

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

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THE AUDITOR-GENERAL

TABLED
BY:

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C. Kalawa

ON

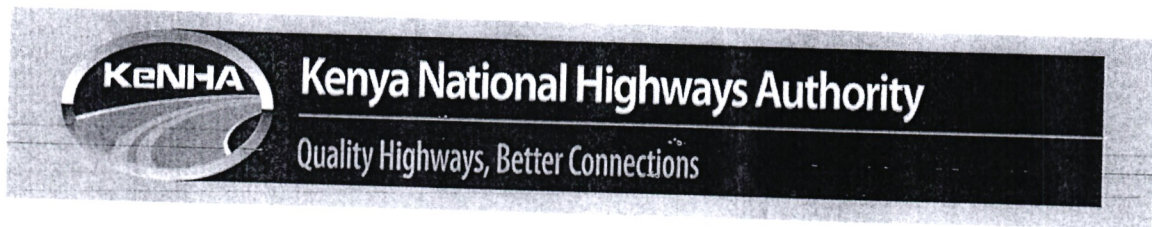
**BAGAMOYO-HOROHORO-LUNGA LUNGA-
MALINDI ROAD PROJECT (PHASE I)
ID NO: P-ZI-DBO-129**

**FOR THE YEAR ENDED
30 JUNE, 2021**

KENYA NATIONAL HIGHWAYS AUTHORITY



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



Project Name: Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road
(Project Phase 1)

Implementing Entity: Kenya National Highways Authority

PROJECT GRANT/CREDIT NUMBER: 2000200004662 & 2100150042250

PROJECT ID: P-ZI-DBO-129

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2021

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

*Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project
Reports and Financial Statements
For the financial year ended June 30, 2021*

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name

The project's official name is Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road Project Phase (I).

Objective

The key objective of the project is to boost regional integration by reducing transit times, facilitating trade and cross-border movement of people, opening up access to touristic attractions, linking the ports of Dar es-Salaam, Tanga and Mombasa, and stimulating the blue economy.

Address

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

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.2 Project Information

Project Start Date:	The project start date is 10 th June, 2020
Project End Date:	The project end date is 31 st December, 2025
Project Manager:	The project manager is Eng. Charles Obuon
Project Sponsor:	The project sponsor is: African Development Bank & African Development Fund

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport and Infrastructure, Housing, Urban Development & Public Works
Project number	P-Z1-DBO-129
Strategic goals of the project	The strategic goals of the project are as follows: (i) East African Transport Corridors Networks (ii) Connecting Kenya and Tanzania
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Realisation of the regional road improvements, implementation of effective transit operations on the corridor and an efficient One Stop Border Post operation at Lunga Lunga/Horohoro (ii) Scaling up the quantity and quality of road infrastructure, which carry very significant proportion of freight transport, about 90%, has gained prominence in both countries' development plans.
Other important background information of the project	The project will enhance regional integration, trade, tourism, blue economy and socio-economic development in the coastal corridor of the two Countries and by extension to the EAC Region and Horn of Africa.

*Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
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Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Contribution to increased regional and international trade between Kenya and Tanzania using the Lunga Lunga/Horohoro border (ii) Cost of travel reduced
Project duration	The project started on 10 th June 2020 and is expected to run until 31 st December 2025

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.4 Bankers

The following are the bankers for the current year:

- (i) Co-operative Bank of Kenya
 Upper Hill Branch
 P.O Box
 Nairobi
 Account No: 01141160979900

1.5 Auditors

Auditor General
 Office of the Auditor General
 P.O Box 30084-0100
 Nairobi

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Key qualification	Responsibilities
Eng. David A. Muchilwa	Director-Development	Qualified	Project Implementing Team Leader
Eng. Charles O. Obuon	Deputy Director-Special Projects(ADB & KfW)	Qualified	Project Engineer
Mr. Walter B. Nyatwang'a	Deputy Director-Environment & Social Interests	Qualified	Project Safeguards Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Qualified	Project Legal Specialist
Mr. Isaac W. Kamotho	Assistant Director-Finance & Accounts	Qualified	Project Financial Specialist
Ms. Rose Oloo	Assistant Director-Social Interests	Qualified	Project Social Development Specialist
Mr. Richard Kilel	Assistant Director-Supply Chain Management	Qualified	Project Procurement Specialist

Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
Reports and Financial Statements
For the financial year ended June 30, 2021

Funding summary

The Project has an approved budget of EURO. 164,196,810 equivalent to Kshs 21,054,382,240 as highlighted in the table below:

A. Sources of Funds

Source of funds	Donor Commitment-		Amount received to date – (30th June 2021)		Undrawn Balance to date (30th June 2021)	
	EURO	Kshs	EURO	Kshs	EURO	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i)Loan						
Africab Development Bank(ADB)	108,000,000	13,848,462,000	-	-	108,000,000	13,848,462,000
Africab Development Bank(ADF)	56,196,810	7,205,920,240	154,021	19,749,555	56,042,789	7,186,170,685
(ii)Counterpart funds						
Government of Kenya	-	-	-	-	-	-
Total	164,196,810	21,054,382,240	154,021	19,749,555	164,042,789	21,034,632,685

B. Application of Funds

Application of funds	Amount received to date - (30th June 2021)		Cumulative Amount paid to date - (30th June 2021)		Unutilised balance to date - (30th June 2021)	
	EURO	Kshs	EURO	Kshs	EURO	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i)Loan						
Africab Development Bank(ADB)	-	-	-	-	-	-
Africab Development Bank(ADF)	182,811	19,749,555	182,811	19,749,555	-	-
(ii)Counterpart funds						
Government of Kenya	-	-	-	-	-	-
Total	182,811	19,749,555	182,811	19,749,555	-	-

*Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project
Reports and Financial Statements
For the financial year ended June 30, 2021*

1.7 Summary of Overall Project Performance:

Payments Item	FY 2020/2021		
	Budget	Actual	%
Acquisition of non-financial assets	100,000,000	-	20%
Purchase Of Goods & Services		19,749,555	
Total	100,000,000	19,749,555	20%

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

As at 30th June, 2021 the project was still under procurement process

(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.

1.8 Summary of Project Compliance:

- There is 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 PREDETRMINED OBJECTIVES

Introduction

- The key objective of the project is to improve the trading environment in the Region through the provision of improved transport infrastructure and addressing soft barriers to the free movement of goods, services and people along the corridor.
- To fully exploit the benefits of regional integration, complementary 'soft' components aimed at tackling key constraints to trade, and improving transit time and overall corridor efficiency have been integrated in the Project. In particular, the Project has identified the need to operationalize coordinated border management (CBM) system at the Lunga Lunga/Horohoro border post as a priority.

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
Contribution to increased regional and international trade between Kenya and Tanzania using the Lunga Lunga/Horohoro border	Total import export trade using the Lunga Lunga/Horohoro border to increase by at least 20% (USD 169) by 2025	Volume of Import Export trade handled at Lunga-Lunga/Horohoro border	205.3 tons (USD 141 million). average of the last five years
To enhance social economic development of the people along the project road	Improved air quality along the project road hence improved health among communities along the project road.	Reduced CO ₂ concentration along the project road as a result of reduced traffic congestion	Through technical and vocational trainings undertaken during the Financial Year, local jobs have been created.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road Project Phase (I) exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

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

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

2. Environmental performance

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

Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

3. Employee welfare

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

4. Market place practices

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

5. Community Engagements

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

To achieve inclusive growth among the community around the project area, the project has a component of training unemployed youth around the project area. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General, KeNHA and the Project Implementation Team Leader for Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2021. 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.

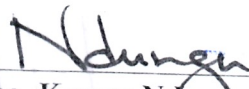
The Director General, KeNHA and the Project Implementation Team Leader for Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies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

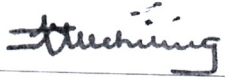
The Director General, KeNHA and the Project Implementation Team Leader for Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2021, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) 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 Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) on 17 AUG 2021 2021 and signed by them.

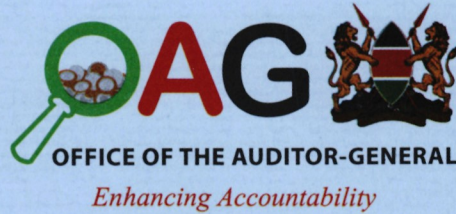

Eng. Kungu Ndungu
Director General


Eng. David A. Muchilwa
Director-Development


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

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: 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 BAGAMOYO-HOROHORO-LUNGA LUNGA-MALINDI ROAD PROJECT (PHASE I) ID NO: P-ZI-DBO-129 FOR THE YEAR ENDED 30 JUNE, 2021 – 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, gazetted 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 control, 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 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 Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road Project (Phase I) set out on pages 1 to 15, which comprise the

Report of the Auditor-General on Bagamoyo HoroHoro-Lunga Lunga-Malindi Road Project (Phase I) ID NO: P-ZI-DBO-129 for the year ended 30 June, 2021 – Kenya National Highways Authority

statement of financial assets as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road Project (Phase I) as at 30 June, 2021, 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 Agreements Credit No.2000200004662 and No. 2100150042250 dated 10 June, 2020 between African Development Bank and African Development Fund and the Republic of Kenya respectively and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Purchase of Goods and Services

Note 11.3 to the financial statements reflects expenditure of Kshs.19,749,555 incurred under training. The payments were made to various institutions for bursaries to students. Management did not however, provide supporting documents such as application forms and committee minutes to show how the beneficiaries of the bursaries were identified.

In the circumstances, the propriety of Kshs.19,749,555 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Bagamoyo-HoroHoro-Lunga Lunga-Malindi Road Project (Phase I) Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing 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 our 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

Lack of Project Detailed Budget

During the year under review, the Project had an approved budget of Kshs.100,000,000. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

Consequently, it was not possible to conduct budget performance analysis on budgeted and actual amounts.

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 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 African Development Bank and African Development Fund, 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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Project 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 the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi


16 December, 2021


6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021.

	Notes	2020/21		2019/20		Total	Cumulative to date
		Receipts & Payments Controlled by the Entity Kshs	Receipts & Payments made by the Third Party Kshs	Receipts & Payments Controlled by the Entity Kshs	Receipts & Payments made by the Third Party Kshs		
RECEIPTS							
Transfer from Government entities	1	-	-	-	-	-	-
Transfer from External Development Partner	2	-	19,749,555	-	-	-	-
Miscellaneous Receipts		-	-	-	-	-	19,749,555
Total receipts		-	19,749,555	-	-	-	19,749,555
PAYMENTS							
Purchase of goods and services	3	-	19,749,555	-	-	-	19,749,555
Acquisition of non-financial assets	4	-	-	-	-	-	-
Miscellaneous Payments		-	-	-	-	-	-
TOTAL PAYMENTS		-	19,749,555	-	-	-	19,749,555
SURPLUS/DEFICIT FOR THE YEAR		-	-	-	-	-	-

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


 Eng. Kungu Ndirangu
 Director General


 Eng. David A. Muchilwa
 Director -Development


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

17 AUG 2021

Date

17 AUG 2021

Date

17 AUG 2021

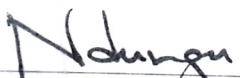
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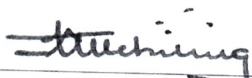
*Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project
Reports and Financial Statements
For the financial year ended June 30, 2021*


7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021

	Note	2020/21	2019/20
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances		-	-
TOTAL FINANCIAL ASSETS		-	-
REPRESENTED BY:			
Cash and cash equivalents b/fwd		-	-
Surplus/Deficit for the year		-	-
NET FINANCIAL POSITION		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 17 AUG 2021 2021 and signed by:


Eng. Kungu Ndungu
Director General


Eng. David A. Muchilwa
Director -Development

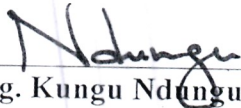

CPA Chanje Kera
Deputy Director (F&A)
ICPAK No.8279

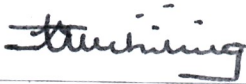
Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
Reports and Financial Statements
For the financial year ended June 30, 2021


8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2021

Receipts for operating income		2020/21	2019/20
Transfer from Government entities		-	-
Payments for operating expenses			
Purchase of goods and services	3	(19,749,555)	-
Miscellaneous Payments		-	-
Miscellaneous Receipts		-	-
Net cash flow from operating activities		(19,749,555)	-
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets		-	-
Net cash flows from Investing Activities		-	-
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	2	19,749,555	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT			-
Cash and cash equivalent at BEGINNING of the year		-	-
Cash and cash equivalent at END of the year		-	-

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 17 AUG 2021 2021 and signed by:


 Eng. Kungu Ndungu
 Director General


 Eng. David A. Muchilwa
 Director -Development

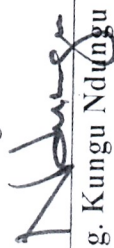

 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK No.8279

Bagamoyo-HoroLunga-Lunga-Malindi Project
Reports and Financial Statements
For the financial year ended June 30, 2021

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS


Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Utilisation
	a	b	c=a+b	d	e=d-c	f=d/c %
Receipts						
Transfer from Government entities	150,000,000	(150,000,000)	-	-	-	0%
Transfer from External Development Partner	-	100,000,000	100,000,000	19,749,555	80,250,445	20%
Total Receipts	150,000,000	(50,000,000)	100,000,000	19,749,555	80,250,445	20%
Payments						
Purchase of goods and services				19,749,555		
Acquisition of non-financial assets	150,000,000	(50,000,000)	100,000,000	-	80,250,445	20%
Total Payments	150,000,000	(50,000,000)	100,000,000	19,749,555	80,250,445	20%

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


Eng. Kungu Ndingu
 Director General


17 AUG 2021

Date


Eng. David A. Mtenhilwa
 Director -Development

17 AUG 2021

Date


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

17 AUG 2021

Date

10. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Basis of Preparation

10.2 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.

10.3 Reporting entity

The financial statements are for the Bagamoyo-HoroHoro-Lunga Lunga-Malindi project (phase I) under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.3.1 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.

10.4 Significant Accounting Policies

a) Recognition of receipts

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

i) Transfers from the Exchequer

Transfer from Exchequer is 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.

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 the time associated cash is received.

b) 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.

c) Proceeds from borrowing

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

d) 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 of employees

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

ii) Use of goods and services

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

Significant Accounting Policies (Continued)

iii) Interest on borrowing

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

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

Significant Accounting Policies (Continued)

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.

h) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized 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.

i) 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. There were no contingent liabilities in this year of this financial statement is a register of the contingent liabilities in the year.

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

j) Contingent Assets

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

Significant Accounting Policies (Continued)

k) 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.

l) 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.

m) 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 19.7M** being loan disbursements were received in form of direct payments from third parties.

Significant Accounting Policies (Continued)

n) 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.

Significant Accounting Policies (Continued)

Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
Reports and Financial Statements
For the financial year ended June 30, 2021

o) 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.

p) 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, 2021.

q) Errors

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

11. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2020/21	2019/20	Cumulative to-date
	Kshs	Kshs	
Quarter 1	-	-	-
Quarter 2	-	-	-
Quarter 3	-	-	-
Quarter 4	-	-	-

2. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2021 we received funding from development partners in form of loans negotiated by the National Treasury donors 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	Total amount in Kshs
	EURO	Kshs	Kshs	FY 2020/21	FY 2019/20
				Kshs	Kshs
ADB					
ADF			19,749,555	19,749,555	-
Total	-	-	19,749,555	19,749,555	-

3. PURCHASE OF GOODS AND SERVICES

Description	2020/21			2019/20	Cummulative to - date
	Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Training Payments	-	19,749,555	19,749,555		19,749,555
Total	-	19,749,555	19,749,555	-	19,749,555

*Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project
Reports and Financial Statements
For the financial year ended June 30, 2021*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. ACQUISITION OF NON-FINANCIAL ASSETS

Description	2020/21			2019/20	Cumulative to-date
	Payments made by the Entity	Payments Made by Third Party	Total Payments	Total Payments	
	Kshs	Kshs			Kshs
Research, studies, project preparation, design & supervision	-	-	-	-	-
Rehabilitation of Roads	-	-	-	-	-
Acquisition of land	-	-	-	-	-
Total	-	-	-	-	-

5. ACCOUNTS PAYABLES

Description	2020-2021	2019-2020
	Kshs	Kshs
Retention - Payments made by third party	-	-
Retention - Payments controlled by the entity	-	-
Total	-	-

Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
Reports and Financial Statements
For the financial year ended June 30, 2021

12. OTHER IMPORTANT DISCLOSURES

1. PENDING ACCOUNTS PAYABLE (Annex 3)

Description	Balance b/f	Additions for the period	Paid during the year	Balance c/f
	FY 2020/2021			FY 2020/2021
	Kshs	Kshs	Kshs	Kshs
Construction of Civil Works	-	-	-	-
Land Compensation	-	-	-	-
Supply of services	-	-	-	-
Total	-	-	-	-

2. EXTERNAL ASSISTANCE

Description	FY 2020/2021	FY 2019/2020
	Kshs	Kshs
External assistance received as loans	19,749,555	-
Total	19,749,555	-

a. External assistance relating loans and grants

Description	FY 2020/2021	FY 2019/2020
	Kshs	Kshs
External assistance received as loans	19,749,555	-
Total	19,749,555	-

b. Undrawn external assistance

Description	Purpose for which the undrawn external assistance may be used	FY 2020/2021	FY 2019/2020
		Kshs	Kshs
Undrawn external assistance - loans		21,034,632,685	-
Total		21,034,632,685	-

c. Classes of providers of external assistance

Description	FY 2020/2021	FY 2019/2020
	Kshs	Kshs
Multilateral donors	19,749,555	-
Total	19,749,555	-

Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
Reports and Financial Statements
For the financial year ended June 30, 2021

d. Purpose and use of external assistance

Payments Made by Third Parties	FY 2020/2021	FY 2019/2020
	Kshs	Kshs
Purchase of goods and services	19,749,555	-
TOTAL	19,749,555	-

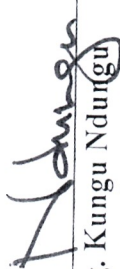
e. External Assistance paid by Third Parties on behalf of the Entity by Source

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
Multilateral donors	19,749,555	-
Total	19,749,555	-

13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS


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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	None	None		


Eng. Kungu Ndungu
Director General

17 AUG 2021

Date



Eng. David A. Muchilwa
Director -Development

17 AUG 2021

Date

ANNEXES

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS


	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					
Transfers from Government Entity	-	-	-	-	
Transfer from External Development Partner	100,000,000	19,749,555	80,250,445	20%	Project under preparation stage
Miscellaneous receipts	-	-	-		
Total receipts	100,000,000	19,749,555	80,250,445		
PAYMENTS DURING THE YEAR/PERIOD					
Miscellaneous Payments	-	-	-		
Purchase of Goods and Services					
Acquisition of non-financial assets	100,000,000	19,749,555	80,250,445	20%	Project under preparation stage
Total payments	100,000,000	19,749,555	80,250,445		

Bagamoyo-HoroLunga Lungu-Matindi Project (Phase I)
Reports and Financial Statements
For the financial year ended June 30, 2021

ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

BREAK DOWN OF TRANSFERS FROM THE MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT AND PUBLIC WORKS				
Government Counterpart Funding		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY</u>
Counterpart funds Quarter 1				
Counterpart funds Quarter 2		-		
Counterpart funds Quarter 3		-		
Counterpart funds Quarter 4		-		
Total			-	

The above amounts have been communicated to and reconciled with the parent Ministry/ state department


Eng. Kungu Ndungu
 Director General

17 AUG 2021

Date



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

Date

*Bagamoyo-Horo-Horo-Lunga Lunga-Malindi Project
Reports and Financial Statements
For the financial year ended June 30, 2021*

ANNEX 3 – ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2020/21	Outstanding Balance 2019/20	Comments
	a	b	c	d=a-c		
Construction of buildings						
1.						
2.						
Sub-Total						
Construction of civil works	-			-		
3.						
4.						
Sub-Total	-			-		
Supply of goods						
5.						
6.						
Sub-Total	-			-		
Supply of services						
7.						
8.						
Sub-Total	-			-		
Grand Total	-			-		

*Bagamoyo-HoroHoro-Lunga Lunga-Malindi Project (Phase I)
 Reports and Financial Statements
 For the financial year ended June 30, 2021*

ANNEX 4 – SUMMARY OF FIXED ASSETS

Asset class	Opening Cost (KShs) 2020/21	Purchases/Additions in the Year (KShs) 2020/21	Disposals in the Year (KShs) 2020/21	Closing Cost (KShs) (KShs) 2020/21 (d)= (a)+ (b)-(c)
	(a)	(b)	(c)	(d)
Construction of Roads	-	-	-	-
Land Acquisitions	-	-	-	-
Total	-	-	-	-