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REPORT

OF

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DATE: 16 MAR 2023	DAY: Thursday	
TABLED BY:	Deputy party	Majority leader
CLERK-AT THE-TABLE:	Joyce	lemxerelle

THE AUDITOR-GENERAL

ON

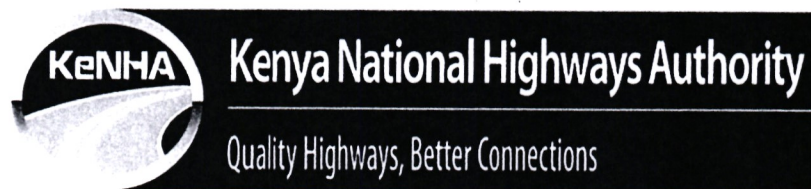
**SIRARI CORRIDOR ACCESSIBILITY AND
ROAD SAFETY IMPROVEMENT PROJECT:
ISEBANIA-KISII-AHERO – (A1) ROAD
REHABILITATION**

**FOR THE YEAR ENDED
30 JUNE, 2022**

**KENYA NATIONAL HIGHWAYS
AUTHORITY**



**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT AND
PUBLIC WORKS**



**PROJECT NAME: SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT
PROJECT: ISEBANIA – KISII – AHERO (A1) ROAD REHABILITATION**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT CREDIT NUMBER: 2000130015238

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022**

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation

Annual Report and Financial Statements for the financial year ended June 30, 2022

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1. Project Information and Overall Performance

1.1 Name and registered office

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation.

Objective:

This project entails the construction of 2-lane 2-way highway with grade separated intersections where appropriate, high quality pavement, 1.5-2m wide shoulders to reduce traffic friction and enhance safety of road users.

The project is expected to consist of improvements of earth/gravel surface feeder roads contiguous with the highway as a way of widening access and to ensure that the road systems function as a network due to improved networks connectivity between lower level networks and the main national road system. A number of social infrastructure (markets, dispensaries, and schools) are also expected to be connected with the main road network as the budget will allow.

The project objective is to improve road transport infrastructure between Tanzania and Kenya, particularly between Mwanza and Kisumu, and onwards to Eldoret in the north and further to Nairobi-the regional commercial hub of East Africa.

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

Contacts:
Director General
Kenya National Highways Authority
Po Box 49712-00100
Nairobi
Telephone: (254) 020 495000
E-mail: dg@Kenha.co.ke
Website: www.kenha.co.ke

1.2 Project Information

Project Start Date:	9 th June, 2017
Project End Date:	31 st December 2023
Project Engineer	Eng. Mutii Kivoto
Project Sponsor:	African Development Bank (AfDB)

Project Information and Overall Performance (Continued)

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works
Project number	P-KE-DB0-023
Strategic goals of the project	The strategic goals of the project are as follows: (i) To improve travel conditions. (ii) To unlock growth in high potential productive sectors of: agriculture, fisheries and agro-allied industries (iii) By lowering travel time and transport costs, the project will improve competitive position of the region through increased market access and lower costs.
Achievement of strategic goals	Implementation of the project in timely, efficient and effective manner.
Other important background information of the project	Isebania-Kisii-Ahero road was first upgraded in 1969, and was aimed at linking Kenya and Northern Tanzania to strengthen cross border business activities and economic ties within the East Africa Community (EAC). Over time with maintenance, the level of service has dropped in light of increasing motorization, changing vehicle designs, inadequate geometrics, and severely pot-holed pavement. The poor road condition continued to undermine domestic and inter-regional trade within the area hence need for the project.
Project duration	The project is for duration of 48 months.

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

National Bank of Kenya
 Hill Branch
 Po Box 45219-00100
 Nairobi.

1.5 Auditors Auditor General
 Office of the Auditor General
 Po Box 30084-0100,
 Nairobi.

Project Information and Overall Performance (Continued)

1.6 Roles and Responsibilities

List of the people who are working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng. Charles Obuon	Director-Development	Qualified	Project Implementing Team Leader
Eng. Mutii Kivoto	Deputy Director-Special Projects	Qualified	Project Engineer
Mr. Walter Nyatwang'a	Deputy Director Environment & Social Interests	Qualified	Project Safeguards Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Qualified	Project Legal Specialist
Ms. Levina Wanyonyi	Deputy Director-Supply Chain Management	Qualified	Project Procurement Specialist
Mr. Chanje Kera	Deputy Director-Finance & Accounts	Qualified	Project Financial Specialist
Ms. Rose Oloo	Senior Sociologist	Qualified	Project Social Development Specialist

1.7 Funding summary

The Project is for duration of 53 months from 9th May, 2017 to 16th September 2021 with a defect's notification of 12 months each for Lot 1 & Lot 2. The Project's approved budget is USD 280,260,000 equivalent to Kshs. 28,194,156,000 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2022)		Undrawn balance to date (30.06.2022)	
	<i>USD</i>	<i>Kshs</i>	<i>USD</i>	<i>Kshs</i>	<i>USD</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
(i) Grant						
EU-AIFT	11,200,000	1,126,720,000	4,770,716	479,934,006	6,429,284	646,785,994
(ii) Loan						
African Development Bank	228,000,000	22,936,800,000	164,034,907	16,501,911,628	63,965,093	6,434,888,372
(ii) Counterpart funds						
Government of Kenya	41,060,000	4,130,636,000	32,145,581	3,233,845,421	8,914,419	896,790,579
Total	280,260,000	28,194,156,000	200,951,203	20,215,691,055	79,308,797	7,978,464,945

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation

Annual Report and Financial Statements for the financial year ended June 30, 2022

Project Information and Overall Performance (Continued)

B. Application of Funds

Application of funds	Amount received to date - (30.06.2022)		Cumulative Amount paid to date - (30.06.2022)		Unutilised balance to date - (30.06.2022)	
	<i>Donor currency (UA)</i>	<i>Kshs</i>	<i>Donor currency (UA)</i>	<i>Kshs</i>	<i>Donor currency (UA)</i>	<i>Kshs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
EU-AITF	4,770,716	479,934,006	4,494,655	452,162,256	276,061	27,771,750
(i) Loan						
Africa Development Bank	164,034,907	16,501,911,628	164,034,907	16,501,911,628	-	-
(ii) Counterpart funds						
Government of Kenya (GoK)	32,145,581	3,233,845,421	31,674,598	3,186,464,536	470,983	47,380,885
Total	200,951,204	20,215,691,055	200,204,160	20,140,538,420	747,044	75,152,635

1.8 Summary of Overall Project Performance:

(a) Budget performance against actual amounts for current year: -

Budget	FY 2021/2022		
	Actual	Budget	%
Counterpart Funds - GoK	2,328,376	350,000,000	1%
Loan (AfDB Direct Payments)	1,764,481,470	2,550,000,000	69%
Grant (EU-AITF)	128,467,212	200,000,000	64%
TOTAL	1,895,277,058	3,100,000,000	61%

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

Lot 1: Isebania-Kisii

The physical progress as at 30th June,2022 is 80% against time elapsed of 60.83 months representing 114% based on revised contract sum

Lot 2: Kisii-Ahero

The physical progress as at 30th June,2022 is 93.63% against time elapsed of 61 months representing 168.77%

Project Information and Overall Performance (Continued)

(c) Comment on value for money achievements.

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

1.9 Summary of Project Compliance:

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

2. Statement of Performance Against Project’s Predetermined Objectives

Introduction

The key development objectives of the project are to:

- a) To facilitate transport of goods and passengers along the Tanzania-Kenya-South Sudan Corridor
- b) To open up fresh produce markets in the Lake Victoria Basin
- c) To improve road safety along the Tanzania-Kenya-South Sudan Corridor

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

Objective	Outcome	Indicator	Performance
To facilitate transport of goods and passengers along the Tanzania-Kenya-South Sudan Corridor	Reduced transport costs	Annual Average Vehicle Operating Cost (VOC)	Transport operators have registered reduction in costs. Passenger fare prices have also reduced as a result of upgrade of the feeder roads
To open up fresh produce markets in the Lake Victoria Basin	Increased accessibility in Lake Victoria basin. Increase in inter-district trade in food crops	Volume and diversity of food crops traded	Regional traders and fresh produce consumers have expressed satisfaction with the volume & quality of fresh produce reaching the markets
Training of women and youth in construction	Skills development for women and youth	Number of women and youth trained.	Selection of participants for the training finalized and training kicked off.
To improve road safety along the Tanzania-Kenya-South Sudan Corridor	Reduced road fatalities.	Crash fatalities on the road	Five Ambulances have been supplied to five counties within the project road and one to Nyabondo post-crash centre. Equipment for post-crash centre already in the country awaiting completion of the centre to commence installations of the equipment.

3. Environmental and Sustainability Reporting

1. Sustainability strategy and profile

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the people and prosperity. Five out of the seventeen goals are pertinent to management of projects being undertaken by the Authority. These are being addressed through the following initiatives;

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

2. Environmental performance

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

A joint team composed of the Consultant and Contractor has been formed to carry out periodic inspections of all the work places around the project sites to assess the adherence by the Contractors to

Environmental Sustainability Reporting (Continued)

the mitigation measures stated in the contracts. Bi-weekly and monthly inspections are conducted and the observations and recommendations by the team communicated to the Contractors for their action

3. Employee welfare

In all its staff appointments, the Authority takes deliberate actions to embrace Equal Employment Opportunity policy, gender mainstreaming, address disability and take affirmative action in line with prevailing Government Policy guidelines. The Authority prioritize training to develop technical capacity of staff in the fields of Value Engineering, Project Financing, Project and Contract Management, Performance Based Maintenance and Safety.

4. Market place practices

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

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

The Authority has automated finance procedures, continue to create awareness on PFM Act, treasury circulars and regulations in order to enhance financial management in projects.

5. Community Engagements

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

Environmental Sustainability Reporting (Continued)

The Project is constructing a Trauma Response Centre at St. Joseph Nyabondo Mission Hospital which is expected to have a 150-bed capacity. Some of the features of the facility will be Intensive Care Unit (ICU), High Dependency Unit (HDU), two operational theatres, MRI machines, CT scanners, X-ray machines, Ultrasound, Laboratory, Pharmacy, Wards as well as consultation rooms. Construction of the centre is currently 71% complete and the procurement of the medical equipment is underway. Once complete the Response Centre will serve the counties of Kisumu, Kericho, Homa Bay, Migori, Kisii and Nyamira. The Project has also donated ambulances to the counties around the Project area to deal with trauma and post-trauma cases resulting from road accidents.

In Lot 1, the Contractor in consultation with the County Government of Migori agreed to harvest gravel material from a public land in God-Nyinyo area within North Kamagambo and in turn construct a modern Primary School for the area residents. The construction includes an administration block complete with a library, offices, staffroom etc and 4 No classrooms as part of Corporate Social Responsibility.

To enhance social safeguards in projects, the Authority undertake Resettlement Action Plan (RAP) studies and implement recommendations, carry out Social Impact Assessment (SIA) in projects, undertake gender mainstreaming in projects and conduct stakeholders' forum to sensitize the public in cross cutting issues.

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation

Annual Report and Financial Statements for the financial year ended June 30, 2022

4. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation 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, 2022. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

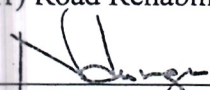
The Director General, KeNHA and the Project Implementation Team Leader for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation accept responsibility for the Project’s financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General, KeNHA and the Project Implementation Team Leader for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation 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, 2022, and of the Project’s financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

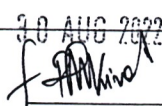
The Director General, KeNHA and the Project Implementation Team Leader for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

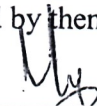
The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation on _____ 2022 and signed by them.



Eng. Kungu Ndungu
Director General



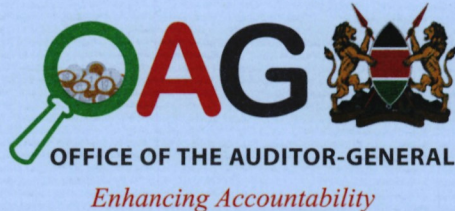
Eng. Charles Obuon
Director-Development



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

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO – (A1) ROAD REHABILITATION FOR THE YEAR ENDED 30 JUNE, 2022 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero - (A1) Road Rehabilitation set out

on pages 1 to 24, which comprise the statement of financial assets as at 30 June, 2022, 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 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 the Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero - (A1) Road Rehabilitation as at 30 June, 2022, 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.2000130015238 dated 13 May, 2016 between the Republic of Kenya and African Development Bank and the Public Finance Management Act, 2012.

In addition, the special account statement presents fairly the special account transactions and the closing balance has been reconciled with the books of account.

Basis for Qualified Opinion

1. Accuracy of Financial Statements

The statement of receipts and payments reflect an amount of Kshs.24,654,959 in respect of acquisition of non-financial assets payments controlled by the entity. However, there is no commensurate receipt to cover the payment and funding of these payments has not been explained as the project appears to only hold a retention account and holds no cashbook for the project.

In the circumstances, the accuracy of the financial statements as at 30 June, 2022 could not be confirmed.

2. Authenticity of Land Payments

Annex 3A to the financial statements reflects analysis of pending bills on land compensation balance of Kshs.537,676,282 as at 30 June, 2022. However, the compensation schedule issued to the Kenya National Highways Authority (KENHA) by the National Land Commission (NLC) for payments was not supported with official search, land valuation reports and beneficiaries' identification criteria for the project affected persons (PAPs).

In the circumstances, it was not possible to confirm the authenticity, propriety and accuracy of the pending bills of Kshs.537,676,282 reflected in the financial statements.

3. Unsupported Transfer from Government Entities

The statement of receipts and payments reflects transfer from Government entities of Kshs.2,328,376 as analyzed in Note 11.1 to the financial statements. However, no

exchequer notifications or any other support documentations were provided for audit review to confirm the completeness of the receipts.

In the circumstances, it was not possible to confirm the accuracy and completeness of the transfers from Government entities balance of Kshs.2,328,376, reflected in the financial statements.

4. Irregular Payment of Imprest and Air Tickets to Interns

The statement of receipts and payments and Note 4 to the financial statements reflects purchase of goods and services amount of Kshs.609,100, in respect of payment of per diem which includes per-diem paid to three (3) interns amounting to kshs.309,000. However, the policy guideline on the rates governing payment of per diem to interns, was not provided for audit verification. In addition, examination of imprest surrender documents revealed that the above-mentioned interns travelled by air. However, no expenditure for air tickets was disclosed in the financial statements. Further, the approval for use of air transport, to confirm whether the interns qualified for use of air transport, was not provided for audit review.

In the circumstances, it was not possible to confirm the accuracy and validity of the use of goods and services of Kshs.609,100.

5. Irregularities in Acquisition of Non-Financial Assets

The statement of receipts and payments and Note 5 to the financial statements reflects acquisition of non-financial assets current year and cumulative amount of Kshs.1,917,603,641 and Kshs.20,052,965,638, respectively. Review of project records revealed that three contractors issued suspension of work notices due to pending payments amounting to Kshs.2,048,366,971. An interview with the Project Engineer and physical verification in the month of November, 2022 revealed that the works had already been suspended and no works were currently going on. However, there was no evidence to confirm the actual dates when the works were suspended.

In addition, during the year under review the Management paid Kshs.609,100 (cumulative to date Kshs.68,869,197) for domestic travel and supervision by the Authority staff. However, no progress reports or minutes were provided for audit review, therefore, it was not possible to confirm the validity of the expenditure of Kshs.68,869,197 incurred on the project. Further, review of the financing agreement revealed that there were other components to the road construction. However, no contract agreements for these components were provided for audit review. In the absence of such contract agreements, it was not possible to confirm the number and status of the other components under implementation by the Authority.

Physical verification of the project in the month of November, 2022 revealed that complimentary initiatives included construction of a traffic injury recovery unit and sinking of a borehole at a mission hospital at a total cost of kshs.367,955,294.44 and unquantified supply and installation of equipment and machinery and training of staff on how to use the equipment and machinery at unknown value by the Authority.

Note 5 to the financial statement revealed cumulative expenditure amount of Kshs.147,098,785 (2021/2022 Kshs.62,684,459) in respect of purchase of equipment and machinery. However, documents supporting the payments such as contract documents, payment vouchers, delivery notes, store receipt vouchers and stores issue vouchers were neither provided for audit review by the authority nor the hospital Management. Interview with the hospital Management revealed that a bridge between the hospital and the oxygen plant had not been constructed therefore, the plant whose cost could not be determined was not in use by the hospital. Further, it was established that there was no staff training on use of the equipment and therefore they lacked the skills to operate the technical equipment supplied.

It was further observed that the contract implemented by the Third Engineering Bureau of China City C C (Lot 2) expired on 3 January, 2022. An application requesting for no objection for extension was raised vide letter KeNHA/05. B/AFDB/2118/VOL.11/8617. However, no approval for this request, which was not signed, was provided for audit review. In the absence of an approved extension of time, it was not possible to confirm that the Authority's interests on the project were safeguarded in the existing contract which had expired.

In the circumstances, confirmation of the details in respect of quantity, quality, individual costs, period of delivery, ownership, existence completeness, validity and value for money was not possible.

6. Accounts Payable - Retention

The statement of financial assets and as disclosed in Note 7 to the financial statements reflects retention monies balance of Kshs.47,380,885 in the year under review. However, the Management did not maintain a deposit register, in respect of the project. Further, retentions Kshs.443,798,918 reflected under Note 12(2) to the financial statements had no supporting analysis.

In the circumstances, it was not possible to confirm the accuracy and completeness of the retentions reflected in the financial statements.

7. Fund Balance Brought Forward

The statement of financial assets reflects a Fund balance brought forward of Kshs.27,771,750 which as disclosed in Note 8 to the financial statements has been described as bank accounts. The Management did not explain the purpose for these funds, which were held in a local bank account and not used in any way for a period of over three years. Holding the funds in the bank account may have resulted in avoidable bank charges, and denied the project interest income which could have been earned had these funds been invested in interest earning financial instruments.

In addition, the fund balance brought and carried forward has remained the same and not taken into account the deficit for the period amounting to Kshs.22,935,683.

In the circumstances, the accuracy of the fund balance of Kshs.27,771,750 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero - (A1) Road Rehabilitation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional 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

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,100,000,000 and Kshs.1,895,277,058 respectively, resulting to an underfunding of Kshs.1,204,722,942 or 39%. Similarly, Kshs.1,918,212,741 was spent on the Project against an approved budget of Kshs.3,100,000,000, resulting to an under expenditure of Kshs.1,181,787,259 or 38%.

The underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public.

2. Payment of Pending Bills Not Forming First Charge

Note 12 to the financial statements reflects pending bills of Kshs.2,623,642,869 as at 30 June, 2022 which were not settled during the financial year 2021/2022 but were instead carried forward to 2022/2023. Included in this balance are pending bills of Kshs.1,781,929,830 which relates to 2020/2021 and earlier financial years. Further, interest charges on late payments was Kshs.79,280,825 and Kshs.68,080,610 for Interim Payment Certificate (IPC) 48 and IPC 31 respectively, totalling to Kshs.147,361,435, as at 30 June, 2022.

Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payment of the pending bills in the subsequent financial year.

The delays in the payment of pending bills referred to above may result in significant penalties and interest costs with the continued delay in payment.

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 I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with 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 governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Africa Development Bank, 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 control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities,

financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of noncompliance. 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 Project's 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 sustain its services.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


18 November, 2022


**Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation
Annual Report and Financial Statements for the financial year ended June 30, 2022**


6. Statement of Receipts and Payments for the Year Ended 30th June 2022

	Note	FY 2021/22		FY 2020/21		Cumulative to date		
		Receipts & Payments Controlled by the Entity Kshs	Payments Made by Third Parties Kshs	Total Kshs	Receipts & Payments Controlled by the Entity Kshs	Payments Made by Third Parties Kshs	Total Kshs	Kshs
RECEIPTS								
Transfer from Government entities	1	2,328,376	-	2,328,376	1,305,963,785	-	1,305,963,785	3,233,845,421
Grants from External Development Partners	2	-	128,467,212	128,467,212	-	84,414,326	84,414,326	479,934,006
Loans from External Development Partners	3	-	1,764,481,470	1,764,481,470	-	3,233,515,507	3,233,515,507	16,501,911,628
TOTAL RECEIPTS		2,328,376	1,892,948,682	1,895,277,058	1,305,963,785	3,317,929,833	4,623,893,618	20,215,691,055
PAYMENTS								
Purchase of goods and services	4	609,100	-	609,100	13,450,325	-	13,450,325	87,572,782
Acquisition of non-financial assets	5	24,654,959	1,892,948,682	1,917,603,641	1,301,692,974	3,317,929,833	4,619,622,807	20,052,965,638
TOTAL PAYMENTS SURPLUS/DEFICIT FOR THE YEAR		25,264,059	1,892,948,682	1,918,212,741	1,315,143,299	3,317,929,833	4,633,073,132	20,140,538,420
		(22,935,683)	-	(22,935,683)	(9,179,514)	-	(9,179,514)	75,152,635

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


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development

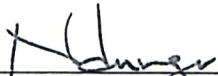

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279


*Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1)
Road Rehabilitation
Annual Report and Financial Statements for the financial year ended June 30, 2022*

7. Statement of Financial Assets as at 30th June 2022

	Note	FY 2021/22 Kshs	FY 2020/21 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	6A	75,152,635	98,088,318
TOTAL FINANCIAL ASSETS		75,152,635	98,088,318
FINANCIAL LIABILITIES			
Payables - Retentions	7	47,380,885	70,316,568
NET ASSETS		27,771,750	27,771,750
REPRESENTED BY:			
Cash and cash equivalents b/fwd	8	27,771,750	-
Surplus/Deficit for the year		-	27,771,750
NET FINANCIAL POSITION		27,771,750	27,771,750

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30 AUG 2022 2022 and signed by:


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development

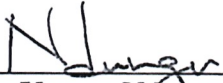

CPA Chanje Kera
Deputy Director (F&A) -
ICPAK Member No. 8279


Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation
Annual Report and Financial Statements for the financial year ended June 30, 2022


8. Statement of Cashflow for the Year Ended 30th June 2022

	Note	FY 2021/2022	FY 2020/2021
		Kshs	Kshs
Receipts for operating income			
Transfer from Government entities	1	2,328,376	1,305,963,785
Proceeds from domestic and foreign grants	2	128,467,212	84,414,326
Payments for operating expenses			
Purchase of goods and services	4	(609,100)	(13,450,325)
Net cash flow from operating activities		130,186,488	1,376,927,786
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	5	(1,917,603,641)	(4,619,622,807)
Net cash flows from Investing Activities		(1,917,603,641)	(4,619,622,807)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	3	1,764,481,470	3,233,515,507
Net cash flow from financing activities		1,764,481,470	3,233,515,507
NET INCREASE IN CASH AND CASH EQUIVALENT		(22,935,683)	(9,179,514)
Cash and cash equivalent at BEGINNING of the year		98,088,318	107,267,832
Cash and cash equivalent at END of the year		75,152,635	98,088,318

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 30 AUG 2022 2022 and signed by:


 Eng. Kungu Ndungu
 Director General


 Eng. Charles Obuon
 Director-Development

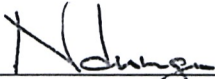

 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279


*Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1)
Road Rehabilitation
Annual Report and Financial Statements for the financial year ended June 30, 2022*


9. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30th June 2022

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Var
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	100,000,000	250,000,000	350,000,000	2,328,376	347,671,624	1%
Proceeds from Loans-Direct Payments	2,800,000,000	(400,000,000)	2,400,000,000	1,764,481,470	635,518,530	74%
Proceeds from Grants	200,000,000	-	200,000,000	128,467,212	71,532,788	64%
Proceeds from Loans-Revenue	150,000,000	-	150,000,000	-	150,000,000	0%
Total Receipts	3,250,000,000	(150,000,000)	3,100,000,000	1,895,277,058	1,204,722,942	61%
Payments						
Purchase of goods and services	3,250,000,000	(150,000,000)	3,100,000,000	609,100	1,181,787,259	62%
Acquisition of non-financial assets				1,917,603,641		
Total Payments	3,250,000,000	(150,000,000)	3,100,000,000	1,918,212,741	1,181,787,259	62%
Deficit	-	-	-	(22,935,683)	22,935,683	-

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


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development


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

10. Significant Accounting Policies

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

10.1 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.

10.2 Reporting entity

The financial statements are for Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation under the State Department of Infrastructure. The financial statements are for the reporting entity's Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation as required by Section 81 of the PFM Act, 2012.

10.3 Reporting currency

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

10.4 Recognition of receipts

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

10.5 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

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

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

Significant Accounting Policies (Continued)

- **Acquisition of fixed assets**

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

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

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

10.6 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.

10.7 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

10.8 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

10.9 Imprests and Advances

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

Significant Accounting Policies (Continued)

10.10 Contingent Liabilities

A contingent liability is:

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

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

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

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

10.11 Contingent Assets

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation 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 Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation 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.

10.12 Pending bills

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

Significant Accounting Policies (Continued)

10.13 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.

10.14 Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments. During the year **Kshs 1,764,481,470** disbursements were received in form of direct payments from third parties.

10.15 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.

10.16 Comparative figures

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

10.17 Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

Significant Accounting Policies (Continued)

10.18 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments on the financial statements for the year ended June 30, 2022

Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1) Road Rehabilitation

Annual Report and Financial Statements for the financial year ended June 30, 2022

11. Notes to the Financial Statements

1. Transfers from Government Entities

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

	2021/22	2020/21	Cumulative
	Kshs	Kshs	to-date
Counterpart funding through Ministry of Transport and Infrastructure			
Counterpart funds Quarter 1	274,500	300,945,696	404,604,836
Counterpart funds Quarter 2	-	393,980,726	720,682,020
Counterpart funds Quarter 3	-	388,871,922	807,737,416
Counterpart funds Quarter 4	2,053,876	222,165,441	1,300,821,149
Total	2,328,376	1,305,963,785	3,233,845,421

2. Proceeds from Foreign Grants

During the 12 months to 30 June 2022 we received grants from donor(s) as detailed in the table below;

Name of Donor	Date received	Amount in Donor currency	Grants received in cash	Grants received as direct payment	Total amount in Kshs	
					FY 2021/22	FY 2020/21
		USD	Kshs	Kshs	Kshs	Kshs
Grants Received from Multilateral Donors (International Organisations)						
Africa Infrastructure Trust Fund (AITF)	FY 2021/2022	1,174,790	-	128,467,212	128,467,212	84,414,326
Total		1,174,790	-	128,467,212	128,467,212	84,414,326

*Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania – Kisii – Ahero (A1)
Road Rehabilitation
Annual Report and Financial Statements for the financial year ended June 30, 2022*

Notes to the Financial Statements (Continued)

3. Proceeds from Foreign Loans

During the 12 months to 30 June 2022 we received loans from donor(s) as detailed in the table below;

Name of Donor	Amount in loan currency	Loans received in cash	Loans received as direct payment	Total amount in Kshs	
				FY 2021/22	FY 2020/21
				USD	Kshs
Loans Received from Multilateral Donors (International Organisations)					
African Development Bank (AfDB)	17,499,464	-	1,764,481,470	1,764,481,470	3,233,515,507
Total	17,499,464	-	1,764,481,470	1,764,481,470	3,233,515,507

4. Purchase of Goods and Services

Item	FY 2021/22			FY 2020/21	Cumulative to Date
	Payments Made by the Entity in Cash	Payments Made by Third Parties	Total Payments		
	KSh	KSh	KSh		
Domestic Travel & Subsistence	609,100	-	609,100	13,449,425	68,869,197
Hospitality Supplies	-	-	-	-	2,106,217
Printing, Adverts & Information Supplies	-	-	-	900	13,468,656
Utility Supplies & Services	-	-	-	-	3,128,712
Total	609,100	-	609,100	13,450,325	87,572,782

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Notes to the Financial Statements (Continued)

5. Acquisition of Non-Financial Assets

Item	FY 2021/22			FY 2020/21	Cumulative to-date
	Payments Made by the Entity in Cash	Payments Made by Third Parties	Total Payments		
	KSh	KSh	KSh	Kshs	Kshs
Research, studies, project preparation, design & supervision	-	283,930,756	283,930,756	66,952,715	1,835,521,507
Construction of Roads	24,654,959	1,546,333,467	1,570,988,426	4,411,279,373	18,013,368,953
Acquisition of land	-	-	-	56,976,393	56,976,393
Purchase of equipment and machinery	-	62,684,459	62,684,459	84,414,326	147,098,785
Total	24,654,959	1,892,948,682	1,917,603,641	4,619,622,807	20,052,965,638

6. Cash and Cash Equivalents Carried Forward

	FY 2021/22	FY 2020/21
	KShs	KShs
Bank accounts (Note 6A)	75,152,635	98,088,318
Total	75,152,635	98,088,318

6A Bank Accounts

Project Bank Accounts

	FY 2021/22	FY 2020/21
	KShs	KShs
Local Currency Accounts		
National Bank of Kenya Ltd SCARSIP [A/c No. 01001133511500]	27,771,750	27,771,750
National Bank of Kenya Ltd Retention [A/c No. 0100132733200]	47,380,885	70,316,568
Total local currency balances	75,152,635	98,088,318
Total bank account balances	75,152,635	98,088,318

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Notes to the Financial Statements (Continued)

Special Deposit Account Movement Schedule

	FY 2021/22	FY 2020/21
	KShs	KShs
Sirari Corridor Accessibility and Road Safety Improvement Project (SCARSIP)		
Opening balance	-	-
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	-	-
Closing balance (as per SDA bank account reconciliation attached)	-	-

7. Accounts Payables - Retentions

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions controlled by the entity	47,380,885	70,316,568
Total	47,380,885	70,316,568

8. Fund Balance Brought Forward

	FY 2021/22	FY 2020/21
	Kshs	Kshs
Bank accounts	27,771,750	27,771,750
Total	27,771,750	27,771,750

9. Changes in Accounts Payable – Retentions Controlled by The Entity

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions as at 1 st July	70,316,568	79,496,082
Closing Retention as at 30 th June	47,380,885	70,316,568
Change in Retention	(22,935,683)	(9,179,514)

12. Other Important Disclosures

1. Pending Accounts Payable (See Annex 3)

Description	Balance b/f FY 2021/2022	Additions for the period	Paid during the year	Balance c/f FY 2021/22
	Kshs	Kshs	Kshs	Kshs
Construction of civil works	1,389,924,000	2,229,431,397	1,570,988,426	2,048,366,971
Land Compensation	388,492,283	149,183,999	-	537,676,282
Supply of services	3,257,147	318,882,325	284,539,856	37,599,616
Purchase of equipment and machinery	-	62,684,459	62,684,459	-
Total	1,781,673,430	2,760,182,180	1,918,212,741	2,623,642,869

2. Accounts Payables - Retentions

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions controlled by third parties	443,798,918	635,215,409
Total	443,798,918	635,215,409

3. Changes in Accounts Payable – Retentions Controlled by Third Parties

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions as at 1 st July	635,215,409	760,171,940
Closing Retention as at 30 th June	443,798,918	635,215,409
Change in Retention	(191,416,491)	(124,956,531)

4. External Assistance

a) External assistance relating to loans and grants

Description	FY 2021/2022	FY 2020/2021
	Kshs	Kshs
External assistance received as loans	1,764,481,470	3,233,515,507
External assistance received as grants	128,467,212	84,414,326
Total	1,892,948,682	3,317,929,833

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Other Important Disclosures (Continued)

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	FY 2021/2022	FY 2020/2021
Description		Kshs	Kshs
Undrawn external assistance - loans	Road works & consultancy services	6,434,888,372	8,199,369,842
Undrawn external assistance - grants	Consultancy services, Goods & Services	646,785,994	775,253,206
Total		7,081,674,366	8,974,623,048

c) Classes of providers of external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Multilateral donors	1,892,948,682	3,317,929,833
Total	1,892,948,682	3,317,929,833

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

d) Purpose and use of external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Acquisition of Assets	1,892,948,682	3,317,929,833
Total	1,892,948,682	3,317,929,833

e) External Assistance paid by Third Parties on behalf of the Entity by Source

This relates to external assistance paid directly by third parties to settle obligations on behalf of the entity

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Multilateral donors	1,892,948,682	3,317,929,833
Total	1,892,948,682	3,317,929,833

13. Prior Year Auditor-General's Recommendations

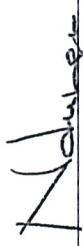
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><u>Basis for Opinion</u></p> <p>Unsupported Expenditure in Construction of Roads</p> <p>Note 11.5 to the financial statements reflects an expenditure of Kshs 1,226,712,604 on construction of roads. However, schedules provided in support of the expenditure reflected an amount of Kshs 1,203,776,922 resulting to an unexplained difference of Kshs 22,935,682.</p> <p>In the circumstances, the accuracy and completeness of the expenditure of Kshs. 1,226,712,604 could not be confirmed.</p>	<p>The observed variance of Kshs 22,935,682 represent withheld retention money from contractor which was released to the contractor in FY 2020/21. Schedules supporting Kshs 1,226,712,604 as shown in the financial statements were also provided.</p>	Resolved	Resolved
2	<p>Land Compensation</p> <p>Annex 3A on the analysis of pending bills reflects the payment of Kshs 56,976,393 as land compensation during the year. However, the opening balances of land compensation was Kshs 488,392,959 while the closing balance as at 30 June, 2021 was recorded at Kshs 388,492,283 implying that the correct payment</p>	<p>We reconciled land compensation payments and amended the outstanding land compensation bills at the end of FY 2020/21 to indicate the correct amount of Kshs 388,492,283 as shown in the final Financial Statements' Annex 3A. The variance to Kshs</p>	Resolved	Resolved

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	<p>for the year was Kshs 99,900,676, computed from the difference between the two figures, and not Kshs 56,976,393 disclosed in the financial statements, thereby leading to an unexplained and unreconciled difference of Kshs 42,924,283.</p> <p>Further, the land compensation schedules from National Land Commission were not supported with documents such as official searches and land valuation reports to indicate ownership and value for compensation.</p> <p>Consequently, the accuracy and completeness of expenditure on land compensation of Kshs 56,976,393 could not be ascertained.</p>	<p>42,924,283 represent land parcels which had been degazetted.</p> <p>We wish to clarify that land searches and valuations are mandates of the National Land Commission (NLC) hence documents that relates to searches and valuations are in custody of NLC.</p>		
<p>3</p>	<p>Omitted Deficit for the Year Balance</p> <p>The statement of receipts and payments reflects a deficit balance of Kshs 9,179,514 as at 30 June, 2021. However, the statement of financial assets shows nil balance for the surplus / (deficit) for the year.</p> <p>Consequently, statement of financial assets is misstated by Kshs 9,179,514 and does not reflect a true and fair position.</p>	<p>The Project Financial Statements reporting template provided by the National Treasury provides for declaration of retention amount as surpluses (or deficit in case of a retention release) in the statement of receipts and payments. The reporting template also required the retention amounts to be reported as Financial Liabilities (Payables – deposits and retentions) in the statement of financial position.</p>	<p>Resolved</p>	<p>Resolved</p>

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		<p>It is therefore not possible to report retention amounts withheld in the financial year as both surplus for the year as well as financial liabilities (Payables – deposits and retentions) in the same statement of financial position as suggested by the auditor because this would lead to an imbalance in the statement of financial position.</p>		
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Eng. Kungu Ndungu
Director General
 30 AUG 2022

Date


Eng. Charles Obuon
Director-Development
 30 AUG 2022

Date

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14. Annexes

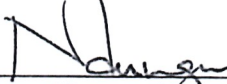
Annex 1 - Variance Explanations - Comparative Budget and Actual Amounts for FY 2021-2022

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	350,000,000	2,328,376	347,671,624	1%	Inadequate Exchequer funds release
External financing	2,750,000,000	1,892,948,682	857,051,318	69%	Prolonged execution of contract sum addendums
TOTAL RECEIPTS	3,100,000,000	1,895,277,058	1,204,722,942	61%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	3,100,000,000	609,100	1,181,787,259	62%	Inadequate Exchequer funds release & prolonged execution of contract sum addendums
Acquisition of non-financial assets		1,917,603,641			
TOTAL PAYMENTS	3,100,000,000	1,918,212,741	1,181,787,259	62%	

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Annex 2 – Reconciliation of Inter-Entity Transfers

Project Name:		Sirari Corridor Accessibility & Road Safety Improvement Project: Isebania-Kisii-Ahero (A1) Road Rehabilitation		
Break down of Transfers from the State Department of Infrastructure				
a. Government Counterpart Funding				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
	-			
	Quarter 1	8-Jul-21	274,500	FY 2021/22
	Quarter 2	-	-	-
	Quarter 3	-	-	-
	Quarter 4	10-May-22	2,053,876	FY 2021/22
	Total		2,328,376	


Eng. Kungu Ndungu
Director General

30 AUG 2022

Date


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

30 AUG 2022

Date

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Annex 3 - Analysis of Pending Bills

Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2022	2021	
	a	b	c	d=a-c		
Sub-Total						
Consultancy Services						
Egis Kenya	9,835,675	10.09.2021	8,627,785	1,207,890	-	FN 43
Egis Kenya	10,203,831	10.09.2021	8,950,729	1,253,102	-	FN 44
Egis Kenya	10,471,014	10.09.2021	9,185,100	1,285,914	-	FN 45
Egis Kenya	9,306,784	01.09.2021	8,054,493	1,252,291	-	FN 46
Egis Kenya	10,050,180	01.09.2021	8,663,948	1,386,232	-	FN 47
Egis Kenya	13,064,351	31.05.2022	11,262,372	1,801,980	-	FN 48
Egis Kenya	12,681,428	31.05.2022	10,932,266	1,749,162	-	FN 49
Egis Kenya	11,497,487	31.05.2022	9,911,627	1,585,860	-	FN 50
Egis Kenya	10,909,551	31.05.2022	9,404,785	1,504,766	-	FN 51
Egis Kenya	11,109,955	31.05.2022	9,577,547	1,532,408	-	FN 52
Egis Kenya	10,546,527	31.05.2022	9,091,834	1,454,693	-	FN 53
Egis Kenya	10,489,261	31.05.2022	9,042,466	1,446,795	-	FN 54
Egis Kenya	11,235,534	31.05.2022	9,685,805	1,549,729	-	FN 55
Egis Kenya	9,447,572	31.05.2022	8,144,459	1,303,113	-	FN 56
Egis Kenya	9,541,262	31.05.2022	8,225,226	1,316,036	-	FN 57
Abdul Mullick Associates	12,631,451	03.12.2021	11,080,220	1,551,231	-	FN 38
Abdul Mullick Associates	10,057,356	03.12.2021	8,822,242	1,235,114	-	FN 39
Abdul Mullick Associates	9,223,512	03.12.2021	8,090,800	1,132,712	-	FN 40
Abdul Mullick Associates	9,172,212	03.12.2021	8,045,800	1,126,412	-	FN 41
Abdul Mullick Associates	9,178,859	03.12.2021	8,051,630	1,127,229	-	FN 42
Abdul Mullick Associates	6,878,103	03.12.2021	6,033,423	844,680	-	FN 43
Intercontinental Consultants	6,551,034	26.05.2021	5,647,443	903,591	903,591	FN 4
Intercontinental Consultants	6,551,034	23.12.2021	5,647,443	903,591	-	FN 5
Timcon Associates	15,083,777	15.03.2017	14,865,024	218,753	218,753	FN 1

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Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2022	2021	
Timcon Associates	10,119,598	02.10.2018	9,973,763	145,835	145,835	FN 2
Timcon Associates	7,299,564	12.04.2021	6,292,728	1,006,836	1,006,836	FN 6
Timcon Associates	982,132	26.05.2021	-	982,132	982,132	FN 7
Timcon Associates	11,695,816	17.06.2022	10,082,600	1,613,216	-	FN 8
AEA Ltd	3,178,313	30.06.2022	-	3,178,313	-	Inv 1
Sub-total	278,993,174		241,393,558	37,599,616	3,257,147	
Civil Works						
The Third Engineering	47,713,508	16.02.2019	-	47,713,508	47,713,508	IPC 12
The Third Engineering	244,802,212	18.12.2020	194,867,104	49,935,108	49,935,108	IPC 34
The Third Engineering	198,802,256	02.02.2021	-	198,802,256	198,802,256	IPC 35
The Third Engineering	225,938,986	01.03.2021	121,987,233	103,951,753	103,951,753	IPC 36
The Third Engineering	270,645,504	01.03.2021	143,605,437	127,040,067	127,040,067	IPC 37
The Third Engineering	242,762,777	18.03.2021	175,430,469	67,332,308	67,332,308	IPC 38
The Third Engineering	262,426,815	26.05.2021	202,023,401	60,403,414	60,403,414	IPC 39
The Third Engineering	241,177,898	01.06.2021	185,665,399	55,512,499	55,512,499	IPC 40
The Third Engineering	206,621,303	11.06.2021	159,062,779	47,558,524	47,558,524	IPC 43
The Third Engineering	228,560,586	15.11.2021	175,952,244	52,608,342	-	IPC 44
The Third Engineering	66,478,652	05.05.2022	35,608,989	30,869,663	-	IPC 47
The Third Engineering	79,380,825	01.06.2022	-	79,380,825	-	IPC 48
China Henan	110,468,212	30.07.2018	107,863,479	2,604,733	2,604,733	IPC 4
China Henan	178,880,285	29.10.2018	135,244,990	43,635,295	43,635,295	IPC 6
China Henan	205,111,062	14.11.2018	202,033,817	3,077,245	3,077,245	IPC 7
China Henan	310,132,252	21.01.2019	305,710,455	4,421,797	4,421,797	IPC 8
China Henan	165,427,507	01.04.2019	154,781,058	10,646,449	10,646,449	IPC 9
China Henan	393,371,899	30.06.2019	388,610,007	4,761,892	4,761,892	IPC 10
China Henan	280,522,418	30.06.2019	272,070,991	8,451,427	8,451,427	IPC 11

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Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2022	2021	
China Henan	116,762,782	30.06.2019	111,364,562	5,398,220	5,398,220	IPC 12
China Henan	177,798,040	15.10.2019	158,021,521	19,776,519	19,776,519	IPC 13
China Henan	268,750,996	19.01.2020	232,211,176	36,539,820	36,539,820	IPC 15
China Henan	349,143,051	23.06.2020	321,107,805	28,035,246	28,035,246	IPC 19
China Henan	395,089,414	03.09.2020	321,846,456	73,242,958	73,242,958	IPC 20
China Henan	354,849,016	12.10.2020	264,637,369	90,211,647	90,211,647	IPC 21
China Henan	322,091,720	24.11.2020	262,381,312	59,710,408	59,710,408	IPC 22
China Henan	370,591,501	11.01.2021	301,890,046	68,701,455	68,701,455	IPC 23
China Henan	387,528,003	20.04.2021	310,243,928	77,284,075	77,284,075	IPC 24
China Henan	386,642,775	01.06.2021	309,535,238	77,107,537	77,107,537	IPC 25
China Henan	168,839,347	26.07.2021	121,592,739	47,246,608	-	IPC 26
China Henan	321,053,215	08.09.2021	239,888,147	81,165,068	-	IPC 27
China Henan	221,062,673	08.09.2021	159,202,321	61,860,352	-	IPC 28
China Henan	242,684,279	21.12.2021	174,773,515	67,910,764	-	IPC 29
China Henan	163,735,230	27.01.2022	117,916,916	45,818,314	-	IPC 30
China Henan	68,080,610	06.04.2022	-	68,080,610	-	IPC 31i
China Henan	288,662,104	28.03.2022	207,885,285	80,776,819	-	IPC 32
China Henan	166,541,699	08.04.2022	123,816,094	42,725,605	-	IPC 33
KPLC	18,067,841	12.02.2021	-	18,067,841	18,067,841	INV 20678
Sub-total	8,747,199,253		6,698,832,282	2,048,366,971	1,389,924,000	
Land Compensation	-		-	537,676,282	388,492,283	
Grand-Total	9,046,056,886		9,960,090,299	2,623,642,869	1,781,673,430	

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Annex 4 – Summary of Fixed Asset Register

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KSh)	(KSh)	(KSh)	(KSh)
	2021/22	2021/22	2021/22	2021/22
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	18,135,361,997	1,917,603,641	-	20,052,965,638
Total	18,135,361,997	1,917,603,641	-	20,052,965,638

