

The integration environmental and social concerns in the implementation strategy of the project will enhance environmental practices amongst all stakeholders. This will ultimately enhance sustainable development of the project. The proposed project will enhance the social-economic well-being of the local community as well as the whole country.

b) Environmental performance

The Authority's Board and Management recognize that there is no country that is not experiencing drastic effects of environmental degradation and climate change as a result of unsustainable development practices. Overall, The Authority recognizes the provisions in the Constitution, of the right to a clean and healthy environment to every person, and the right to have the environment protected for the benefit of present and future generations through legislative and other measures. The Authority therefore has committed to cooperate with various State organs and other persons to strive towards protecting and conserving the environment, and ensure ecologically sustainable development and use of natural resources. The Authority acknowledges that its various operations have potential impacts on the environment. It is therefore the Authority's commitment to conserve natural resources, maximize eco-efficiency, reduce waste and climate change impacts, and prevent pollution throughout its operations. The Authority has an Environmental and Social Sustainability Policy which was formulated to conform to the prevailing Government strategies as highlighted in the National Environment Policy. In accordance with the Policy, the Performance Contracting guidelines and the requirements of the Environmental Management and Coordination Act, the Authority has implemented various activities with an aim to mitigate against water, air, noise and other forms of pollution, promote environmental protection and conservation through stakeholder partnerships, and also contribute towards the Presidential directive on tree planting.

c) Employee welfare

The project employs both technical and non-technical staff from the project local area. It's only the technical staff where the expertise is not found in the community that the project employs externally. The employees are engaged through competitive public recruitment at the local county administrative

centres. The employees are remunerated as guided by the most current gazetted wages in the Collative Bargaining Agreement.

The project has offered several internships and attachments to students who have completed their courses and those continuing with their studies respectively. The Authority has a Human Resource Manual which guides compliance with all labour laws and international treaties.

d) Market place practices-

i) Responsible Supply chain and supplier relations-

The project consultant and contractor were procured through open tender making the procurement competitive. The organisation has sustained payments of all obligations arising out of the two contracts. However, payments have faced some challenges due to lengthy disbursement and insufficient exchequer releases

ii) Responsible ethical practices

The internal audit department has been organising trainings through Ethics and anticorruption commission (EACC) for the staff to create awareness among staff and stakeholders.

iii) Regulatory impact assessment

The project is adhering to all statutory and regulatory requirements. This is through complying with all statutes and regulations and filing the required documents. Further, all grievances raised are addressed as promptly as possible.

e) Community Engagements

The project does not have a direct CSR component. However, the community benefits through outreach programme for HIV/AIDS and Road Safety from well researched experts.

5. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project in Kenya 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, 2024.

This responsibility includes

- a) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period.
- b) Maintaining proper accounting records, which disclose with reasonable accuracy at any time.
- c) Financial position of the project.
- d) 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.
- e) Safeguarding the assets of the project.
- f) Selecting and applying appropriate accounting policies.
- g) Making accounting estimates that are reasonable in the circumstances.

The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2024, and of the Project's financial position as at that date. They further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control. The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved The Director General Kenya Rural Roads Authority and the Project Coordinator for the 10th EDF Rural Roads Rehabilitation Project on 26th September, 2024 and signed by them.



Deputy Director (F& A)

CPA Matilida Wakere Ita

ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi

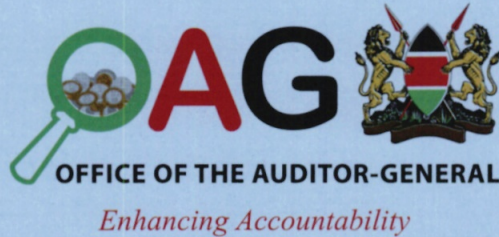


Director General

Eng. Philemon K. Kandie MBS

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS REHABILITATION PROJECT IN KENYA NO. KE/FED/023- 571 FOR THE YEAR ENDED 30 JUNE, 2024 - KENYA RURAL ROADS AUTHORITY

PREAMBLE

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

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for specific issues, the financial statements present a true and fair view in accordance with the applicable financial reporting framework. The Qualified Opinion indicates that the financial statements are to a large extent in agreement with the books of accounts and the underlying records, except for a few cases where material misstatements or omissions were noted in the books of accounts and the financial statements. The issues though material, are not widespread or persistent.

The Qualified Opinion on the Report on the Financial Statements should be read together with the Report on the Lawfulness and Effectiveness in the Use of Public Resources, and the Report on the Effectiveness of Internal Controls, Risk Management and Governance.

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

Report of the Auditor-General on Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya No.KE/FED/023-571 for the year ended 30 June, 2024 - Kenya Rural Roads Authority

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya set out on pages 1 to 28, which comprise of the statement of financial assets and liabilities as at 30 June, 2024, the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations, which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya as at 30 June, 2024, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and the Public Finance Management Act, 2012 and comply with the Financing Agreement No. KE/FED/023-571 dated 10 September, 2022 between the European Commission and the Government of the Republic of Kenya.

Basis for Qualified Opinion

1. Funding Summary

As reported previously, the statement of receipts and payments reflects cumulative receipts totalling Kshs.3,018,559,000 while the project information and overall performance under funding summary reflects total cumulative funding summary cumulative amount totalling Kshs.3,031,416,752 resulting in a variance of Kshs.12,857,752 which has not been explained or reconciled.

In the circumstances, accuracy and completeness of the financial statements could not be confirmed.

2. Inaccuracies in the Statement of Cash Flows

As reported previously, the statement of cash flows reflects cash and cash equivalents at the end of the year of Kshs.1,767,174 while the recalculated balance is a negative of Kshs.(316,064,390) resulting to an unexplained variance of Kshs.(317,831,564). In addition, the statement of cash flows reflects Road Works Expenditure amount of Kshs.434,391,680 while Note 4 to the financial statements discloses roadworks expenditure amount of Kshs.434,368,844 leading to a variance of Kshs.22,836 which has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

3. Unconfirmed Proceeds from Foreign Grants

The statement of receipts and payments reflects proceeds from foreign grants amount of Kshs.317,831,564 being grants of Euro 2,940,434.49 received from development partners - the European Union, as disclosed in Note 2 to the financial statements.

However, Management has not demonstrated how the individual transactions in Euros were converted to Kenya Shillings in line with Article 7.4 of the financing agreement which states that transfers in Euro shall, if necessary, be converted into the Beneficiary's national currency as and when payments have to be made by the Beneficiary, at the bank rate in force on the day of payment by the Beneficiary.

In the circumstances, the accuracy and completeness of the proceeds from foreign grants amount of Kshs.317,831,564 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, Management has not indicated how each of the issues raised in the previous year Auditor-General's report, was resolved, including the information required under the prescribed reporting format.

Other Information

Conclusion

The Management is responsible for the other information set out on page iii to xvii which comprise of project information and overall performance, statement of performance against project's predetermined objectives, environmental and sustainability reporting and statement of project's Management responsibilities. The Other Information does not include the financial statements and my audit report thereon.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

Basis for Conclusion

In connection with my audit on the Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya Management financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information and I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Presentation of the Financial Statements

Review of the financial statements submitted for audit reveals that Bank Reconciliation statement as at 30 June, 2024, Board of Survey Report and Special Deposit Account(s) reconciliation statement(s) have not been attached as Annexures to the financial statements.

In addition, the statement of comparison of budget and actual amounts reflects a column titled "actual received", which has not been explained. In addition, the budget utilization variance" and budget utilization % columns reflect incorrect amounts. The statement further reflects material variances which have not been explained in footnotes as required by the financial reporting template issued by the Public Sector Accounting Standards Board.

In the circumstances, the financial statements have not been presented in accordance with the financial reporting template issued by the Public Sector Accounting Standards Board and IPSAS.

2. Delays in Project Implementation

2.1 Construction of Chuka - Kaanwa Road

As reported previously, review of Project documents revealed that the Authority awarded a contract for construction of Chuka - Kaanwa Road to a Contractor at a contract sum of Kshs.233,196,528. The Project was for one (1) year beginning on 7 September, 2022 and was expected to be completed by 7 September, 2023. Physical inspection of the Project on 7 October, 2024 revealed that the contractor was on site and the work had not been completed.

In the circumstances, value for money to be realized from the expenditure totalling Kshs.233,196,528 incurred on the Project could not be confirmed.

Report of the Auditor-General on Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya No.KE/FED/023-571 for the year ended 30 June, 2024 - Kenya Rural Roads Authority

2.2 Delay in Construction of Kaanwa – Wakathite Road

The contract for the construction of Kaanwa - Wakathite Road was awarded to a Contractor at a contract sum of Kshs.221,386,000 on 7 September, 2022 for a one (1) year period to be completed on 7 September, 2023.

Review of the Project in October 2024 revealed that the Project was complete, Interim Payment Certificates totalling Kshs.190,927,618.45 had been certified while certificate No.s 7 and 8 for Kshs.30,819,251.25 and Kshs.27,794,638.83 respectively had not been paid. Further, Interim Payment Certificate No.6 for Kshs.33,234,587.54 was indicated to have been partially paid without indication of how much had not been paid.

Further, request by the contractor for substantial inspection submitted by the contractor on 31 July, 2024 has not been acted upon and no explanation provided for this delay.

In the circumstances, value for money to be realized from the expenditure totalling Kshs.221,386,000 incurred on the Project could not be confirmed.

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:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and

- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

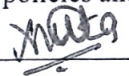
Nairobi


14 November, 2024


7. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2024.

Description	Note	FY 2023/2024			FY 2022/2023			Cumulative to Date
		Receipts and payments controlled by the entity	Receipts and payments Made by third parties	Total	Receipts and payments controlled by the entity	Receipts and payments Made by third parties	Total	
		Kshs	Kshs		Kshs	Kshs	Kshs	
RECEIPTS								
Receipts from Government of Kenya	1	118,235,343		118,235,343	25,000,000	-	783,235,343	
Proceeds from Foreign Grants	2		317,831,564	317,831,564		85,173,021	2,235,299,402	
Interest Earned		235		235	254	-	489	
Prior Adjustment NCBA Bank				-		-	23,766	
Total Receipts		118,235,578	317,831,564	436,067,142	25,000,254	85,173,021	3,018,559,000	
PAYMENTS								
Consultancy				-	-	-	317,388,963	
Other operating costs	3	22,837		22,837	11,156	-	747,926	
Road Works Expenditure	4	116,537,280	317,831,564	434,368,843	28,034,732	85,173,021	2,698,654,937	
				-			-	
Total Payments		116,560,117	317,831,564	434,391,680	28,045,888	85,173,021	3,016,791,826	
Surplus/Deficit		1,675,462	-	1,675,462	(3,045,628)	-	1,767,174	

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


 Deputy Director (F & A)
 CPA Matilda Wakere Ita
 ICPAK Member Number: 5469


 Project Coordinator
 Eng. Samuel N. Mwangi


 Director General
 Eng. Philemon K. Kandie MBS

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2024

8. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2024

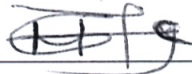
Description	Note	2023/24	2022/2023
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5	1,767,174	91,712
Total Financial Assets		1,767,174	91,712
REPRESENTED BY			
Fund balance brought forward	6	91,712	3,113,580
Surplus/Deficit for the year		1,675,462	(3,045,634)
Prior Adjustment			23,766
Net Financial Assets		1,767,174	91,712

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 26th September, 2024 and signed by:



Deputy Director (F & A)

CPA Matilda Wakere Ita
 ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi



Director General

Eng. Philemon K. Kandie, MBS

9. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2024

Description	Note	2023/24	2022/2023
		Kshs	Kshs
Cash flow from operating activities			
Transfer from Government Entities	1	118,235,343	25,000,000
Proceeds from foreign grants	2	317,831,564	85,173,021
Interest earned		235	254
Total Receipts		436,067,142	110,173,275
Payments for operating activities			
Road Works Expenditure	4	(434,391,680)	(113,207,753)
Net Cash flow from operating activities		1,675,462	(3,045,628)
Cash flow from borrowing activities			
Proceeds from foreign borrowings		(317,831,564)	(85,173,021)
Net Cash flow from borrowing activities			-
Net increase in cash and cash equivalents		1,675,462	(3,045,628)
Cash and cash equivalents at the beginning of the year		91,712	3,113,580
Prior Adjustment			23,766
Cash and cash equivalents at the end of the year	5	1,767,174	91,712

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 26th September, 2024 and signed by:



Deputy Director (F & A)

CPA Matilda Wakere Ita
 ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi



Director General

Eng. Philemon Kandie, MBS

10. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE, 2024

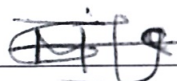
Consolidated	Original Budget	Adjustments	Final Budget	Actual Received	Actual on comparable basis	Budget Utilisation Variance	% of Utilisation
	A	B	C=a+b		D	E=c-d	F=d/c %
Receipts/Payment Item							
RECEIPTS							
Receipts from Government of Kenya	45,000,000	-	45,000,000	118,235,578	118,235,578	0	100%
Proceeds from Foreign Grants	200,000,000	-	200,000,000	317,831,564	317,831,564	-	100%
Total receipts	245,000,000	-	245,000,000	436,067,142	436,067,142	0	100%
							0%
PAYMENTS							0%
Consultancy services	-	-	-	-	-	-	0%
Road works	244,900,000	-	244,900,000	436,044,305	434,368,843	1,675,462	100%
Operating costs	100,000	-	100,000	22,837	22,837	0	100%
Total Payments	245,000,000	-	245,000,000	436,067,142	434,391,680	1,675,462	100%

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



Deputy Director (F & A)

CPA Matilda Wakere Ita
 ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi



Director General

Eng. Philemon K. Kandie MBS

11. SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance and basis of preparation

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

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

b) Reporting entity

The financial statements are for the 10th EDF Rural Roads Rehabilitation Project in Kenya. Kenya under the State Department for Roads Ministry of Roads and Transport. The financial statements are for the reporting entity (Project The 10th EDF Rural Roads Rehabilitation Project in Kenya) as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

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

d) Recognition of receipts

The improvement of Rural Roads and Market Infrastructure in Western Kenya recognises all receipts from the various sources when the event occurs, and the related cash has actually been received.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

e) Recognition of payments

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

i) Compensation to employees

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

Significant Accounting Policies (Continued)

ii) Use of goods and services

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

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

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

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

f) In-kind donations

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

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

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

h) Restriction on cash

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

i) Imprests and Advances

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

j) Contingent Liability

A contingent liability is:

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

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

- iv) The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. The Contractor Lot 1 & Lot 2 abandoned sites before completions & instituted litigation & arbitration cases against the contracting Authority Culminating in eventual termination of works. The matter is awaiting the High court's Decision in regards to an arbitration Award.

Claim under the litigation amounts to Ksh.642,516,239.33 inclusive of taxes.

Annex 5 of this financial statement is a register of the contingent liabilities in the year.

k) Contingent Asset

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

l) Pending bills

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

Significant Accounting Policies (Continued)

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been *included in an annex to these financial statements*.

n) Third party payments

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

o) Exchange rate differences

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

Significant Accounting Policies (Continued)

p) Comparative figures

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

q) Subsequent events

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

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). Explanations and details of these prior period adjustments are presented.

12. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2023/2024	2022/2023
	Kshs	KShs
Counterpart funding through Ministry of Transport and Infrastructure		
Counterpart funds	118,235,343.00	25,000,000
Total	118,235,343.00	25,000,000

2. PROCEEDS FROM FOREIGN GRANTS

Name of Development partner	Amount received in development partner currency	Grants received in cash	Grants received as direct payment*	Total amount in KShs	Cumulative to date
	2023/24			2022/23	2023/2024
	Euro	KShs	KShs	KShs	KShs
Grants Received from Development partners (International Organizations)					
The European union	2,940,434.49	-	317,831,564	85,173,021	2,235,299,402
Total	2,940,434.49	-	317,831,564	85,173,021	2,235,299,402

During the year ended 30th June 2024 we received grants from donors as detailed in the table below:

3. OTHER OPERATING COSTS

Descripton	FY 2023/2024	FY 2022/2023
	kshs	kshs
Bank charges	22,837	11,576
Total	22,837	11,576

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. ROADWORKS EXPENDITURE

Description	2023/24		2022/23		Cumulative to-date
	Payments made by the Entity	Payments made by third parties	Payments made by the Entity	Payments made by third parties	
	KShs	KShs	KShs	KShs	
Construction of roads	116,537,280	317,831,564	28,034,732	85,173,021	2,698,654,937
Total	116,537,280	317,831,564	28,034,732	85,173,021	2,698,654,937

5. CASH AND CASH EQUIVALENTS

The project has One(1) number of project accounts spread within the project implementation area as listed below and no foreign currency designated accounts managed by the National Treasury:

5. A Bank Accounts

Project Bank Accounts

	2023/24	2022/23
	Kshs	KShs
Kenya Commercial Bank[A/c No. 1179736370	1,742,897.00	67,692
1737850074	24,276.96	24,020
Total	1,767,173.96	91,712

5 C Cash equivalents (short-term deposits)

	2023/24	2022/23
	Kshs	KShs
Bank accounts (Note 8.13A)	1,767,173.96	91,712
Total	1,767,173.96	91,712

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. FUND BALANCE BROUGHT FORWARD

	2023/24	2022-23
		KShs
Bank accounts	91,712.03	3,113,580
Total	91,712.03	3,113,580

OTHER IMPORTANT DISCLOSURES

1. (a) EXTERNAL ASSISTANCE

Description	2023/24	2022-2023
	Kshs	Kshs
External assistance received as grants	317,831,563.73	85,173,021
Total	317,831,563.73	85,173,021

d. non-monetary external assistance

Description	FY 2023/2024	FY 2022-2023
	Kshs	Kshs
Roadworks	317,831,563.73	85,173,021
Total	317,831,563.73	85,173,021

e. Purpose and use of external assistance

Payments Made by Third Parties	FY 2023/2024	FY 2022-2023
	Kshs	Kshs
Construction of roads	317,831,563.73	85,173,021
TOTAL	317,831,563.73	85,173,021

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

Description	FY 2023-24	FY 2022-2023
	Kshs	Kshs
Multilateral donors	317,831,563.73	85,173,021
Total	317,831,563.73	85,173,021

PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

All the Audit issues 2022/23 were resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	All the Audit issues/Observations for the FY 2021/2022 were resolved.	N/A	N/A	N/A
1. Irregular Expenditure	The statement of receipts and payments and is disclosed in Note 3 to the financial statements reflects road works expenditure totalling Kshs 85,173,021 which was paid to three contractors. However, review of documents revealed that the payments were made before the contractor furnished the authority with performance guarantee and before the submitted approval	The performance guarantees are available and will be availed for audit when required.	Not resolved	To be resolved during the audit of the current financial year

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>of programme of works was approved by the supervisor. This was contrary to Article 46.3 (b) and Article 46.3 (e) of the contract which states that no pre-financing shall be granted until performance guarantee is provided and approval of the programme of implementation of tasks by the supervisor is done. In the circumstances, accuracy and propriety of the payment totalling Kshs 85,173,021 could not be confirmed.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2. Non-Disclosure of Retention and Deposits Money	Note 5(d) to the financial statements reflects deposits and retention amounts totalling Kshs 35,173,631. However the amount is not reflected in the statement of financial assets as account payables. Further, review of payment vouchers, bank statements and schedules provided revealed that the authority failed to disclose retention payment made to the contractor during the year amounting to Kshs 8,631,307. In the circumstances, the accuracy and	The financial statements were corrected to reflect the retention monies.	Resolved	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	completeness of the retention balance of Kshs 35,173,631 could not be confirmed.			
3. Funding Summary	The statement of receipts and payments reflects cumulative receipts totalling Kshs 2,510,152,801 while the project information and overall performance under funding summary cumulative amount totalling Kshs 2,595,349,588 resulting in a variance of Kshs 85,196,787 which has not been explained. In the circumstances,	The reconciliation is underway	Not resolved	Will be resolved by 31 st October 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	accuracy and completeness of the financial statements could not be confirmed			
4. Inaccuracies in the statement of cashflows	The statement of cashflows reflects cash and cash equivalents at the end of the year of Kshs 91,712 while the recalculated balance is a negative of Kshs.(88,207,499) resulting to an unexplained variance of Kshs. (88,299,211). In the circumstances, the completeness and accuracy of the	The financial statements were corrected to reflect the true position	Resolved	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	statement of cashflows could not be confirmed.			
<p>Other Matter</p> <p>1. Unresolved Prior Year Matters</p>	<p>In the audit report of the previous year, several issues were raised. However, management has not indicated how each of the issues raised in the previous year Auditor-General's report was resolved, including the information required under prescribed format.</p>	<p>All issues were resolved and information provided to the auditor</p>	<p>Resolved</p>	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2. Budgetary Control and Performance	The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs 150,000,000 and Kshs 113,207,753 respectively, resulting to an under-funding of Kshs 36,792,247 or 25% of the approved budget. Similarly, the project expended an amount of Kshs 113,219,328 against an approved budget of Kshs 150,000,000 resulting to	The under-funding was as a result of inadequate budgetary provision from national treasury	Resolved	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	<p>an under-expenditure of Kshs 36,780,672 or 25% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Delays in project Implementation	i) Construction of Chuka-Kaanwa Rd; Review of the project documents revealed that the Authority awarded to a contractor at a contract sum of Kshs 233,196,528. The project was for one year beginning on 7 September 2022 and was expected to be completed by 7 September 2023. However physical verification carried out on 6 November 2023 revealed that the project	This was due to lack of adequate budgetary support	Resolved	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	<p>was still ongoing and the contractor was still on site despite no extension granted by the Authority. In the circumstances, value for money to be realized from the expenditure totalling Kshs 233,196,528 incurred on the project could not be confirmed.</p> <p>ii) Delay in construction of Kaanwa-Wakathite Road; The contract for the construction of Kaanwa-Wakathite road was awarded to a</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	contractor at a contract sum of Kshs 221,386,000 on 7 September 2022 for a one year period to be completed on 7 September 2023. However physical verification carried out on 7 November 2023 revealed that the project was incomplete and the contractor was on site. In the circumstances, value for money to be realized from the expenditure totalling Kshs 221,386,000			

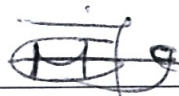
Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>incurred on the project could not be confirmed.</p> <p>iii) Delay in construction of Wakathite-Kareni road; The contract was awarded to a contractor at a contract sum of Kshs 174,343,899 on 8 August 2022 and was expected to complete on 7 September 2023. However physical verification which was carried out on 6 November 2023 revealed that the project was still ongoing and the contractor was still</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	on site despite no extension granted by the Authority. In the circumstances, value for money to be realized from the expenditure totalling Kshs 174,343,899 incurred on the project could not be confirmed.			

Deputy Director (F & A)

CPA Matilda Wakere Ita
 ICPAK Member Number: 5469



Project Coordinator

Eng. Samuel N. Mwangi

Director General

Eng. Philemon K.Kandie MBS

13. ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Description	Final Budget	Actual Received	Actual on comparable basis	Utilisation Variance	% of Utilisation	Comments on variance
	Kshs	Kshs	Kshs	Kshs		
	a		b	c=a-b	d=b/a%	
RECEIPTS						
Receipts from Government of Kenya	45,000,000	118,235,578	118,235,578	0	100%	
Proceeds from Domestic and Foreign Grants	200,000,000	317,831,564	317,831,564	-	100%	
Total receipts	245,000,000	436,067,142	436,067,142	0	100%	
PAYMENTS						
Consultancy services	-		-	-		
Road works	244,900,000	436,044,305	434,368,843	1,675,462	100%	
Operating costs	100,000	22,837	22,837	0	100%	
Total Payments	245,000,000	436,067,142	434,391,680	1,675,462	100%	

ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

a.		Government Counterpart Funding		Amount (KShs)	to which the amounts relate
		Bank Statement Date			
		11/07/2023		27,733,743.00	
		02/10/2023		22,750,800.00	
		01/01/2024		22,750,800.00	
		17/01/2024		12,500,000.00	
		08/02/2024		32,500,000.00	
		Total		118,235,343.00	
b.	Direct Payments				
		Bank Statement Date		Amount (KShs)	to which the amounts relate
				317,831,563.73	
		Total		317,831,563.73	
c.	Others				
		Bank Statement Date		Amount (KShs)	to which the amounts relate
	Bank Charges			22836.89	
		Total		22,836.89	
		TOTAL(a+b+c)	-	436,089,743.62	

Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
 Reports and Financial Statements For the year ended 30 June, 2024

ANNEX 3A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Amount Paid To-Date	Outstanding Balance 2023/24
	a	c	d=a-c
Construction of roads			
I. Nariana Enterprises Ltd	15,142,849.78	6,730,400.00	8,412,449.78
Total	15,142,849.78	6,730,400.00	8,412,449.78

ANNEX 4 - CONTIGENT LIABILITY REGISTER

Description	Remarks	Date Contracted
Westbuild Contractors Ltd	High court Appeal	
Cost awaiting determination	Ksh.642,516,239.33 inclusive of 16% VAT	

*Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project
Reports and Financial Statements For the year ended 30 June, 2024*

APPENDICES

i. Bank Reconciliations statement as at 30th June 2024