

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

DATE: 07 DEC 2023

DAY:

OF
BY:

Hon Owen Bayo CBS MB
Deputy majority leader
A. K. S. S. S.

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

UPGRADING OF KIBWEZI-MUTOMO-
KITUI-MIGWANI ROAD PROJECT
NO. BLA2016K001

FOR THE YEAR ENDED
30 JUNE, 2023

KENYA NATIONAL
HIGHWAYS AUTHORITY



MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

PROJECT NAME: KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

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

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)

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT

Annual Report and Financial Statements for the financial year ended June 30, 2023

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1. Acronyms and Glossary of Terms

CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EIK	Environment Institute of Kenya
EXIM	Export – Import
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IHRM	Institute of Human Resource Management
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
KISM	Kenya Institute of Supplies Management
Kshs.	Kenya Shillings
LSK	Law Society of Kenya
MRT	Ministry of Roads and Transport
NEMA	National Environment Management Authority
PAP	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RMB	Renminbi
SDG	Sustainable Development Goals
TNT	National Treasury
UA	Unit of Account
USD	United States Dollar

2. Project Information and Overall Performance

2.1 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
Project Address	P.O. Box 49712-00100 Nairobi
Contacts:	Telephone: 020-8013842; Email dg@kenha.co.ke; Website www.kenha.co.ke

2.2 Project Information

Project Start Date:	28 th November 2016
Project End Date:	14th May 2022
Project Manager:	Eng. Henry Gakuru – Ag. Director, Development Eng. S. Ogege – Project Engineer.
Project Sponsor:	The Export – Import Bank of China and the Government of Kenya

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the State Department of Roads under the Ministry of Roads and Transport
Project number	N/A
Strategic goals of the Project	i)Improvement of socio-economic status of Makueni and Kitui counties and the whole country at large. (ii)The road project 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. (iii)Reduction of travel time and vehicle and vehicle maintenance and operation costs. (iv) The project (as part of the Mombasa – Isiolo-Addis Ababa Road Transportation Corridor) will strengthen and boost regional trade between Kenya, Ethiopia and South Sudan. (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)

Project Information and Overall Performance (continued)

Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through implementation of the project in timely, efficient and effective manner																								
Other important background information of the project	PROJECT COMPONENTS AND COSTS - LOAN <table><tr><td></td><td colspan="3">USD</td></tr><tr><td></td><td>Base Rate</td><td>Foreign Exchange Cost</td><td>Total Cost</td></tr><tr><td></td><td>%</td><td>USD</td><td>(USD)</td></tr><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></table> Contract No. KeNHA/1469/2016 – Sinohydro Corporation Ltd at the Contract sum of Kshs 18,404,888,139.00 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. Project Background: - In January 2011, the Government of Kenya (GK) 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. In September 2016, the Government and Contractor, Sinohydro Corporation agreed on a 42-Month Contract to execute a revised scope of works as follows: 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 Amenities		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																						

Project Information and Overall Performance (continued)

Areas that the Project was formed to intervene	The project was formed to intervene in the following areas: Upgrading to bitumen standard the Kibwezi-Mutomo-Kitui-Kabati-Migwani (A9/B64) Road is part of the Northern Corridor Transport Improvement Project. It will cater for through traffic from Mombasa via Kibwezi to Moyale and into Ethiopia on a friendly direct alignment with less steep slopes and reduces travel time by avoiding the need to pass through Nairobi. The sections from Isiolo to Marsabit and Moyale were recently completed and that between Kibwezi and Isiolo is the missing link of which the project road forms the first section.
Project duration	The project financing agreement started on 28th November 2016 and ended on 14 May 2022

2.4 Bankers

Co-Operative Bank of Kenya Ltd
Upper Hill Branch, Nairobi
Account Number: '01141160979900

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. Henry Gakuru	Ag. Director, Development	Registered Engineer	Project Implementing Team Leader
Eng. Samuel Ogege	DD – Special Projects	Registered Engineer	Project Co-Ordinator
Mr. W. Nyatwanga	DD (Environmental & Social)	Registered Environmental Specialist	Safeguard Specialist
Mr. Chanje Kera	DD – Finance & Accounts	Certified Public Accountant	Project Financial specialist
Ms. Norah Odingo	Corporation Secretary / Deputy Director Legal Services	Member of LSK Advocate of the High Court of Kenya	Project Legal Specialist
Mr. Richard Kilel	AD – Supply Chain Services	Registered Member KISM	Project Procurement Specialist
Ms. Matilda Mwangi	Assistant Director. Human Resource Management	Registered Member IHRM	Project Human Resources Specialist

Project Information and Overall Performance (continued)

2.7 Funding summary

The project is for duration of five and half years with an approved loan 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		Amount received to date		Undrawn balance to date*	
	Commitments					
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
China Exim Bank	194,740,598	15,644,154,921	194,156,377	15,597,222,456	584,222	46,932,465
(ii) Counterpart Funds	-	3,613,930,868	-	3,613,930,868	-	-
Total	194,740,598	19,258,085,789	194,156,377	19,211,153,324	584,222	46,932,465

*The undrawn balance from the Development Partner was not utilized since the finance agreement lapsed in FY 2021/22 prior to project completion.

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.

B. Application of Funds

Application of Funds	Amount received to 30th June 2023		Cumulative Amount paid to 30th June 2023		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	-	3,613,930,868	-	3,603,346,686	-	10,584,182
Total	194,156,377	19,211,153,324	194,740,598	19,200,569,142	-	10,584,182

Project Information and Overall Performance (continued)

2.8 Summary of Overall Project Performance:

(a) Budget performance against actual amounts for current year and for cumulative to-date: -

	FY 2022/2023			Cumulative		
	Actual	Budget	%	Actual	Budget	%
Counterpart Funds - GK	178,569,276	178,569,276	100%	3,603,346,686	3,729,580,276	97%
Loan from External Development Partners	-	-	-	15,597,222,456	18,530,000,000	84%
Total	178,569,276	178,569,276	100%	19,200,569,142	22,259,580,276	86%

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

The project physical progress is 99.9% of original scope and 29.6% for Addendum No. 3 Works

(c) Absorption rate for each year since the commencement of the project.

Financial Year	Budget	Actual	Percentage (%)
FY 2022/23	178,569,276	167,985,094	94%
FY 2021/22	490,000,000	43,718,465	9%
FY 2020/21	2,465,910,929	2,447,749,803	99%
FY 2019/20	6,992,325,635	5,861,085,986	84%
FY 2018/19	3,095,011,144	3,067,888,083	99%
FY 2017/18	2,153,125,000	2,079,270,943	97%
FY 2016/17	6,884,638,292	5,532,870,768	80%
TOTAL	22,259,580,276	19,200,569,142	86%

Summary of Project compliance: -

There were no reported cases of significant non-compliance with applicable laws and regulations, and essential external financing agreements/covenants in the financial year.

3. 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 at large	Socio Economic Status	Completion of 76% of the Road Project has contributed towards improvement of 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

4. Environmental and Sustainability reporting

The Kipwezi – Mutomo – Kitui – Migwani Road Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the attainment of peace 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.

Environmental and Sustainability reporting (continued)

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 social amenities to the local residents through drilling of boreholes and 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.

Environmental and Sustainability reporting (continued)

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	Mutomo Community at km	Grading and repairing of road and construction of Culvert	215,000
4	Kyoani Community at km	Improved existing dam and excavated new shallow Wells	1,288,500
5	Kanzoa Community, Mutomo,	Improvement of existing dam	330,000
6	Local Community at km	Grading and maintenance of existing road to water point	205,000
7	Atongoi Pri. School, km	Cement and steel and levelling playground	254,800
8	Mutuni Community at km	Repair of existing road and construction of underground tank	1,272,800
9	UAE Sec. School at km	Grading and levelling of playing ground	203,000
10	Mutomo DCC Office	Grading and levelling of existing road	203,000
11	Local community at km	Construction of a dam for local community to store water	780,000
12	Community at km	Construction of an earth dam	880,000
13	Community at km +	Construction of earth dam	1,180,000
14	Kwakilui Primary School	Set up road sign & bump and road construction for school	200,000
15	Km School	Erection of 700m fence for the school	600,000
16	Migwani Town	Grading and levelling of existing road and	300,000
17	km Quarry community	Grading and levelling of existing road (6 km)	200,000
18	Kwa-Kilui to Ilika Kambi Road	Grading and levelling of existing road	6,000,000
19	Kwa Toma-Nzeeu River Road	Grading and levelling of existing road	1,000,000
20	Road from Nguuni Market	Grading and levelling of existing road	300,000
21	Ikutha Town	Construction Ikutha bus parking	6,637,026
22	Athi campsite	Water supply system	3,600,000
23	Ikutha Training center	Grading and levelling of existing compound	270,000
24	Kitui County Crusher Site	Bush Clearing and ground Levelling	270,000
25	Kwa Kilui Dispensary	Construction of Access Road	270,000
26	Kwa-Kilui / Ngungu Borehole	Drilling, Casing and Equipping of the Borehole	2,225,000
27	Kwa Kethi – Mosa Borehole	Drilling, casing and equipping of the borehole	2,250,000
28	Kisasi – Kavisuni Road	Levelling and grading of the road section	4,338,380
29	Kanyangi - Kwa Vonza Road	Repair and levelling, bumps and road signs	5,900,197
30	Kwa Vonza Jun-Mulutu Road	Repair and levelling, bumps and road signs	6,832,949
31	Kabati Borehole	Drilling, Casing and Equipping of Borehole	2,250,000
32	Tulia Earth dam	Construction of a 10,000 m3 dam at Tulia	50,000,000
33	Kitui Central- Majengo and Town	Grading of access road, bush clearing and desilting of Kalundu Dam	2,000,000
34	Chuluni-Nzambani Road Junct.	Repair and levelling	200,000
35	Ithookwe Primary School	Construction materials of toilet and fence	210,000
36	Unyaa Primary School	Construction pump house and water house	540,000
37	Maselele Primary School	Fencing with Chain link and Angle line posts	600,000
38	Mutendea Community	Construction of the dam	1,350,000
39	Kitui St. John Eudes Centre	Access road to St. John Eudes Rehab. Centre	800,000
40	AIC Mutonguni Girls Sec.Sch.	Backfilling and levelling the on the school dormitory	200,000
41	Repair of the existing road from Kwa Kilui Crusher to Mulutu	Graveling, Levelling, trimming and compaction of the existing road	1,246,859
Total Amount (KES)			109,837,510

5. 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, 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 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.

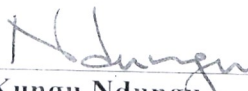
The Director General, KeNHA and Project Management for Kibwezi – Mutomo – Kitui – Migwani Road Project are of the opinion that the Project financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June, 30, 2023 and the Project's financial position as at that date.

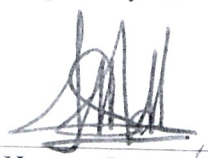
The Director General, KeNHA and the Project Implementation Team Leader for Kibwezi – Mutomo – Kitui – Migwani Road Project further confirm that completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial Statements as well 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 on26 SEP 2023.....and signed by them.

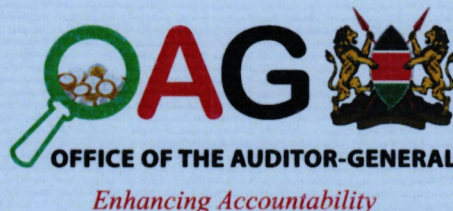

Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Ag. Director, Development


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

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON UPGRADING OF KIBWEZI-MUTOMO-KITUI-MIGWANI ROAD PROJECT NO. BLA2016K001 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 Upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project set out on pages 1 to 30, which comprise of the statement of

financial assets and liabilities as at 30 June, 2023, 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 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 Upgrading of Kibwezi-Mutomo-Kitui-Migwani Road Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and the Public Finance Management Act, 2012 and comply with the Loan 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. Interest on Delayed Payments

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects acquisition of assets of Kshs.167,855,694 which includes Kshs.32,107,000 which was paid as interest on delayed payments. Further, Annex 4 to the financial statements reflect pending bills amounts of Kshs.3,384,415,397 which includes interest on delayed payments totalling to Kshs.261,293,822.

In the circumstances, the delay in payment of certified works has made the Project costs to continue escalating with interest payments which are irregular charge to public funds.

2. Delayed Payments to Persons Affected by the Project (PAPs)

Annex 4 to the financial statements reflects a pending bills balance of Kshs.3,384,415,397 which includes amounts totalling to Kshs.1,604,681,725 for acquisition of land from persons who were affected by the implementation of the Project which had not been paid. Further, the Project Status Report reflected a balance of compensation to Project Affected Persons (PAP) amount of Kshs.2,358,005,175, which differed with Annex 4 to the financial statements which reflected outstanding amount of Kshs.1,604,681,725 resulting in an unexplained variance of Kshs.753,323,450. The Project risk losing funds through legal disputes with the affected persons.

In the circumstances, the accuracy and completeness of the pending bills on acquisition of land could not be confirmed.

3. Inaccuracies in the Statement of Cash flows

The statement of cash flow reflects total net cash flow from operating activities amounts of Kshs.172,370,600 which differed with the recalculated amounts of Kshs.178,439,876 resulting to an unexplained variance of Kshs.6,069,275.

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

4. Non-Disclosure of Retention Money

The statement of financial assets reflects cash and cash equivalent balance of Kshs.10,584,182 which excludes retention money totalling Kshs.3,034,123 deducted from payment to the contractors but had not been refunded. No explanation was provided for the anomaly.

In the circumstances, the accuracy and completeness of cash and cash equivalent balance of Kshs.10,584,182 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

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

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

Non-Completion of Works

Review of the Project documents revealed that the Management entered into a contract with the Contractor at a contract sum of Kshs.18,404,888,139 on 20 September, 2016. The date of commencement was 16 August, 2017 for a period of 42 months with expected completion date of 15 February, 2021. Later, there was an extension of 329 days thus, the revised completion date was 04 October, 2022 with the defects notification period of 12 months which was completed successfully.

Further, there was Addendum No.3 to the contract which increased the scope of the works to be done to include Tulia-Migwani-Mbondoni Road section which varied the contract cost by Kshs.3,141,024,204, thus raising the contract total sum to Kshs.21,545,912,342. The variation order was issued on 08 March, 2021.

However, physical verification carried out on 02 November, 2023 revealed that the insurance and the performance guarantees have all elapsed and the Contractor has ceased operations and abandoned the site with about 30% of increased scope of works in Addendum No.3, completed. The contractor took the action due to non-payment.

In the circumstances, the value for money realized from the Project could not be confirmed.

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 Export-Import Bank of China, I report based on my audit, that:

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

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and 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 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

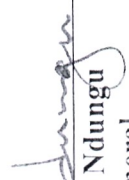
15 November, 2023

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2023

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

		FY 2022/23			FY 2021/22			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.	
	Note							
Receipts								
Transfer from Government entities	1	178,569,276	-	178,569,276	43,718,465	-	43,718,465	3,613,930,868
Loan from external Development Partners	2	-	-	-	-	-	-	15,597,222,456
Total Receipts		178,569,276	-	178,569,276	43,718,465	-	43,718,465	19,211,153,324
Payments								
Purchase of Goods & Services	3	129,400	-	129,400	68,200	-	68,200	39,885,300
Acquisition of non-financial assets	4	167,855,694	-	167,855,694	43,650,265	-	43,650,265	19,160,683,842
Total Payments		167,985,094	-	167,985,094	43,718,465	-	43,718,465	19,200,569,142
Surplus / (Deficit) for the year		10,584,182	-	10,584,182	-	-	-	10,584,182

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


Eng. Kungu Ndungu
 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

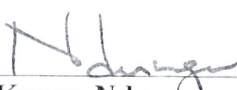
Date

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2023

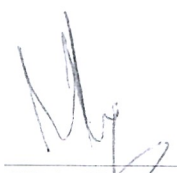
2. Statement of Financial Assets as at 30th June 2023

	Notes:-	2022/23 Kshs.	2021/22 Kshs.
Financial Assets			
Cash and Cash Balances	5	13,618,305	-
Total Financial Assets		13,618,305	-
Financial Liabilities			
Payables - Retentions	6	3,034,123	-
Net Assets		10,584,182	-
Represented By:-			
Surplus / (Deficit) for the year		10,584,182	-
Fund balance b/fwd	8	-	-
Net Financial Position		10,584,182	-

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. Kungu Ndungu
 Director General


Eng. Henry Gakuru
 Ag. Director, Development


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

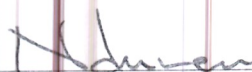
3. Statement of Cashflow for the year ended 30th June 2023

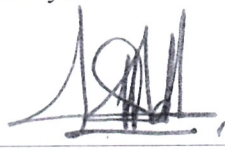
	Note	2022/23 Kshs.	2021/22 Kshs.
Receipts			
Receipts for operating income			
Transfers from Government entities			
Transfer from government entities	1	178,569,276	43,718,465
Total Receipts		178,569,276	43,718,465
Payment for operating expenses			
Purchase of goods and services			
Project operating costs	3	(129,400)	(68,200)
Total Payments		(129,400)	(68,200)
Net cash flow from operating activities		172,370,600	43,650,265
Cashflow From Investing Activities			
Acquisition of road assets	4	(167,855,694)	(43,650,265)
Net cash flows from Investing Activities		(167,855,694)	(43,650,265)
Cashflow From Borrowing Activities			
Proceeds from Foreign Borrowings	2	-	-
Net cash flow from financing activities		-	-
Net Increase in Cash and Cash Equivalent		10,584,182	-
Cash and cash equivalent at Beginning of the year		-	-
Cash and cash equivalent at End of the year		10,584,182	-

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

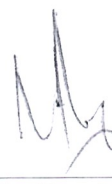
26 SEP 2023

and signed by:


Eng. Kungu Ndungu
Director General



Eng. Henry Gakuru
Ag. Director, Development

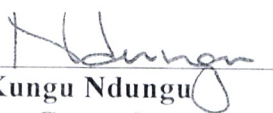


CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No: 8279

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

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	125,000,000	53,569,276	178,569,276	178,569,276	-	100%
Proceeds from foreign borrowings	500,000,000	(500,000,000)	-	-	-	0%
Total Receipts	625,000,000	(446,430,724)	178,569,276	178,569,276	-	100%
Payments						
Purchase of goods and services	625,000,000	(446,430,724)	178,569,276	129,400	10,584,182	94%
Acquisition of non-financial assets				167,855,694		
Total Payments	625,000,000	(446,430,724)	178,569,276	167,985,094	10,584,182	94%
Surplus / (Deficit)	-	-	-	(10,584,182)	(10,584,182)	

Note: The significant budget utilisation/performance differences in the last column are explained in Annex 2 to these financial statements.


Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Ag. Director, Development


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

26 SEP 2023
Date

26 SEP 2023
Date

26 SEP 2023
Date

5. Significant Accounting Policies

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

a) Statement of compliance and basis of preparation

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

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

b) Reporting entity

The financial statements are for the Kibwezi – Mutomo – Kitui – Migwani Road Project under the Kenya National Highways Authority. The financial statements encompass the reporting entity as specified in the relevant legislation 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.

Significant Accounting Policies (Continued)

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 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.

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.

Significant Accounting Policies (Continued)

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

e) Recognition of payments

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

i) Compensation 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 consolidated financial statements.

f) In-kind donations

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

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

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

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

h) Restriction on cash

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

i) Imprests and Advances

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

Significant Accounting Policies (Continued)

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, 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.

k) Contingent Assets

The Kibwezi – Mutomo – Kitui – Migwani Road Project 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 Kibwezi – Mutomo – Kitui – Migwani Road Project 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)

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, 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..

Significant Accounting Policies (Continued)

During the year no 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). Explanations and details of these prior period adjustments are presented in **note 9** of these financial statements.

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2023***6. Notes to the Financial Statements****1. Transfers from Government entities**

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

	2022/23	2021/22	Cumulative
	Kshs	Kshs	to-date
Counterpart funds Quarter 1	12,500,000	43,416,739	215,794,544
Counterpart funds Quarter 2	-	301,726	848,891,366
Counterpart funds Quarter 3	-	-	838,630,077
Counterpart funds Quarter 4	25,600,000	-	1,570,145,605
TOTAL	38,100,000	43,718,465	3,473,461,592
<i>Other transfers from government entities</i>			
Fuel Levy funds Quarter 1	-	-	-
Fuel Levy funds Quarter 2	18,750,000	-	18,750,000
Fuel Levy funds Quarter 3	37,500,000	-	37,500,000
Fuel Levy funds Quarter 4	18,750,000	-	18,750,000
Total	75,000,000	-	75,000,000
<i>Annuity fund</i>			
Annuity funds Quarter 1	-	-	-
Annuity funds Quarter 2	-	-	-
Annuity funds Quarter 3	-	-	-
Annuity funds Quarter 4	59,400,000	-	59,400,000
Total	59,400,000	-	59,400,000.00
Appropriations-in-Aid	6,069,276	-	6,069,276
Total	6,069,276	-	6,069,276
Grand Total	178,569,276	43,718,465	3,613,930,868

Notes to the Financial Statements (Continued)

2. Loan from External Development Partners

During the financial period to 30 June 2023, we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

FY 2022/23						FY 2021/22	Cumulative to date
Name of Donor	Date Received	Amount in loan currency	Loans received in actual amount	Loans Received as Direct payments	Total amount	Total amount	
					FY 2022/23	FY 2021/22	
		USD		Kshs	Kshs	Kshs Restated	Kshs Restated
Loans Received from Multilateral Donors							
Exim Bank of China	FY 2022/23	-	-	-	-	-	15,597,222,456
Total		-	-	-	-	-	15,597,222,456

3. Purchase of Goods and Services

	FY 2022/23			FY 2021/22	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	129,400	-	129,400	68,200	28,652,061
Advertising and services	-	-	-	-	11,233,239
Total	129,400	-	129,400	68,200	39,885,300

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2023***Notes to the Financial Statements (Continued)****4. Acquisition of Non-Financial Assets**

	FY 2022/23			FY 2021/22	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs Restated	
Construction of roads	123,536,277	-	123,536,277	43,650,265	18,834,823,941
Acquisition of land	44,319,417	-	44,319,417	-	325,859,901
Total	167,855,694	-	167,855,694	43,650,265	19,160,683,842

5. Cash and Cash Equivalents

	2022/2023 Kshs	2021/2022 Kshs
Bank Accounts (Note 5A)	13,618,305	-

5 (A) Bank Accounts

	2022/2023 Kshs	2021/2022 Kshs
Co-operative Bank of Kenya Ltd A/C: 01141160979900	10,584,182	-
National Bank of Kenya A/C No. 0100132733200	3,034,123	-
Total	13,618,305	-

6. Accounts Payables - Retentions

Description	2022/2023 Kshs	2021/2022 Kshs
Retention	3,034,123	-
Total	3,034,123	-

Notes to the Financial Statements (Continued)

7. Changes in Accounts Payable –Retentions

Description	2022-2023	2021-2022
	Kshs	Kshs
Retentions as at 1 st July	-	-
Closing accounts payables as at 30 th June	3,034,123	-
Change in payables	3,034,123	-

8. Fund Balance Brought Forward

	2022-2023	2021/2022
	KShs	KShs
Bank accounts	-	-
Total	-	-

9. Prior Year Adjustment

	Balance b/f FY 2021/2022 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2021/2022
Description	Kshs	Kshs	Kshs
Pending Accounts Payable	3,566,847,684	(32,184,620)	3,534,663,064
Total	3,566,847,684	(32,184,620)	3,534,663,064

The prior year adjustment relates to correction of an overstatement in amounts payable to Kenya Forest Service by (Kshs 609,693.51), an erroneous inclusion of a pending bill amount of (Kshs 78,507,391) in PY financial statements and a payment of Kshs 46,932,465 for IPC no 09 that was not settled by the development partner

KIBWEZI – MUTOMO – KITUI – MIGWANI ROAD PROJECT*Annual Report and Financial Statements for the financial year ended June 30, 2023***Notes to the Financial Statements (Continued)****Other Important Disclosures****1. Pending Accounts Payable (Annex 4)**

	Balance b/f FY 2022/2023	Additions for the period	Paid during the year	Balance c/f FY 2022/2023
Description	Kshs (Restated)	Kshs	Kshs	Kshs
Construction of Roads	1,806,161,547	-	101,444,499	1,704,717,048
Acquisition of Land	1,649,001,142	-	44,319,417	1,604,681,725
Supply of Services	79,500,374	17,737,428	22,221,178	75,016,624
Total	3,534,663,064	17,737,427	167,985,094	3,384,415,397

2. External Assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs Restated
External assistance received as loans	-	-
Total	-	-

a). External assistance relating loans

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs Restated
External assistance received as loans	-	-
Total	-	-

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used*	FY 2022/2023	FY 2021/2022
Description		Kshs	Kshs
Undrawn external assistance - loans		-	-
Total		-	-

*The undrawn balance from the Development Partner was not utilized since the finance agreement lapsed in FY 2021/22 prior to project completion.

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Notes to the Financial Statements (Continued)

c) classes of providers of external assistance

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs Restated
Bilateral donors	-	-
Total	-	-

d Purpose and use of external assistance

Payments Made by Third Parties	FY 2022/2023	FY FY 2021/2022
	Kshs	Kshs Restated
Acquisition of Assets	-	-
TOTAL	-	-

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 2022/2023	FY 2021/2022
Description	Kshs	Kshs Restated
Bilateral donors	-	-
Total	-	-

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7. Annexes

Annex 1 - Prior Year Auditor-General's Recommendations

Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
1	BASIS FOR QUALIFIED OPINION Unsupported Expenditure The statement of receipts and payments and Note 4 to the financial statements reflects an expenditure of Kshs. 46,932,465 on acquisition of non-financial assets, which was presumably paid by the financier. However, no documentary evidence was provided for audit review to confirm the disbursement of the payments by the Lender.	We disagree with the audit observation that an expenditure amounting to Kshs 46,932,465 was not supported. The payment voucher and the supporting documents for the expenditure amounting to Kshs 46,932,465 was availed to the audit team during the audit exercise. On 14th August 2023 however, the National Treasury wrote to advise that this payment amounting to Kshs 46,932,465 was not settled by the Development Partner. The Project's financial statements for FY 2022/23 have therefore been adjusted to reflect the non payment of the amounts by the Development Partner.	Resolved	Closed
2	Interest on Delayed Payments Annex 3 to the financial statements reflects pending bills totaling to Kshs. 3,566,237,990. Review of interim payment certificates relating to the pending bills revealed that the company which was awarded the contract charged interest on delayed payments amounting to Kshs.338,775,822, as analyzed below;	It is true that the project attracted interest on delayed payments which were occasioned by: a. The financiers' requirement that the development partner portion can only be settled upon proof that GK counterpart portion of each IPC has been settled. b. Inadequate Budgetary allocations as well as delays in release of exchequer funds led to delays in processing GK counterpart portion and by extension	Not resolved	Ongoing

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Ref. No.	Issue / Observations from Auditor			Management comments	Status:	Timeframe:
	Interim Payment Certificate No.	No. of Days Delayed	Interest in (Kshs)			
	2-5	433	215,284,609	the Development partner portion. We wish to note that interest charge is provided for in the contract whenever the payments are delayed and is solely borne by the Exchequer funds. In FY 2022/23 however, the Authority received a budgetary allocation amounting to Kshs 625,000,000 (AIA Kshs 500,000,000 and GK Kshs 125,000,000). The budgetary allocations were utilized in settling part of the pending bills. The Authority will subsequently endeavor to allocate adequate budgets to the project to facilitate settlement of the entire pending bills as well as completion of the Project.		
	6-7	148	119,076,221			
	8	40	4,414,992			
	Total		338,775,822			
	The interest has been levied on the project even though from the project information all the committed funds have been received and paid out. This is a cost which could have been avoided had Management made the payments as and when they were due, considering that the project had adequate funding at the time. Consequently, the interest payable charged to the project is an irregular charge to public funds					
3	Accuracy of the Financial Statements The statement of receipts and payments reflects comparative receipts and payments controlled by the entity amount of Kshs. 796,772,220 and Kshs.945,910,929 respectively resulting to a deficit of Kshs. 149,138,709. Although Note 7 to the financial statements indicates that the Kshs. 149,138,709 was used to pay retention monies, it is not clear how the funds were			We disagree with the audit observation that the financial statements contained inaccuracies. As explained at the time of audit, we wish to clarify as follows: A. The retention amount of Kshs 149,138,709 was retained from the contractor's IPCs, budgeted and funds set aside in the Authority's retention account in the financial year 2019/20. The Project's financial statements for FY 2019/20 indicates a closing cash balance of Kshs	Resolved	Closed

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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	obtained and how they were disbursed, considering that the financial statements are prepared on cash basis.	149,138,709 which were held in the Authority's retention bank account.		
	In the circumstances, it was not possible to confirm the accuracy of the acquisition of non-financial assets cumulative balance of Kshs 19,039,760,613. Further, it was not possible to confirm that the project's financial statements were presented in line with the prescribed reporting format	B. The funds were released to the Contractor in FY 2020/21 as indicated in FY 2020/21 financial statements and were accounted as acquisition of non-financial assets in the same financial year. This is in line with IPSAS cash Accounting which requires recognition of expenditures only when cashflows are incurred.		
		The retention amount of Kshs 149,138,709 was therefore presented and accounted for in the financial statements in line with the requirements of cash-based accounting and the reporting template issued by the National Treasury.		
1	OTHER MATTER Delayed Payments to Persons Affected by the Project Annex 3 to the financial statements reflects pending bills balance of Kshs.3,566,237,990 as at 30 June, 2022 which includes a balance of Kshs.1,643,845,580 for acquisition of land from Project Affected Persons (PAP). Review of the project file revealed complaints by the PAPs and legal cases filed against the Authority due to delayed compensations, as detailed below;	The land compensation amounts for the referenced parcels of land remained outstanding due to inadequate budgetary allocation in the current as well as prior financial years. The Authority settled part of the outstanding bills using FY 2022/23 GK budgetary allocation of Kshs 125,000,000 and also endeavour to allocate adequate budgetary allocation in the next financial year/s to	Not resolved	Ongoing

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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	a. A complaint by four (4) PAPs with regard to compensation for parcels of land No. 2331/2332/2386/2387 at Kisasi/Mosa, which had been gazetted by the National Land Commission (NLC) on 28 August, 2020. It was not clear whether the funds for compensation were transferred to the NLC since the four (4) beneficiaries had not been compensated as at the end of the financial year. b. Compensation for compulsory acquisition of parcels of land from residents of Ikutha village in Kitui County. On 12 January, 2018, NLC through the Kenya Gazette Notice No. 177 of 2018 published its intention to acquire 50 parcels of land in Ikutha/Mbitini. Through a letter to KeNHA, the residents complained about delayed payments which had not been paid by the end of 2020/2021 financial year. c. A local firm of advocates, acting on behalf of the residents, issued letter to KeNHA and NLC indicating that the parcels of land acquired were valued and awards given to individual proprietors, and that some awards were later revised downwards without any justification. According to the letter, the residents decided to pursue the matter through an	facilitate settlement of the entire pending bills The land compensation amounts for the referenced parcels of land remained outstanding due to inadequate budgetary allocation in the current as well as prior financial years. The Authority settled part of the outstanding bills using FY 2022/23 GK budgetary allocation of Kshs 125,000,000 and also endeavour to allocate adequate budgetary allocation in the next financial year/s to facilitate settlement of the entire pending bills The land compensation amounts for the referenced parcels of land remained outstanding due to inadequate budgetary allocation in the current as well as prior financial years. The Authority settled part of the outstanding bills using FY 2022/23 GK budgetary allocation of Kshs 125,000,000 and also endeavour to allocate adequate budgetary allocation in the next financial year/s to facilitate settlement of the entire pending bills The amount payable to the Project Affected Persons remains outstanding due to inadequate exchequer budgets. The Authority however		

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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	advocate since they has not been compensated by the time of this audit. d. Five (5) PAPs were to be compensated for their parcels of land. However, due to delays in compensation, the five PAPs issued a 14-days-notice of legal action against the Authority, if the compensation will not have been paid within the 14 days. However, there was no evidence of payment of the compensation, by the time of this audit. e. The pending bills Annex reflected an amount of Kshs.280,930,790 as the PAP compensation paid to date. However, the schedule for beneficiaries was not provided for audit review, therefore it was not possible to confirm the validity of the payment. In view of disputes between the Authority and PAPs described above, the Project risks losing funds through award of damages, penalties and interest, which are costs which can be avoided.	replied to the Chairman, Project Affected Persons assuring them of the Authority's commitment to settle the outstanding land compensation. The amounts will be settled upon receipt of exchequer funding. The schedule of PAPs who were compensated using the amount of Kshs 280,930,790 was availed to the audit team during the audit process and a copy is available for further review.		
2	Budgetary Control and Performance The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totaling to Kshs.490,000,000 and Kshs.90,650,930	We agree with the observation that the project experienced underfunding of 81%. The under absorption of funds in the financial year arose from the exhaustion of the Development Partner funding as indicated in note 1.7 (funding summary) of the financial statements.	Resolved	Closed

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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	respectively, resulting to an underfunding of Kshs.399,349,070 or 81% of the budget. Similarly, the Project spent Kshs.90,650,930 against an approved budget of Kshs.490,000,000, resulting to an under expenditure of Kshs.399,349,070 or 81% of the budget. The underfunding and under performance may have affected the planned activities for the Project and this may have impacted negatively on service delivery to the public.	The Authority will however continue to ensure that budgetary controls are adhered to.		
3	Pending Bills Annex 3 to the financial statements reflects pending bills of Kshs.3,566,237,990 as at 30 June, 2022 which were not settled during the financial year 2021/2022 but were instead have been carried forward to 2022/2023 financial year, notwithstanding the fact that the initial for the project information funding summary shows that all the project committed funds by both the financier and Government of Kenya have been fully received and paid out. Further, the pending bills of Kshs.3,566,237,990 includes an amount of Kshs.1,915,289,734 which relates to 2020/2021 and earlier years. Failure to settle bills in the year to which they relate affects the budget for the subsequent year	We agree with the audit observation that the project had pending bills as at close of the financial year. This was occasioned by inadequate Budgetary allocations as well as delays in release of exchequer funds led to delays in processing GK counterpart portion as well as the development Partner portion. In FY 2022/23, the Project received a GK budgetary allocation amounting to Kshs 125,000,000. The budgetary allocations were utilized in settling part of the pending bills. The Authority will subsequently endeavor to allocate adequate budgets to the project to facilitate settlement of the entire pending bills as well as completion of the Project.	Not resolved	Ongoing

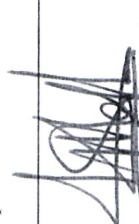
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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	on which they form a first charge. This also affects the efficiency with which the project is implemented.			
	BASIS FOR CONCLUSION Variation of Contract without and Approved Budget Review of sources of funds for the project revealed that the Bank and Government of Kenya committed Kshs. 15,644,154,921 and Kshs. 3,435,361,592 respectively, for the project. These funds had been received and utilized towards the project. Further review of records provided for audit revealed that the Authority amended the project's commercial contract by increasing the contract sum payable to the Contractor from Kshs.18,404,888,139 to Kshs. 21,545,912,343, an increment of Kshs. 3,141,024,204. This amendment of the contract, which was done on 28 April, 2021, was based on an unsigned letter dated 23 April,2021 from the Permanent Secretary, National Treasury. In the circumstances, it was not possible to confirm validity of the variation of the contract sum.	We disagree with the Audit observation that the project was varied without an approved budget. We wish to note the following: A. The Project is a multi-year project whose funding is dependent on the annual allocations in line with Government Budgeting cycle. B. The contract was varied in FY 2020/21 when project had a GK budget of Kshs 632,234,719. The project further had a budgetary allocation amounting to Kshs 490,000,000 in the subsequent FY 2021/22 Budget. C. Due to the multi-year nature of the Project, the Project's Budgeting process is part of annual Government Budget process, hence may not be possible to avail the entire multi-year Project Budget at the point of signing the contract due to Exchequer constraints. D. The letter ref: TNT/RMD/25/214/78/03/KIB.MUTOMO/vol.1(3) was addressed to the Development Partner from the PS National Treasury, with a copy to the Cabinet Secretary (Transport, Infrastructure and Housing, Urban Development and Public Works), PS-Infrastructure and The Director General,	Resolved	Closed

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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
		KeNHA. The Authority is in receipt of its original copy of the letter which is signed/endorsed by the PS, National Treasury and a copy is available for further reference. The Authority is however committed to completion of the project and will endeavour to allocate adequate funds in the following financial year in order to facilitate its completion and hand over to the employer hence availability for public use.		


Eng. Kungu Ndungu
 Director General


Eng. Henry Gakuru
 Ag. Director, Development

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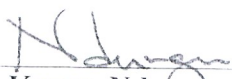
Annex 2 - Variance Explanations - Comparative Budget and Actual amounts for Current FY

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Transfers from Government entities	178,569,276	178,569,276	-	100%	
External financing	-	-	-	-	
Total receipts	178,569,276	178,569,276	-		
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	178,569,276	129,400	10,584,182	94%	
Acquisition of non-financial assets		167,855,694			
Total Payments	178,569,276	167,985,094	10,584,182		

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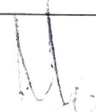
Annex 3 - Reconciliation of Inter-Entity Transfers

Break down of Transfers from the State Department of Roads			
	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
a.	Government Counterpart Funding		
	30/09/2022	12,500,000	FY 2022/23
	27/06/2023	25,600,000	FY 2022/23
	Total	38,100,000	
b.	Direct Payments		
	Total	-	
c.	Others		
	Fuel Levy Funds		
	17/11/2022	18,750,000	FY 2022/23
	03/03/2023	18,750,000	FY 2022/23
	30/03/2023	18,750,000	FY 2022/23
	27/06/2023	18,750,000	FY 2022/23
	Total	75,000,000	
	Annuity fund		
	25/05/2023	59,400,000	FY 2022/23
	Total	59,400,000	
	Appropriations-in-Aid		
	12/04/2023	6,069,276	FY 2022/23
	Total	6,069,276	
	TOTAL(a+b+c)	178,569,276	


Eng. Kungu Ndungu
Director General

26 SEP 2023

Date


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

26 SEP 2023

Date

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Annex 4 - Analysis of Pending Bills

Supplier of Goods or Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance FY 2022/23	Outstanding Balance FY 2021/22 (Restated)	Comments
	b	a	c	d=a-c		
Construction of roads						
SINOHYDRO CORPORATION	30/03/2021	215,284,609	77,482,000	137,802,609	215,284,609	2-5 I
SINOHYDRO CORPORATION	01/09/2021	628,204,841	15,680,300	612,524,541	628,204,841	1
SINOHYDRO CORPORATION	23/12/2021	628,204,841	-	628,204,841	628,204,841	2
SINOHYDRO CORPORATION	17/11/2021	119,076,221	-	119,076,221	119,076,221	6-7 Interest
SINOHYDRO CORPORATION	02/03/2022	78,998,607	-	78,998,607	78,998,607	1- C'Reimbursement
SINOHYDRO CORPORATION	11/05/2022	76,762,772	-	76,762,772	76,762,772	VAT
SINOHYDRO CORPORATION	09/05/2022	4,414,992	-	4,414,992	4,414,992	8-Interest
SINOHYDRO CORPORATION	06/06/2022	55,214,664	8,282,200	46,932,465	55,214,665	9
Total Construction of roads		1,806,161,547	101,444,499.66	1,704,717,048	1,806,161,547	
Acquisition of Land						
KENYA FOREST SERVICE	16/07/2021	5,765,256	-	5,765,256	5,765,256	Inv.68887
ACQUISITION OF LAND		1,924,776,370	325,859,901	1,598,916,469	1,643,235,886	
Total Acquisition of Land		1,930,541,626	325,859,901	1,604,681,725	1,649,001,142	
Supply of services						
APEC CONSORTIUM	25/01/2021	5,595,343	5,595,343	-	595,343	32
APEC CONSORTIUM	04/03/2021	4,224,886	4,224,886	-	4,224,886	33
APEC CONSORTIUM	07/05/2021	9,073,860	9,073,860	-	9,073,860	35
APEC CONSORTIUM	20/05/2021	4,224,886	4,224,886	-	4,224,886	36
APEC CONSORTIUM	12/10/2021	23,606,000	4,069,276	19,536,724	23,606,000	37
APEC CONSORTIUM	21/10/2021	5,901,500	-	5,901,500	5,901,500	38
APEC CONSORTIUM	09/11/2021	5,901,500	-	5,901,500	5,901,500	39
APEC CONSORTIUM	24/01/2022	7,479,100	-	7,479,100	7,479,100	41

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Supplier of Goods or Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance FY 2022/23	Outstanding Balance FY 2021/22 (Restated)	Comments
APEC CONSORTIUM	04/03/2022	6,690,300	-	6,690,300	6,690,300	42
APEC CONSORTIUM	03/03/2022	5,901,500	-	5,901,500	5,901,500	43
APEC CONSORTIUM	05/05/2022	5,901,500	-	5,901,500	5,901,500	44
APEC CONSORTIUM	21/02/2023	17,704,500	-	17,704,500	-	45
Total Supply of services		102,204,874	27,188,250	75,016,624	79,500,374	
Grand Total		3,838,908,048	454,492,651	3,384,415,397	3,534,663,064	

Annex 5 – Summary of Fixed Asset Register

Asset class	Opening Cost (KShs Restated) 2022/23	Donations in form of assets (KShs) 2022/23	Purchases/Additions in the Year (KShs) 2022/23	Disposals in the Year (KShs) 2022/23	Transfers in/(out) (KShs) 2022/23	Closing Cost (KShs) 2022/23
	(a)	(b)	(c)	(d)	(e)	(f)= (a)+ (b)+ (c)- (d)- (e)
Construction of Roads	18,711,287,664	-	123,536,277	-	-	18,834,823,941
Acquisition of Land	281,540,484	-	44,319,417	-	-	325,859,901
Total	18,992,828,148	-	167,855,694	-	-	19,160,683,842