

REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAYERS

REPORT

DATE: 09 FEB 2022 DAY: Wed

TABLED BY:	LDM	OF
CLERK-AT-THE-TABLE:	S. Karana	

THE AUDITOR-GENERAL

ON

**UPGRADING OF KIBWEZI-MUTOMO-KITUI
ROAD PROJECT**

PARLIAMENT
OF KENYA
LIBRARY

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

KENYA NATIONAL HIGHWAYS AUTHORITY

OFFICE OF THE AUDITOR GENERAL
P.O. Box 30034 - 00100, NAIROBI
KENYA

- 7 DEC 2021



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



Kenya National Highways Authority

Quality Highways, Better Connections

Project Name – KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT

Implementing Entity – KENYA NATIONAL HIGHWAYS AUTHORITY -
(KeNHA)

PROJECT LOAN NO: –CHINA EXIMBANK (CONTRACT NO. BLA2016K001)

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)

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

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KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Project Name	Kibwezi – Mutomo – Kitui Road Project
Project Objectives	The loan will contribute to improve the accessibility, affordability and reliability of the transport infrastructure system to promote economic growth and socio-economic development in Kenya.
Project Registered Office and Physical Location:	The project headquarters offices are at Barabara Plaza, Jomo Kenyatta International Airport, Nairobi, Off Mazao Road (Opposite KCAA Headquarters)
Project Address	P.O. Box 49712-00100 Nairobi
Contacts:	Telephone: 020-8013842; Email dg@kenha.co.ke; Website www.kenha.co.ke

1.2 Project Information

Project Start Date:	28 th November 2016
Project End Date:	15 th February 2021
Project Manager:	Eng. D.A Muchilwa – Director, Development Eng. S. Ogege – Project Engineer.
Project Sponsor:	The Export – Import Bank of China

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry Of Transport, Infrastructure, Housing, Urban Development & Public Works.
Project number	N/A
Strategic goals of the Project	<p>i)Improvement of socio-economic status of Makueni and Kitui counties and the whole country as a whole.</p> <p>(ii)The project road will link Kitui and other counties and help boost tourism, mineral exploitation and transportation of agricultural produce, and link the region to the Mombasa Port.</p> <p>(iii)Reduction of travel time and vehicle and vehicle maintenance and operation costs.</p> <p>(iv) The project as part of the Mombasa – Isiolo-Addis Ababa Road Transportation Corridor will strengthen and boost regional trade between</p>

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT

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	<p>Kenya, Ethiopia and South Sudan.</p> <p>(v) Strengthen the Connection between Kenya’s three main regional transport corridors: Northern Corridor (A8), the Kenya – Ethiopia Corridor (A2) and Thika – Garissa - Liboi (A3)</p>																								
<p>Other important background information of the project</p>	<p>PROJECT COMPONENTS AND COSTS - LOAN</p> <table border="1" data-bbox="539 584 1414 880"> <thead> <tr> <th colspan="4">USD</th> </tr> <tr> <th></th> <th>Base Rate</th> <th>Foreign Exchange Cost</th> <th>Total Cost</th> </tr> <tr> <th></th> <th>%</th> <th>USD</th> <th>(USD)</th> </tr> </thead> <tbody> <tr> <td>A. Civil Works</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Kibwezi – Mutomo - Kitui</td> <td>85%</td> <td>194,740,598.46</td> <td>194,740,598.46</td> </tr> <tr> <td>TOTAL</td> <td></td> <td>194,740,598.46</td> <td>194,740,598.46</td> </tr> </tbody> </table> <p>Contract No. KeNHA/1469/2016 – Sinohydro Corporation Ltd at the Contract sum of Kshs 18,404,888,139.00</p> <p>The project is financed by Republic of China through The Export – Import Bank of China at 85% on Civil Works Construction inclusive of works consultancy supervision while 15% is financed by the Government of Kenya.</p> <p>PROJECT BACKGROUND: -</p> <p>In January 2011, the Government of Kenya (GoK) and Messrs Sinohydro Corporation of China entered into a commercial contract for upgrading of the Kibwezi – Mutomo-Kitui road as a precondition for receiving financing from the Export – Import Bank of China.</p> <p>In September 2016, the Government and Contractor, Sinohydro Corporation agreed on a 42-Month Contract to execute a revised scope of works as follows:</p> <ol style="list-style-type: none"> a) Engineering, procurement and Construction of Kibwezi – Kitui (145Kms) Road; b) Engineering, Procurement and Construction of Kabati – Migwani direction (16.7 Kms); c) Related Township Road Kibwezi Township Roads (3Kms), Ikutha Township Roads (3Kms), Mutomo Township Roads and Kitui Township Roads (8Kms) d) Kibwezi and Kitui Interchanges e) Rehabilitation of the Kitui –Kabati Road (12Kms) f) Kibwezi and Kitui Road Social Ammenities 	USD					Base Rate	Foreign Exchange Cost	Total Cost		%	USD	(USD)	A. Civil Works				Kibwezi – Mutomo - Kitui	85%	194,740,598.46	194,740,598.46	TOTAL		194,740,598.46	194,740,598.46
USD																									
	Base Rate	Foreign Exchange Cost	Total Cost																						
	%	USD	(USD)																						
A. Civil Works																									
Kibwezi – Mutomo - Kitui	85%	194,740,598.46	194,740,598.46																						
TOTAL		194,740,598.46	194,740,598.46																						

1.4 Bankers

Co-Operative Bank of Kenya Ltd

Upper Hill Branch, Nairobi

Account Number: '01141160979900

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

1.5 Auditors

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

1.6 Roles and Responsibilities

Name	Designation
Eng. D.A. Muchilwa	Director, Development
Eng. C. Obuon	PIU Team Leader/Manager
Mr. R. Kilel	AD, supply Chain Services-Administration Staff (Procurement)
Mr. Isaac Kamotho	AD, Finance & Accounts - Administration Staff (Finance)
Ms. N. Odingo	CS/DD, Legal Services-Administration Staff (Legal)
Ms. M. Mwangi	AD, Human Resources Administration Staff (Human Resource)
Mr. W. Nyatwanga	D. Director, (Environmental & Social)
Ms R. Oloo	AD, Environment/RAP Team (Sociologist)

1.7 Funding summary

The project is for duration of three and half years with an approved budget of USD 194,740,598.46 equivalent to Kshs. 15,644,154,918 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitments		Amount received to date		Undrawn balance to date	
	USD (A)	Kshs (A')	USD (B)	Kshs (B')	USD (A)-(B)	Kshs (A') – (B')
(i) Loan						
China Exim Bank	194,740,598	15,644,154,918	194,156,377	15,597,222,456	584,222	46,932,462
(ii) Counterpart Funds	-	3,391,643,127	-	3,391,643,127	-	-
Total	194,740,598	19,035,798,045	194,156,377	18,988,865,583	584,222	46,932,462

Note: - Contract Exchange rate – Kshs. 80.3333. Counterpart component costs includes the cost of land acquisition, relocation of services and project operating costs hence exceeding the amount of USD 34,365,987.96 (Kshs 2,760,733,220.85 equivalent) stated in the loan agreement

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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B. Application of Funds

Application of Funds	Amount received to 30th June 2021		Cumulative Amount paid to 30th June 2021		Unutilised balance to date	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') – (B')
(i) Loan						
China Exim Bank	194,156,377	15,597,222,456	194,156,377	15,597,222,456	-	-
(ii) Counterpart Funds						
	-	3,391,643,127	-	3,391,643,127	-	-
Total	194,156,377	18,988,865,583	194,156,377	18,988,865,583	-	-

1.8 Summary of Overall Project Performance:

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

	FY 2020/2021		
	Actual	Budget	%
Counterpart Funds - Gok	796,772,220	632,234,719	126%
Loan from External Development Partners	1,501,838,874	1,520,000,000	99%
Total	2,298,611,094	2,152,234,719	107%

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

The project physical progress is 98%

Comment on value-for-money achievements.

- 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.
- Monthly site meetings that involve the employer, the consultant and the contractor.

1.9 Summary of Project compliance: -

Significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants involve delayed payments that attract interest.

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Below is a summary of the Project's performance against the predetermined objectives:

Objective	Outcome	Indicator	Performance
Improve the accessibility, affordability and reliability of the transport infrastructure system to promote economic growth and socio-economic development in Kenya.	(i) Improvement of socio-economic status of Makueni and Kitui counties and the whole country as a whole.	Socio Economic Status	Completion of 76% of the Road Project has contributed towards improving socio-economic status through job creation, trade facilitation and promotion of tourism
	ii) The project road will link Kitui and other counties and help boost tourism, mineral exploitation and transportation of agricultural produce, and link the region to the Mombasa Port.	Level of Economic Activity	Completion of 76% of the Road Project has contributed towards improving the level of economic activity through job creation, trade facilitation and promotion of tourism
	(iii) Reduction of travel time and vehicle and vehicle maintenance and operation costs.	Reduced Travel Time	155 Kms of the project is completed, hence significantly reducing the travel time

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Sustainability strategy and profile

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

- a) *Good health and well-being (SDG 3)*: The Authority strives to undertake Road Safety Audits to identify accident black spots, implement intervention measures and provide road safety education to reduce accidents;
- b) *Gender Equality (SDG 5)*: The Authority encourages mainstreaming of gender equality in project and programmes by incorporating compliance to one third gender rule in procurement and recruitment;
- c) *Industry, innovation and infrastructure (SDG 9)*: The Authority 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.

The Contractor has been involved in various CSR activities geared towards providing the local residents through construction of water kiosks along the project road, 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.

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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Some of the CSR Activities undertaken by the project includes:

S. No.	Organization/ Beneficiary	Nature of CSR	Amount (KES)
1	Kibwezi University	Levelling the yard for Kibwezi University	205,000
2	Kibwezi DCC Office	Construction of parking area with AC finishing	2,230,000
3	Kibwezi Church	Levelling and maintenance of the yard	180,000
4	Kibwezi Town	Maintenance of existing road for the community	180,000
5	Km + Kibwezi Road A	Levelling and maintenance of the existing refuse area	80,000
6	Km + Community	Construction of access road	60,000
7	Km Local Community ,	Providing water tank for local community	100
8	Mutomo Community at km	Grading and repairing of road and construction of Culvert	215,000
9	Kyoani Community at km	Improved existing dam and excavated new Wells	1,288,500
10	Kanza Community, Mutomo,	Improvement of existing dam	330,000
11	David Ndolo, km	Improvement of existing dam	110,000
12	Local Community	Grading and maintenance of road to water point	205,000
13	Atongoi Pri. School, km	Donated cement and steel and levelling playground	254,800
14	Mutuni Community at km	Repair of existing road and construction of underground tank	1,272,800
15	Mutomo Police Station	Renovation of houses and providing 20,000 litres of water to Mutomo Police Division	140,000
16	Mutuni Pri. School, km	Erection of school fence	133,000
17	Matikoni Pri. School at km	Providing water for the school	140,000
18	Kiangu Secondary School	Levelling playground, fixing window panes and erection of school fence	165,000
19	UAE Sec. School at km	Grading and levelling of playing ground	203,000
20	Kitoo Primary School at km	Erection school fence, construction of gutter and contribution of water tank on 09/4/2018	180,000
21	Kenya Medical Training College at km	Repair of access road (0.5km) and clear the bushes	180,000
22	Muatini Pri. Sch., km +	Erection of school fence	20,000
23	Mutomo DCC Office	Grading and levelling of existing road	203,000
24	Uae Sec. School at km	Contribution of learning tools, books and sports goods	150,000
25	School located at km	Erection fences and install windows for schools	65,000
26	Mutonya Pri. School at km	Levelling of playground	90,000
27	Local community at km	Construction of a dam for local community to store water	780,000
28	Kibwezi Teachers' College	Levelling of school yard	98,000
29	School at Km	Levelling of school yard and deliver goods to school	88,000

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

S. No.	Organization/ Beneficiary	Nature of CSR	Amount (KES)
30	Community at km	Construction of an earth dam	880,000
31	Community at km +	Construction of earth dam	1,180,000
32	Maluma Market	Putting out fire at Maluma market	50,000
33	Kwakilui Primary School	Set up road sign & bump and road construction for school	200,000
34	House owner at km	Erection of house fence	50,000
35	Km School	Erection of 700m fence for the school on 13/2/2019	600,000
36	Migwani Town	Grading and levelling of existing road and	300,000
37	km Quarry community	Grading and levelling of existing road (6 km)	200,000
38	Kwa-Kilui to Ilika Kambi Road	Grading and levelling of existing road	6,000,000
39	Kwa Toma-Nzeeu River Road	Grading and levelling of existing road	1,000,000
40	Road from Nguuni Market	Grading and levelling of existing road	300,000
41	Ikutha Town	Construction Ikutha bus parking	6,637,026
42	Athi campsite	Water supply system	3,600,000
43	Ikutha Training center	Grading and levelling of existing compound	270,000
44	Kwa Kilui Dispensary	Construction of School Pit Latrine	45,000
45	Kitui County Crusher Site	Bush Clearing and ground Levelling	270,000
46	Kwa Kilui Dispensary	Construction of Access Road	270,000
47	Kwa-Kilui / Ngunziu Borehole	Drilling, Casing and Equipping of the Borehole	2,225,000
48	Kwa Kethi – Mosa Borehole	Drilling, casing and equipping of the borehole	2,250,000
49	Kisasi – Kavisuni Road	Levelling and grading of the road section	4,338,380
50	Kanyangi - Kwa Vonza Road	Repair and levelling, bumps and road signs	5,900,197
51	Kwa Vonza Jun-Mulutu Road	Repair and levelling, bumps and road signs	6,832,949
52	Kabati Borehole	Drilling, Casing and Equipping of Borehole	2,250,000
53	Tulia Earth dam	Construction of a 10,000 m3 dam at Tulia	50,000,000
54	Kitui Central- Majengo and Town	Grading of access road, bush clearing and desilting of Kalundu Dam	2,000,000
55	Chuluni-Nzambani Road Junction	Repair and levelling	200,000
56	Kisasi DCC Office	Fencing with chain-link and angle line steel	170,000
57	Tiva River Drift at Mulutu	Rescue a local truck stuck in the river	50,000
58	Ithookwe Primary School	Construction materials of toilet and school fence	210,000
59	Unyaa Primary School	Construction pump house and water house	540,000
60	Maselele Primary School	Fencing with Chain link and Angle line posts	600,000
61	Mutendea Community	Construction of the dam	1,350,000
	Total		110,114,651

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General, KeNHA and the Project Management for Kibwezi – Mutomo – Kitui – Migwani Road Project 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 Management for Kibwezi – Mutomo – Kitui – Migwani Road Project, accept responsibility for the project’s Financial Statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with the International Public Sector Accounting Standards.

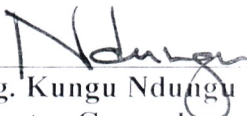
The Director General, KeNHA and Project Management for Kibwezi – Mutomo – Kitui – Migwani Road Project are of the opinion that the Project financial statements give a true and fair view of the state of the Project’s transactions during the financial year ended June, 30, 2021 and the Project’s financial position as at that date.


The Director General, KeNHA and the Project Implementation Team Leader for Kibwezi – Mutomo – Kitui – Migwani Road Project further confirm that 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 on the adequacy of the systems of internal financial control.

The Director General, KeNHA and the Project Implementation Team Leader for Kibwezi – Mutomo – Kitui – Migwani Road Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit are 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 Project Management for Kibwezi – Mutomo – Kitui – Migwani Road Project on 17 AUG 2021and 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

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON UPGRADING OF KIBWEZI-MUTOMO-KITUI ROAD PROJECT 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, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

Report of the Auditor-General on Upgrading of Kibwezi-Mutomo-Kitui Road Project for the year ended 30 June, 2021 - Kenya National Highways Authority

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Upgrading of Kibwezi-Mutomo-Kitui Road Project set out on pages 1 to 20 which comprise the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects 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 Upgrading of Kibwezi-Mutomo-Kitui Road Project 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 Public Finance Management Act, 2012, and Financing Agreement No. BLA2016K001 dated 28 November, 2016 between the Export-Import Bank of China and the Government of the Republic of Kenya.

Basis for Qualified Opinion

1. Unsupported Expenditure

The statement of receipts and payments and Note 12.2 to the financial statements reflects an expenditure of Kshs. 1,501,838,874 incurred in acquisition of non-financial assets paid by third parties during the year. However, no supporting documents were provided for audit to confirm the disbursements as required by Article 5 (clause 5.3) of the buyer credit loan agreement.

In the absence of adequate relevant supporting documents, the accuracy, completeness and regularity of the expenditure of Kshs. 1,501,838,874 could not be confirmed.

2. Interest on Delayed Payments

Review of interim payment certificate No. 5b of 2 February, 2021 revealed that the company that had been awarded the contract charged the employer interest on delayed payments amounting to 215,284,609 during the year and which should have been avoided since the Project had enough funding at the time.

The interest payments were therefore, an irregular charge to public funds.

3. Pending Bills

Annex 3 to the financial statements reflects a pending bills balance of Kshs.1,920,289,734 as at 30 June, 2021. However, review of pending bills analysis revealed the following anomalies;

- i. An amount of Kshs.38,650,265 which was payable during the year from counterpart funds to Sinohydro Corporation Ltd under interim payment Certificate Number 8 was not paid.
- ii. Payment of Kshs.219,018,169 was made by the Lender during the year for which no supporting documents were provided for audit review.
- iii. An amount of Kshs.5,765,256 relating to lease of 11.74 acres of land to KeNHA by Kenya Forest Services in respect of wayleave for construction and maintenance of Kibwezi Road interchange was not disclosed in the financial statements.

In the circumstances, the completeness, accuracy and validity of the pending bills of Kshs.1,920,289,734 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Upgrading of Kibwezi-Mutomo-Kitui Road Project in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no key audit matters to communicate in my report.

Other Matter

Delayed Payments to Persons Affected by the Project

Annex 3 to the financial statements reflects a pending bills balance of Kshs,1,920,289,734 as at 30, June 2021. The balance includes an amount of Kshs.1,643,235,886 for acquisition of land from persons who were affected by the implementation of the project which had not been paid.

In the circumstances, the project risk losing funds through award of damages and interest in legal disputes with the affected persons.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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.

Responsibilities of Management and those charged with Governance

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

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

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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Project's policies and procedures may deteriorate.


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

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

21 December, 2021

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT


Reports and Financial Statements

For the financial year ended June 30, 2021

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


	Note	FY 2020/21			FY 2019/20			Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payments controlled by the entity	Payments made by third parties	Total	
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
RECEIPTS								
Transfer from Government entities	1	796,772,220	-	796,772,220	878,941,882	-	878,941,882	3,391,643,127
Loan from external Development Partners	2	-	1,501,838,874	1,501,838,874	-	5,131,282,813	5,131,282,813	15,597,222,456
TOTAL RECEIPTS		796,772,220	1,501,838,874	2,298,611,094	878,941,882	5,131,282,813	6,010,224,695	18,988,865,583
PAYMENTS								
Purchase of Goods & Services	3	6,445,420	-	6,445,420	2,886,800	-	2,886,800	39,687,700
Acquisition of non-financial assets	4	939,465,509	1,501,838,874	2,441,304,383	726,916,373	5,131,282,813	5,858,199,186	18,949,177,883
TOTAL PAYMENTS		945,910,929	1,501,838,874	2,447,749,803	729,803,173	5,131,282,813	5,861,085,986	18,988,865,583
SURPLUS/DEFICIT		(149,138,709)	-	(149,138,709)	149,138,709	-	149,138,709	-

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


 Eng. Kungu Ndubisi
 Director General


17 AUG 2021

Date


 Eng. David A. Muchilwa
 Director, Development

17 AUG 2021

Date


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

17 AUG 2021

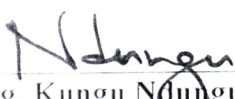
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KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

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

	Notes:-	2020/21 Kshs.	2019/20 Kshs.
FINANCIAL ASSETS			
Cash and Cash Balances	5	-	149,138,709
TOTAL FINANCIAL ASSETS		-	149,138,709
FINANCIAL LIABILITIES			
Payables - Retentions	6	-	149,138,709
NET ASSETS		-	-
REPRESENTED BY:-			
Surplus/Deficit for the year		-	-
Fund balance b/fwd	8	-	-
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 and signed by:


 Eng. Kungu Ndungu
 Director General


 Eng. David A. Muchilwa
 Director, Development

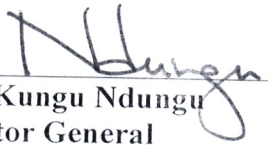

 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No: 8279

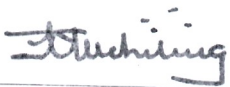
KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021


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

	Note	2020/21 Kshs.	2019/20 Kshs.
RECEIPTS			
Receipts for operating income			
Transfers from Government entities			
Gok Counterpart Fund			
Net Receipts for operating income	1	796,772,220	878,941,882
Payment for operating expenses		796,772,220	878,941,882
Purchase of goods and services			
Project operating costs	3	(6,445,420)	(2,886,800)
Net Payments for operating expenses		(6,445,420)	(2,886,800)
Net cash flow from operating activities		790,326,800	876,055,082
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of road assets	4	(2,441,304,383)	(5,858,199,186)
Net cash flows from Investing Activities		(2,441,304,383)	(5,858,199,186)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		1,501,838,874	5,131,282,813
Net cash flow from financing activities		1,501,838,874	5,131,282,813
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at Beginning of the year		(149,138,709)	149,138,709
Cash and cash equivalent at End of the year		149,138,709	-
		-	149,138,709

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 and signed by:


 Eng. Kungu Ndungu
 Director General


 Eng. David A. Muchilwa
 Director, Development


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

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT

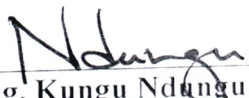
Reports and Financial Statements


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	% Var
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfers from Government entities	796,469,439	(164,234,720)	632,234,719	796,772,220	(164,537,501)	126%
Proceeds from foreign borrowings	4,420,000,000	(2,900,000,000)	1,520,000,000	1,501,838,874	18,161,126	99%
Total Receipts	5,216,469,439	(3,064,234,720)	2,152,234,719	2,298,611,094	(146,376,375)	107%
Payments						
Purchase of goods and services	5,216,469,439	(3,064,234,720)	2,152,234,719	6,445,420	(295,515,084)	114%
Acquisition of non-financial assets				2,441,304,383		
Total Payments	5,216,469,439	(3,064,234,720)	2,152,234,719	2,447,749,803	(295,515,084)	114%

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


 Eng. Kungu Ndungu
 Director General


 Eng. David A. Muchilwa
 Director, Development


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

17 AUG 2021

Date

17 AUG 2021

Date

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 Kibwezi – Mutomo – Kitui-Migwani Road Project 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.

Significant Accounting Policies (Continued)

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.

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Bank

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

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 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.

Significant Accounting Policies (Continued)

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 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 1.5 billion** 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 Contract exchange rate of 80.3333. 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.

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.

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Reports and Financial Statements
For the financial year ended June 30, 2021

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
	Kshs	Kshs	to-date
Counterpart funds Quarter 1	84,898,733	25,248,111	159,877,805
Counterpart funds Quarter 2	431,073,333	319,797,078	848,589,640
Counterpart funds Quarter 3	3,184,202	14,739,839	838,630,077
Counterpart funds Quarter 4	277,615,952	519,156,854	1,544,545,605
TOTAL	796,772,220	878,941,882	3,391,643,127

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	Date Received	Amount in Loan currency	Loans Received as Direct payments	Total amounts in Kshs.	
				FY 2020/21	FY 2019/20
		USD	Kshs	Kshs	Kshs
Loans Received from Multilateral Donors					
Exim Bank of China	FY 2021/22	18,695,097.48	1,501,838,874	1,501,838,874	5,131,282,813
Total		18,695,097.48	1,501,838,874	1,501,838,874	5,131,282,813

3. PURCHASE OF GOODS AND SERVICES

	FY 2020/21			FY 2019/20	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence	6,412,300	-	6,412,300	2,886,800	28,454,461
Advertising and services	33,120	-	33,120	-	11,233,239
Total	6,445,420	-	6,445,420	2,886,800	39,687,700

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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For the financial year ended June 30, 2021

4. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2020/21			FY 2019/20	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Construction of roads	739,465,509	1,501,838,874	2,241,304,383	5,776,658,702	18,667,637,399
Acquisition of land	200,000,000	-	200,000,000	81,540,484.00	281,540,484
Total	939,465,509	1,501,838,874	2,441,304,383	5,858,199,186	18,949,177,883

5. (i) CASH AND CASH EQUIVALENTS C/FWD

	2020/2021 Kshs	2019/2020 Kshs
Local Currency Accounts		
<i>Total Local Currency</i>	-	149,138,709

(ii) Bank Accounts

	2020/2021 Kshs	2019/2020 Kshs
National Bank Of Kenya A/C No. 0100132733200	-	149,138,709
Total	-	149,138,709

6. ACCOUNTS PAYABLES - RETENTIONS

Description	2020-2021 Kshs	2019-2020 Kshs
Retention	-	149,138,709
Total	-	149,138,709

Prior year closing retention amount of Kshs 149,138,709 has been reclassified from surplus/deficit for the year to Financial Liabilities (Payables – Retention) in the Statement of Financial Assets as required by the PSASB Projects Reporting Template for FY 2020/21

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
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For the financial year ended June 30, 2021

7. CHANGES IN ACCOUNTS PAYABLE –RETENTIONS

Description	2020-2021	2019-2020
	Kshs	Kshs
Retentions as at 1 st July	149,138,709	-
Closing accounts payables as at 30 th June	-	149,138,709
Change in payables	(149,138,709)	149,138,709

8. FUND BALANCE BROUGHT FORWARD

	FY 2020/2021	FY 2019/20
	KShs	KShs
Bank accounts	-	-
Total	-	-

Prior year closing retention amount of Kshs 149,138,709 has been reclassified from Fund Balance b/f to Financial Liabilities (Payables – Retention) in the Statement of Financial Assets as required by the PSASB Projects Reporting Template for FY 2020/21

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12. OTHER IMPORTANT DISCLOSURES

12.1 PENDING ACCOUNTS PAYABLE (Annex 3)

	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance c/f FY 2020/2021
Description	Kshs	Kshs	Kshs	Kshs
Construction of Roads	905,107,690	3,361,079,139	2,369,016,069	1,897,170,760
Supply of Services	33,007,606	68,845,102	78,733,734	23,118,974
Total	938,115,297	3,429,924,241	2,447,749,803	1,920,289,734

12.2 EXTERNAL ASSISTANCE

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
External assistance received as loans	1,501,838,874	5,131,282,813
Total	1,501,838,874	5,131,282,813

a). External assistance relating loans

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
External assistance received as loans	1,501,838,874	5,131,282,813
Total	1,501,838,874	5,131,282,813

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	FY 2020/2021	FY 2019/2020
Description		Kshs	Kshs
Undrawn external assistance - loans	Road Construction	46,932,462	1,548,771,336
Total		46,932,462	1,548,771,336

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c) classes of providers of external assistance

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
Bilateral donors	1,501,838,874	5,131,282,813
Total	1,501,838,874	5,131,282,813

d Purpose and use of external assistance

Payments Made by Third Parties	FY 2020/2021	FY 2019/2020
	Kshs	Kshs
Acquisition of Assets	1,501,838,874	5,131,282,813
TOTAL	1,501,838,874	5,131,282,813

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

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

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
Bilateral donors	1,501,838,874	5,131,282,813
Total	1,501,838,874	5,131,282,813

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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 person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Pending Bills</p> <p>Note 11 to the financial statements reflects pending bills totalling to Kshs 938,115,297 as at 30 June 2020. Although Management has committed to liaise with the line Ministry and the National Treasury for adequate budgetary allocation and timely Exchequer Releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments.</p>	<p>It is true that the amounts were outstanding as at 30 June 2020. This has been occasioned by;</p> <p>a) Inadequate GoK Budgetary allocations as well as delays in release of exchequer funds has led to delays in processing GoK portion.</p> <p>In order to ensure that the pending bills are settled, the Authority is liaising with the Parent Ministry and the National Treasury in an effort to secure adequate budgetary provisions to settle the GoK portion of certificates. During the current financial year however, the Authority, in liaison with the Parent ministry and</p>	Eng. Charles Obuon	Continuous	Continuous

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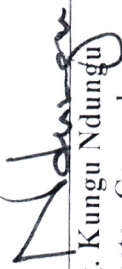
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>the National Treasury, secured an enhanced budgetary allocation amounting to Kshs 2.15 billion. This has resulted in the reduction in civil works outstanding certificates from Kshs 324 million to Kshs 277 million. Additional Land compensation amounting to Kshs 1.03 billion was however incurred in the financial year hence an overall increase in the pending bills.</p> <p>The Authority will continue liaising with line Ministry and National Treasury, to make sure that timely payments are made for all the certified works.</p>			
2	<p>Budget Control and Performance The statement of comparative budget and actual amounts reflects total receipts of Kshs 6,010,224,695 against budgeted receipts of Kshs 7,106,001,845 resulting into shortfall of Kshs 1,095,777,150 or 15%. Similarly, the statement reflects actual expenditure</p>	<p>It is true that the Project experienced under-absorption of funds in the previous financial year. This was attributed to: a) Suspension of works by the contractor as a result of COVID-19 cases reported in Kitui town</p>	Eng. Charles Obuon	Resolved	Resolved

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>totalling Kshs 5,861,085,986 against estimated expenditure of Kshs 7,106,001,845 resulting into an under-expenditure of Kshs 1,244,915,856 or 18% which mainly occurred under acquisition of non-financial assets. The under expenditure was attributed to suspension of work by contractor due to COVID-19 cases reported in Kitui.</p>	<p>b) The financiers' requirement that the development partner portion can only be settled upon proof that GoK counterpart portion of each IPC has been settled hampered the contractor's cashflow hence lower progress of works</p> <p>In the current financial year however, the progress of works improved, and the project was substantially taken over by the employer.</p>			


Eng. Kungu Ndungu
 Director General


Eng. David A. Muchilwa
 Director, Development

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14. ANNEXES

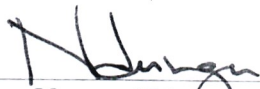
ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	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					
Government of Kenya	632,234,719	796,772,220	(164,537,501)	126%	Internal Sourcing from RMLF in order to mitigate against stalling of the Project
External financing	1,520,000,000	1,501,838,874	18,161,126	99%	
Total receipts	2,152,234,719	2,298,611,094	(146,376,375)		
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services		6,445,420			
Acquisition of non-financial assets	2,152,234,719	2,441,304,383	(295,515,084)	114%	Payment Includes Retention Release of Kshs 149 Million and Internal Sourcing from RMLF in order to mitigate against stalling of the Project
Total Payments	2,152,234,719	2,447,749,803	(295,515,084)		

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ANNEX 2 - RECONCILIATION OF INTER-ENTITY TRANSFERS

Kibwezi - Mutomo - Kitui - Migwani Road Project			
Break down of Transfers from the State Department of Infrastructure			
Government Counterpart Funding			
	Bank Statement Date	Amount (KShs)	Financial Year which the amounts relate
Quarter 1	23/09/2020	84,898,733	FY 2020/21
Quarter 2	25/11/2020	431,073,333	FY 2020/21
Quarter 3	19/02/2021	3,184,202	FY 2020/21
Quarter 4	26/04/2021	77,615,952	FY 2020/21
Quarter 4	27/05/2021	200,000,000	FY 2020/21
Total		796,772,220	


 Eng. Kungu Ndungu
 Director General

17 AUG 2021

Date



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

17 AUG 2021

Date

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ANNEX 3 - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2021	Outstanding Balance 2020	Comments
	a	b	c	d=a-c		
Construction of roads						
SINOHYDRO CORPORATION	215,284,609			215,284,609		2-5i
SINOHYDRO CORPORATION	257,668,434	10/06/2021	219,018,169	38,650,265		8
Acquisition of Land	1,924,776,370		281,540,484	1,643,235,886		
Total Construction of roads	2,397,729,413		500,558,653	1,897,170,760	905,107,690	
Supply of services						
APEC CONSORTIUM	5,595,343			5,595,343		32
APEC CONSORTIUM	4,224,886	04/03/2021		4,224,886		33
APEC CONSORTIUM	9,073,860	07/05/2021		9,073,860		35
APEC CONSORTIUM	4,224,886	20/05/2021		4,224,886		36
Total Supply of services	23,118,974			23,118,974	33,007,606	
Grand Total	2,420,848,387		500,558,653	1,920,289,734	938,115,297	

ANNEX 4 – SUMMARY OF FIXED ASSET REGISTER

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) 2020/21
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	16,507,873,500	2,441,304,383	-	18,949,177,883
Total	16,507,873,500	2,441,304,383	-	18,949,177,883