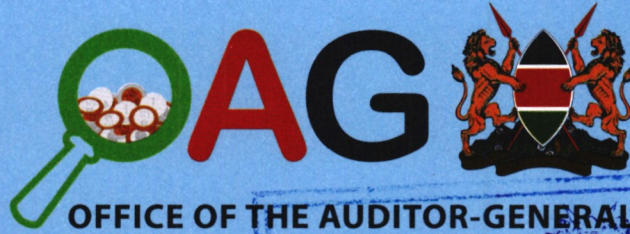


REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY

REPORT

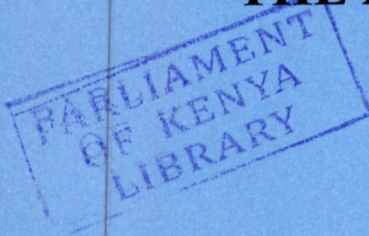
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TABLED BY:	HON. OWEN BATA, CBS, MP DEPUTY LEADER, MAJORITY PARTY
CLERK-AT THE TABLE:	PERPETUAL MDIGA

THE AUDITOR-GENERAL



ON

**NAIROBI-THIKA HIGHWAY
IMPROVEMENT PROJECT LOT I AND II
(CREDIT NO.2100150015544)**

**FOR THE YEAR ENDED
30 JUNE, 2023**

**KENYA NATIONAL
HIGHWAYS AUTHORITY**



MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

NAIROBI – THIKA HIGHWAY IMPROVEMENT PROJECT LOT I & II

KENYA NATIONAL HIGHWAYS AUTHORITY

CREDIT NUMBER: 2100150015544

PROJECT NUMBER: P-KE-DB0-018

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2022*

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1. Acronyms and Glossary of Terms

AfDB	African Development Bank
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
Comparative FY	Financial year preceding the current financial year.
FY	Financial Year
GoK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
Kshs.	Kenya Shillings
MRT	Ministry of Roads and Transport
TNT	National Treasury
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RMB	Renminbi
SDG	Sustainable Development Goals
UA	Unit of Account

2. Project Information and Overall Performance

2.1. Name and registered office

Name: Nairobi – Thika Road Improvement Project Lot I & II

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

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

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

Telephone: +254-20-495000
E-mail: dg@kenha.co.ke
Website: www.kenha.co.ke

2.2. Project Information

Project Start Date:	26 th November, 2007
Project End Date:	22 nd July, 2015
Project Manager:	Eng. Henry Gakuru – Ag. Director Development
Project Sponsor:	Government of Kenya African Development Bank (AfDB)

2.3. Project Overview

Line Ministry/State Department of the Project	The Ministry of Roads and Transport
Project Number	P-KE-DB0-018

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023*

Project Information and Overall Performance (continued)

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

2.4. Bankers

Co-operative Bank of Kenya
KUSSCO Branch
Nairobi

National Bank of Kenya
Hill Branch
Nairobi

2.5. Independent Auditor

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

2.6. Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
Eng. H. Gakuru	Ag. Director Development	Registered Engineer	Overall management of project activities
Eng. J. Mwatu	Project Implementation Team Leader	Registered Consulting Engineer	<ul style="list-style-type: none"> • Plan, direct, control and coordinate activities of the project • Management of project activities
Eng. C. Makau	Deputy Director	Registered Engineer	Project activities coordinator

Project Information and Overall Performance (continued)

2.7. Funding summary

The project was for a duration of eight years from 2007 to 2015 with an approved budget of UA 117,850,000,000 equivalent to Kshs 11,605,814,729 as highlighted in the table below:

A. Source of funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2023)		Undrawn balance to date (30.06.2023)	
	UA	Kshs	UA	Kshs	UA	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
African Development Bank (AfDB)	117,850,000,000	11,605,814,729	117,837,812,148	11,605,814,729	-	-
(ii) Counterpart funds						
Government of Kenya	-	22,371,688,394	-	22,371,688,394	-	-
Total	117,850,000,000	33,977,503,123	117,837,812,148	33,977,503,123	-	-

B. Application of funds

Application of funds	Amount received to date – (30.06.2023)		Amount paid to date – (30.06.2023)		Undrawn balance to date (30.06.2023)	
	UA	Kshs	UA	Kshs	UA	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
African Development Bank (AfDB)	117,850,000,000	11,605,814,729	117,837,812,148	11,605,814,729	-	-
(ii) Counterpart funds						
Government of Kenya	-	22,371,688,394	-	22,360,354,611	-	11,333,783
Total	117,850,000,000	33,977,503,123	117,837,812,148	33,966,169,340	-	11,333,783

Project Information and Overall Performance (continued)

2.8. Summary of Overall Project Performance:

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

2.9. Summary of Project Compliance:

There were no instances of reported non-compliance with applicable laws and regulations, and essential external financing agreements/covenants.

3. Statement of Performance against Project’s Predetermined Objectives

The key development objectives of the project are to:

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

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (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:

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

4. Environmental and Sustainability Reporting

Nairobi -Thika Highway Improvement Project Lot I & II 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 their prosperity. Five out of the seventeen goals are pertinent to management of projects being undertaken by the Authority. These are being addressed through the following initiatives;

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

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

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Nairobi – Thika Highway Improvement Project Lot I & II 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, 2023**. 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.

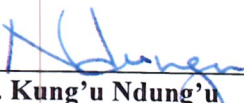
The Director General, KeNHA and the Project Implementation Team Leader for Nairobi – Thika Highway Improvement Project Lot I & II accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies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

The Director General, KeNHA and the Project Implementation Team Leader for Nairobi – Thika Highway Improvement Project Lot I & II 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, 2023**, and of the Project's financial position as at that date. Director General, KeNHA and the Project Implementation Team Leader for Nairobi – Thika Highway Improvement Project Lot I & II 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.

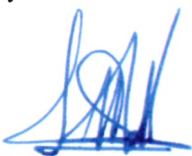
The Director General, KeNHA and the Project Implementation Team Leader for Nairobi – Thika Highway Improvement Project Lot I & II confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the 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

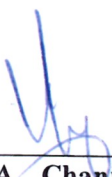
The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Nairobi – Thika Highway Improvement Project Lot I & II on 26 SEP 2023 and signed by them.



Eng. Kung'u Ndung'u
Director General



Eng. Henry Gakuru
Ag. Director Development



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

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.

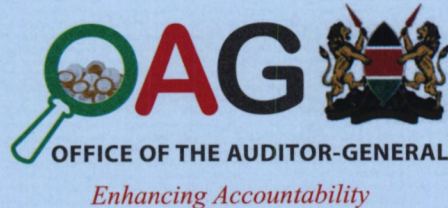
5. Community Engagements

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.

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

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT LOT I AND II (CREDIT NO.2100150015544) FOR THE YEAR ENDED 30 JUNE, 2023 - 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 the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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 Nairobi-Thika Highway Improvement Project Lot I and II set out on pages 1 to 17, which comprise of the

Report of the Auditor-General on Nairobi-Thika Highway Improvement Project Lot I and II (Credit No.2100150015544) for the year ended 30 June, 2023 - Kenya National Highways Authority

statement of financial assets and liabilities as at 30 June, 2023, and the statement of receipts and payments, statement of cashflow 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 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 Nairobi-Thika Highway Improvement Project Lot I and II as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreement No.2100150015544 dated 26 November, 2007 between African Development Fund (ADF) and the Republic of Kenya.

Basis for Qualified Opinion

1. Unsupported Cash and Cash Equivalents Balance

As was reported in the previous year, the statement of financial assets and liabilities reflects cash and cash equivalent balance of Kshs.11,333,783 which, as disclosed in Note 5A to the financial statements includes a balance of Kshs.4,000,000 and Kshs.7,333,783 held in Central Bank of Kenya and National Bank of Kenya - Retention Account, respectively. Although Management has explained that the amount of Kshs.4,000,000 was transferred from the Ministry of Transport and Infrastructure to the Authority in year 2010, confirmation certificate was not provided for audit review.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.11,333,783 could not be confirmed.

2. Unsupported Pending Bills

Note 9 to the financial statements reflects a pending bills balance of Kshs.436,511,076 which comprise of Kshs.428,623,554 and Kshs.7,887,522 in respect a brought forward balance on acquisition of land and construction of police houses in Kasarani police station, respectively. However, as previously reported, the detailed analysis indicating the names of the payees and reasons for non-payment was not provided of the pending bills on the acquisition of land.

In the circumstances, the accuracy and completeness of the brought forward balance of Kshs.428,623,554 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nairobi-Thika Highway Improvement Project Lot I and II 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.

Emphasis of Matter

Project Closure Report

As disclosed in the Project Information and Overall Performance section of the Annual report and financial statements, the Project came to an end on 22 July, 2015. However, as previously reported, the project closure report was not provided for audit more than eight (8) years after the closure period.

In absence of any extension of the project lifespan, Management should therefore commence the process of closing the project.

Key Audit Matters

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

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 overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund (ADF), except for the matters described under Basis for Qualified Opinion section of my report, 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 overall governance.

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

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes

and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

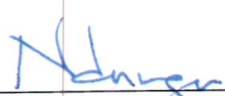
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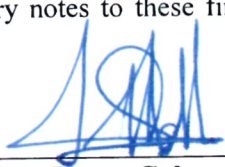
Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023

7. Statement of Receipts and Payments for the year ended 30th June 2023.

	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Receipts and payment controlled by the entity	Payments made by third parties	Total Payments	Cumulative to-date
		2022-2023			2021-2022			
		KShs	KShs	KSh	KShs	KShs	KSh	KShs
Receipts								
Transfer from Government entities	1	-	-	-	-	-	-	22,371,688,394
Loan from external development partners	2	-	-	-	-	-	-	11,605,814,729
Total Receipts		-	-	-	-	-	-	33,977,503,123
Payments								
Purchase of goods and services	3	-	-	-	-	-	-	5,878,329
Acquisition of non-financial assets	4	-	-	-	-	-	-	33,960,291,011
Total Payments		-	-	-	-	-	-	33,966,169,340
Surplus		-	-	-	-	-	-	11,333,783

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


Eng. Kung'u Ndung'u
 Director General


Eng. Henry Gakuru
 Ag. Director Development

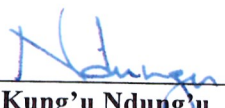

CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023*


8. Statement of Financial Assets as at 30th June 2023

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
Financial Assets			
Cash and Cash equivalents			
Bank Balances	5	11,333,783	11,333,783
		-	-
Total Cash and Cash equivalents		11,333,78	11,333,783
Total Financial Assets		11,333,783	11,333,783
Financial Liabilities			
Deposits and Retention monies	6	<u>7,333,783</u>	<u>7,333,783</u>
Net Assets		<u>4,000,000</u>	<u>4,000,000</u>
Represented By			
Fund Balance B/fwd.	7	4,000,000	4,000,000
Surplus/(Deficit) for the Year		<u>-</u>	<u>-</u>
Net Financial Position		<u>4,000,000</u>	<u>4,000,000</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 26 SEP 2023 and signed by:


Eng. Kung'u Ndung'u
Director General


Eng. Henry Gakuru
Ag. Director Development

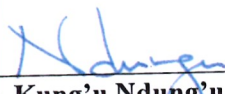

CPA Chanje Kera
Deputy Director (F&A)
ICPAK No. 8279

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023*

9. Statement of Cashflow for the year ended 30th June 2023

Description	Notes	2022-2023	2021-2022
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
Transfer from government entities		-	-
Total receipts		-	-
Payments			
Purchase of goods and services		-	-
Total Payments		-	-
Adjustments during the year		-	-
Net cash flow from operating activities		-	-
Cashflow from investing activities			
Acquisition of non-financial assets		-	-
Net cash flows from investing activities		-	-
Cash flow from financing activities			
Proceeds from foreign borrowings		-	-
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalent at beginning of the year		<u>11,333,783</u>	<u>11,333,783</u>
Cash and cash equivalent at end of the year		<u>11,333,783</u>	<u>11,333,783</u>

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 26 SEP 2023 and signed by:


Eng. Kung'u Ndung'u
Director General



Eng. Henry Gakuru
Ag. xDirector Development


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

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023*

10. Statement of Comparison of Budget and Actual amounts for the year ended 30th June 2023

Receipts/Payments Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
Receipts						
Transfer from Government entities	-					
Total Receipts	-					
Payments						
Purchase of goods and services	-					
Acquisition of non-financial assets	-					
Total Payments	-					
Surplus or Deficit	-					


Eng. Kung'u Ndung'u
Director General

26 SEP 2023

Date



Eng. Henry Gakuru
Ag. Director Development

26 SEP 2023

Date



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

26 SEP 2023

Date

11. Significant Accounting Policies

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

a) **Statement of compliance and basis of preparation**

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

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

b) **Reporting entity**

The financial statements are for the **Nairobi – Thika Highway Improvement Project Lot I & II** under the Kenya National Highways Authority. The financial statements are for **Nairobi – Thika Highway Improvement Project Lot I & II** as required by Section 81 of the PFM Act 2012.

c) **Reporting currency**

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

d) **Recognition of receipts**

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

i) **Transfers from the Exchequer**

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

vi) Undrawn external assistance

These are loans and grants at 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 are 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 the Authority and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

f) In-kind donations

In-kind contributions are donations 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.

Significant Accounting Policies (Continued)

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

h) Restriction on cash

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

i) Imprests and Advances

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

j) Contingent Liabilities

A contingent liability is:

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

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

Significant Accounting Policies (Continued)

The Nairobi – Thika Highway Improvement Project Lot I & II does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

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

k) Contingent Assets

The **Nairobi – Thika Highway Improvement Project Lot I & II** 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 **Nairobi – Thika Highway Improvement Project Lot I & II** in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' 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.

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners,

Significant Accounting Policies (Continued)

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

n) Third party payments

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

During the year, Kshs Nil billion being loan disbursements were received in form of direct payments from third parties.

o) Exchange rate differences

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

p) Comparative figures

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

q) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended **June 30, 2023**.

r) Prior period adjustments

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

12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	KShs		Cumulative to-date (from inception)
	2022-2023	2021-2022	
<i>Counterpart funding through the line Ministry</i>			
Counterpart funds Quarter 1	-	-	5,209,326,979
Counterpart funds Quarter 2	-	-	2,956,390,032
Counterpart funds Quarter 3	-	-	5,133,004,690
Counterpart funds Quarter 4	-	-	8,072,966,693
Total ()	-	-	21,371,688,394
<i>Other transfers from government entities</i>			
Ministry	-	-	-
Project	-	-	-
Road Maintenance Levy Fund	-	-	1,000,000,000
Total	=	=	1,000,000,000
Appropriations-in-Aid	-	-	-
Total	=	-	22,371,688,394

2. Loan from External Development Partners

Description	2022-2023					2021 - 2022	Cumulative to date
	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment *	Total amount in Kshs	Total amount in Kshs	
Loans received from Multilateral Donors		UA	Kshs	Kshs	Kshs	Kshs	Kshs
African Development Bank (AfDB)	-	-	-	-	-	-	11,605,814,729
Total	-	-	-	-	-	-	11,605,814,729

This Financing agreement has lapsed and no funds are expected to be received from Development Partners, however cumulatively an amount of Kshs 11,605,814,729 has been received.

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Description	2022/2023			2021/2022	Cumulative to- date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic travel and subsistence	-	-	-	-	1,698,500
Foreign travel and subsistence	-	-	-	-	78,078
Hospitality supplies & services	-	-	-	-	1,912,474
Printing, advertising & information supplies & services	-	-	-	-	2,189,277
Total	-	-	-	-	5,878,329

4. Acquisition of Non-Financial Assets

Description	2022-2023			2021-2022	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	Kshs
Construction of roads	-	-	-	-	23,951,433,757
Construction of buildings	-	-	-	-	118,973,207
Research, studies, project preparation, design & supervision	-	-	-	-	1,308,121,991
Land acquisition	-	-	-	-	8,581,762,056
Total	-	-	-	-	33,960,291,011

5. Cash and Cash equivalents

Description	2022-2023	2021-2022
	Kshs	Kshs
Bank accounts (Note 5A)	11,333,783	11,333,783
Total	11,333,783	11,333,783

Notes to the Financial Statements (Continued)

5 A Bank Accounts

Project Bank Accounts

Details	2022-2023	2021-2022
	Kshs	Kshs
Local Currency Accounts		
Central Bank of Kenya	4,000,000	4,000,000
National Bank of Kenya -Retention Account [010032733200]	7,333,783	7,333,783
Total local currency balances	11,333,783	11,333,783
Total bank account balances	11,333,783	11,333,783

The National Bank A/c No 010032733200 - is the main KeNHA bank account where all project retentions are transacted from.

6. Deposits and Retention Monies

Description	2022-2023		2021-2022	
	Kshs		Kshs	
Retention	7,333,783		7,333,783	
Total	7,333,783		7,333,783	
Ageing analysis:	2022-2023	% of the Total	2021-2022	% of the Total
Under one year		%		%
1-2 years		%		%
2-3 years		%		%
Over 3 years	7,333,783	100%	7,333,783	100%
Total	7,333,783	100%	7,333,783	100%

Notes to the Financial Statements (Continued)

7. Fund Balance Brought Forward

Description	2022-2023	2021-2022
	Kshs	Kshs
Bank balance (Central Bank of Kenya)	4,000,000	4,000,000
Total	4,000,000	4,000,000

8. Changes in Accounts Payable

Description	2022-2023	2021-2022
	Kshs	Kshs
Deposit and Retentions as at 1 st July	7,333,783	7,333,783
Closing accounts payables as at 30 th June	7,333,783	7,333,783
Change in payables	-	-

Other Important Disclosures

Pending Accounts Payable (See Annex 2)

	Balance b/f 2022/2023	Additions for the year	Paid during the year	Balance c/f 2022/2023
Description	Kshs	Kshs	Kshs	Kshs
Construction of buildings		7,887,522	-	7,887,522
Acquisition of land	428,623,554	-	-	428,623,554
Total	428,623,554	7,887,522	-	436,511,076

*Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023*

13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations


Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Basis for Qualified opinion</p> <p>Unsupported and Misstated bank Balances The statement of financial asset reflects a bank balance of Kshs.11,333,783 which as disclosed at Note 5A to the Financial statements includes a balance of Kshs.4,000,000 held in Central Bank of Kenya for which bank confirmation certificate was not provided for audit. Further, the balance includes retention account bank balance of Kshs.7,333,783 for which the supporting bank reconciliation statement reflected a cashbook balance of Kshs.183,962,682 resulting in an unreconciled variance of Kshs.176,628,899.</p>	<p>Agreed. On Kshs.4,000,000 the Authority has requested the Parent Ministry for the Central Bank balance confirmation certificate for Kshs.4,000,000</p> <p>On the Kshs. 7,333,783 the analysis for the retention amount was provided during the audit.</p>	Not resolved	October, 2023


Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Unsupported Pending Bills</p> <p>Note 12 to the financial statements reflects a pending bills balance of Kshs.428,623,554 in respect of acquisition of land. However, detailed analysis of the pending bills including the names of the payees and the reasons for non-payment were not provided. Further, the entire balance of Kshs.428,623,554 was brought from the prior year and the project's indicated that no bill was settled during the financial year 2021/2022.</p>	<p>Agreed with the finding of outstanding balance on land acquisition. This is due to budgetary ceiling constraints that resulted in NIL allocation in the financial year under consideration. An amount of Kshs. 45,000,000 has been allocated in the current financial year (2022/2023).</p> <p>The bills are duly supported by schedules as availed during the audit and shown in Annex 2 of the financial statements</p> <p>The Authority is liaising with the Line Ministry and National</p>	<p>Pending</p>	<p>November, 2023</p>

**Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Treasury to ensure sufficient budget allocation to enable settlement of the pending bills		
	<p>Other Matter</p> <p>Project Closure Report</p> <p>As provided under the Project information and Overall Performance section of the Annual Report and Financial Statements, the project was to end on 22 July 2015. However, as previously reported the project closure report was not provided for audit, being more than seven (7) years after the lapse of the closure period.</p>	As reported in the audit finding, the projects are complete. The Closure report will be prepared once all the outstanding bills are settled.	Not Resolved	2024


Eng. Kung'u Ndung'u
Director General


Eng. Henry Gakuru
Ag. Director Development

Nairobi – Thika Highway Improvement Project Lot I & II
Annual Report and Financial Statements For the financial year ended June 30, 2023

Annex 2: - Analysis of other Pending Payables-Project Affected Persons

Name	Date Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance 2022-2023	Outstanding Balance 2021-2022	Comments
		Kshs	Kshs	Kshs	Kshs	
Resjos Enterprises Ltd	2/05/2023	7,887,522	-	7,887,522	-	IPC 1
PAPs		8,832,529,088	8,403,905,534	428,623,554	428,623,554	-
Total		8,840,416,610	8,403,905,534	436,511,076	428,623,554	-

Annex 3: Summary of Fixed Assets Register

Asset class	Opening Cost (KShs) 2022/23	Donations in form of assets (KShs) 2022/23	Purchases / Additions in the Year (KShs) 2022/23	Disposals in the Year (KShs) 2022/23x	Transfers in/(out) (Kshs) 20212/23	Closing Cost (KShs) 2022/23
	(a)	(b)	(c)	(d)	(d)	(e)= (a)+ (b)+c)- (d)+(-)d
Land	8,581,762,056					8,581,762,056
Buildings and structures	118,973,207					118,973,207
Road Assets	25,259,555,748					25,259,555,748
Total	33,960,291,011					33,960,291,011