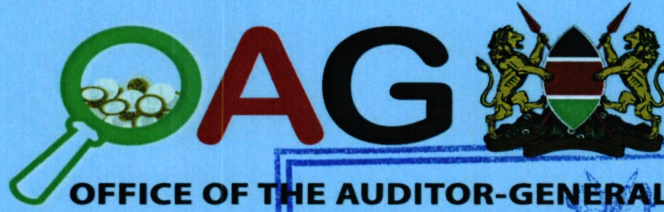


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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

**THE NATIONAL ASSEMBLY
PAPERS LAID**

REPORT DATE: 18 FEB 2021

DAY:
Thursday

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OF KENYA
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BY:**

L. O. M.

**CLERK-AT
THE-TABLE:**

P. Muiga.

THE AUDITOR-GENERAL

ON

**KENOL-SAGANA-MARUA HIGHWAY
IMPROVEMENT PROJECT
NO. P-KE-DBO-037**

**FOR THE YEAR ENDED
30 JUNE, 2020**

**KENYA NATIONAL HIGHWAYS
AUTHORITY**



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



Kenya National Highways Authority

Quality Highways, Better Connections

**Project Name – KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT
PROJECT**

**Implementing Entity – KENYA NATIONAL HIGHWAYS AUTHORITY -
(KeNHA)**

**PROJECT GRANT: –ADB LOAN ID P-KE-DB0-O37
PROJECT NOs. 5050200000901 & 20020004504.**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FIVE MONTHS PERIOD ENDING
JUNE 30, 2020**

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Project Name	Kenol - Sagana - Marua Highway Improvement Project
---------------------	--

Project Objectives	<ul style="list-style-type: none">a) To enhance movement of goods/ services (trade) and people between the counties in Central, Eastern Kenya and the capital city, Nairobi and also links with Ethiopiab) Contribute to the social and economic development efforts by providing more efficient and effective transport system.
---------------------------	---

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)
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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:	9 th January, 2020
Project End Date:	31 st December, 2023
Project Manager:	Eng. D.A Muchilwa – Director, Development Eng. D. Cherono – Project Engineer.
Project Sponsor:	The Export – ADB

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

Reports and Financial Statements

For the five months period ending June 30, 2020

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 and Public Works.																						
Project number	N/A																						
Strategic goals of the Project	<p>The project management aims to achieve the goals through the following means:-</p> <p>(i) To support the transport infrastructure sector to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards.</p> <p>(ii) To promote trade and regional integration.</p> <p>(iii) To improve road transport services by reducing travel time and vehicle operating cost</p>																						
Other important background information of the project	<p>PROJECT COMPONENTS AND COSTS - LOAN</p> <table border="1"> <thead> <tr> <th></th> <th>Foreign Exchange Cost</th> <th>Total Cost</th> </tr> <tr> <th></th> <th>Euro</th> <th>Euro</th> </tr> </thead> <tbody> <tr> <td>A. Civil Works</td> <td></td> <td></td> </tr> <tr> <td>ADB</td> <td>178,020,000</td> <td>178,020,000</td> </tr> <tr> <td>AGTF</td> <td>31,150,000</td> <td>31,150,000</td> </tr> <tr> <td>Government of Kenya</td> <td>48,510,000</td> <td>48,510,000</td> </tr> <tr> <td>TOTAL</td> <td>257,680,000</td> <td>257,680,000</td> </tr> </tbody> </table> <p>The total cost of the Project is EUR 257.68 million. The Project is co-financed by the Bank Group (69%), Africa Growing Together Fund (12 %) and Government of Kenya (19%). The overall implementation period is 5 years (2020 – 2025).</p> <p>PROJECT BACKGROUND: -</p> <p>The project road is part of the Kenyan section of Trans-Africa Highway, TAH4 (Cairo to Cape), through Nairobi on to Moyale. The project road also links the Capital City Nairobi to some of the major commercially and agriculturally rich Mt Kenya region as well as to Ethiopia through the Moyale border. The Project consists of the dualling of 84 km of the Kenol – Sagana – Marua road with grade separated junctions, road safety interventions and social complementary initiatives. The project also includes soft components such as training of unemployed youth; institutional capacity building; monitoring and evaluation; sensitization and awareness; tree planting, among others.</p>			Foreign Exchange Cost	Total Cost		Euro	Euro	A. Civil Works			ADB	178,020,000	178,020,000	AGTF	31,150,000	31,150,000	Government of Kenya	48,510,000	48,510,000	TOTAL	257,680,000	257,680,000
	Foreign Exchange Cost	Total Cost																					
	Euro	Euro																					
A. Civil Works																							
ADB	178,020,000	178,020,000																					
AGTF	31,150,000	31,150,000																					
Government of Kenya	48,510,000	48,510,000																					
TOTAL	257,680,000	257,680,000																					

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

Reports and Financial Statements

For the five months period ending June 30, 2020

	LOCATION AND EXTENT OF WORKS The proposed new dual carriageway is a Class A International Trunk Road, approximately 84 kms long. The project area in Central and upper Eastern region of Kenya covers five counties of Muranga, Machakos, Embu, Kirinyaga and Nyeri.
--	--

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

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.D. Cherono	PIU Team Leader/Manager
Mr. W. Nyatwanga	D. Director, (Environmental & Social)
Ms N. Odingo	CS/DD, Legal Services –Administration Staff (Legal)
Mr. R. Kilel	AD – Supply Chain Services -Administration Staff (Procurement)
Mr. Isaac Kamotho	AD – Finance & Accounts - Administration Staff (Finance)
Ms M. Mwangi	AD – Human Resource-Administration Staff (Human Resources)
Ms R. Oloo	AD – Environment/RAP Team (Sociologist)

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

Reports and Financial Statements

For the five months period ending June 30, 2020

1.7 Funding summary

The project is for duration of five years with an approved budget of EURO 257,680,000 equivalent to Kshs. 29,463,131,200 as highlighted in the table below:

Source of funds	Donor Commitments		Amount received to date (30.06.2020)		Undrawn balance to date (30.06.2020)	
	EURO (A)	Kshs (A')	EURO (B)	Kshs (B')	EURO (A)-(B)	Kshs (A') – (B')
(i) Loan						
ADB	178,020,000	20,354,806,800	-	-	-	-
AGTF	31,150,000	3,561,691,000	-	-	-	-
(ii) Counterpart Funds	48,510,000	5,546,633,400	-	27,972,967	-	5,518,660,433
Total	257,680,000	29,463,131,200	-	27,972,967	-	5,518,660,433

1.8 Summary of Overall Project Performance:

Budget performance against actual amounts for current year: -

BUDGET 2019/20	2019/2020		
	Actual	Budget	%
Counterpart Funds - Gok	27,972,967	40,000,000	70%
Loan from External Development Partners	-	550,000,000	-
Total	27,972,967	590,000,000	5%

The project is still at procurement stage and not much has been achieved in respect to Civil works.

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.

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

Reports and Financial Statements

For the five months period ending June 30, 2020

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Introduction

The key development objectives of the project are to:

- a) Improve road transport services along the corridor by reducing travel time and vehicle operating costs;
- b) Mitigating traffic congestion and associated emissions;
- c) Improving road safety along the road.

Progress on attainment of Strategic development objectives

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

Objective	Outcome	Indicator	Performance
Improve road transport services along the corridor by reducing travel time and vehicle operating costs;	Increased efficiency in transportation within the counties in Central, Eastern, Nairobi city and linkage with Ethiopia.	Reduction in travel time and vehicle operating costs	Contractor has been procured, the actual works to start in the FY 2020/21.
Mitigating traffic congestion and associated emissions;	Reduced traffic congestion and associated emissions.	Better traffic movements and less emission.	Contractor has been procured, the actual works to start in the FY 2020/21.
Improving road safety along the road.	Better road safety and reduction in accidents	Reduction in the number of accidents.	Contractor has been procured, the actual works to start in the FY 2020/21.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

3.1. 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

3.2. 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.

3.3. 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

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

Reports and Financial Statements

For the five months period ending June 30, 2020

(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.

3.4. 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.

3.5. 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

The Project is still in procurement stage but community engagements to be implemented include training of unemployed youth, institutional capacity building, monitoring and evaluation, sensitization and awareness and tree planting.

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

Reports and Financial Statements

For the five months period ending June 30, 2020

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General, KeNHA and the Project Management for Kenol – Sagana - Marua Highway Improvement 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, 2020. 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 Kenol – Sagana - Marua Highway Improvement 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 Kenol – Sagana - Marua Highway Improvement 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, 2020 and the Project's financial position as at that date.

The Director General, KeNHA and the Project Implementation Team Leader for Kenol – Sagana - Marua Highway Improvement 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 Kenol – Sagana - Marua Highway Improvement 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 Kenol – Sagana - Marua on26 AUG 2020.....2020 and signed by them.



Eng. Peter M. Mundinia
Director General



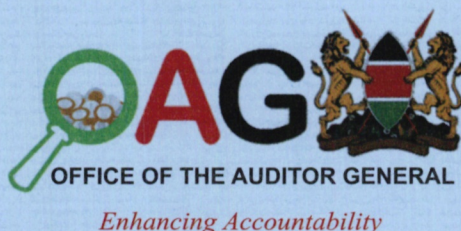
Eng. David A. Muchilwa
Director, Development



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

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON KENOL-SAGANA-MARUA HIGHWAY IMPROVEMENT PROJECT NO. P-KE-DBO-037 FOR THE YEAR ENDED 30 JUNE, 2020 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenol-Sagana-Marua Highway Improvement Project set out on pages 1 to 11, which comprise of the statement of financial assets and liabilities as at 30 June, 2020 and statement of receipts and payments, statement of cashflows and the statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with provisions of Article 229 of the Constitution of Kenya, 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, the financial statements present fairly, in all material respects, the financial position of the Kenol-Sagana-Marua Highway Improvement Project as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreements No.5050200000901 and 20002200004504 dated 9 January, 2020 between the African Development Bank (ADB) and the Republic of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenol-Sagana-Marua Highway Improvement 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 opinion.

Key Audit Matters

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

Other Matter

Budget Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.27,972,967 against estimated receipts of Kshs.590,000,000 resulting into shortfall of receipts of Kshs.562,027,033 or 95%. Similarly, the statement reflects actual expenditure of Kshs.27,972,967 against estimated expenditure of Kshs.590,000,000 resulting into an under-expenditure of Kshs.562,027,033 or 95%. Management has attributed the under expenditure to prolonged procurement processes.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by African Development Fund (ADF), except for the effects of the matter described under Other Matter section of my report, I report based on my audit, that: -

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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

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

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

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

The Board of Directors is responsible for overseeing the 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high

level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

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

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

28 December, 2020

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

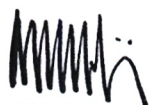
Reports and Financial Statements

For the five months period ending June 30, 2020

6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2020

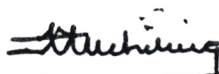
	Note	2019/20		2018/19		Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payments controlled by the entity	Payments made by third parties	
		Kshs.	Kshs.	Kshs.	Kshs.	
RECEIPTS						
Transfer from Government entities	10.3	27,972,967	-	-	-	27,972,967
Loan from external Development Partners	10.4	-	-	-	-	-
TOTAL RECEIPTS		27,972,967	-	-	-	27,972,967
PAYMENTS						
Purchase of Goods & Services	10.5	8,615,683	-	-	-	8,615,683
Acquisition of non-financial assets	10.6	19,357,284	-	-	-	19,357,284
TOTAL PAYMENTS		27,972,967	-	-	-	27,972,967
SURPLUS/DEFICIT		-	-	-	-	-

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



Eng. Peter M. Mundinia
Director General

26 AUG 2020
Date



Eng. David A. Muchilwa
Director, Development

26 AUG 2020
Date



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

26 AUG 2020
Date

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

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For the five months period ending June 30, 2020


7. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2020

	Notes	2019/20	2018/19
		Kshs.	Kshs.
FINANCIAL ASSETS			
TOTAL FINANCIAL ASSETS		-	-
REPRESENTED BY:-			
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 26 AUG 2020 2020 and signed by:



Eng. Peter M. Mundinia
Director General



Eng. David A. Muchilwa
Director, Development



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

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

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For the five months period ending June 30, 2020

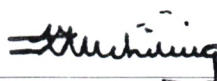
8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020

	Notes	2019/20	2018/19
		Kshs.	Kshs.
RECEIPTS			
Receipts for operating income			
Transfers from Government entities	10.3	27,972,967	-
Net Receipts for operating income		27,972,967	-
Payment for operating expenses			
Purchase of Goods and Services	10.5	(8,615,683)	-
Net Payments for operating expenses		(8,615,683)	-
Net cash flow from operating activities		19,357,284	-
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of non-financial assets	10.6	(19,357,284)	-
Net cash flows from Investing Activities		(19,357,284)	-
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at Beginning of the year		-	-
Cash and cash equivalent at End of the year		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 26 AUG 2020 2020 and signed by:



Eng. Peter M. Mundinia
Director General



Eng. David A. Muchilwa
Director, Development



CPA Chanje Kera
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KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

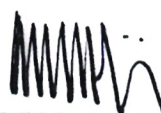
Reports and Financial Statements

For the five months period ending June 30, 2020


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	40,000,000	-	40,000,000	27,972,967	12,027,033	70%
Proceeds from foreign borrowings	-	550,000,000	550,000,000	-	550,000,000	-
Total Receipts	40,000,000	550,000,000	590,000,000	27,972,967	562,027,033	5%
Payments						
Purchase of goods and services				8,615,683		
Acquisition of non-financial assets	40,000,000	550,000,000	590,000,000	19,357,284	562,027,033	5%
Total Payments	40,000,000	550,000,000	590,000,000	27,972,967	562,027,033	5%


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


Eng. Peter M. Mundinia
Director General

26 AUG 2020
Date


Eng. David A. Muchilwa
Director, Development

26 AUG 2020
Date


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

26 AUG 2020
Date

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

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10. NOTES TO THE FINANCIAL STATEMENTS

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

10.1. Basis of Preparation

10.1.1. Statement of compliance and basis of preparation

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

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

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

10.1.2. Reporting entity

The financial statements are for the Nairobi Southern Bypass Road Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

10.1.3. 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.

10.2. 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.

- **Transfers from the Exchequer**

Transfer from Exchequer is 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.

- **External Assistance**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

• **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 recognised in the financial statements the time associated cash is received.

b) Recognition of payments

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

• **Compensation of employees**

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

• **Use of goods and services**

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

• **Interest on borrowing**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

• **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.

• **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.

c) 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.

d) 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

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SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) 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.

f) 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.

g) 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.

h) 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, no loan disbursements were received in form of direct payments from third parties.

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SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) 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.

j) 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.

k) 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, 2020.

l) 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.

10.3. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2019/20	2018/19	Cumulative to-date
	Kshs	Kshs	
Counterpart funds Quarter 1	869,400	-	869,400
Counterpart funds Quarter 2	4,203,900	-	4,203,900
Counterpart funds Quarter 3	3,204,734	-	3,204,734
Counterpart funds Quarter 4	19,694,933	-	19,694,933
TOTAL	27,972,967	-	27,972,967

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

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10.4. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2020 we received no funding from development partners.

10.5. PURCHASE OF GOODS AND SERVICES

Description	FY 2019/20			FY 2018/19	Cumulative to-date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence	6,074,146	-	6,074,146	-	6,074,146
Advertising and services	2,131,025	-	2,131,025	-	2,131,025
Hospitality Services	410,512	-	410,512	-	410,512
Total	8,615,683	-	8,615,683	-	8,615,683

10.6. ACQUISITION OF NON-FINANCIAL ASSETS

Description	FY 2019/20			FY 2018/19	Cumulative to-date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Consultancy Services	19,357,284	-	19,357,284	-	19,357,284
Total	19,357,284	-	19,357,284	-	19,357,284

10.7. CHANGES IN ACCOUNTS PAYABLE –RETENTIONS

As at 30th June 2020, there were no Retentions being held under the project. (30th June, 2019-NIL)

11. PENDING BILLS (Annex 2A)

As at 30th June 2020, there were no pending bills.

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT
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For the five months period ending June 30, 2020

12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

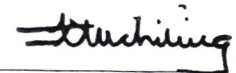
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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



Eng. Peter M. Mundinia
 Director General

26 AUG 2020
 Date



Eng. David A. Muchilwa
 Director, Development

26 AUG 2020
 Date

KENOL - SAGANA - MARUA HIGHWAY IMPROVEMENT PROJECT

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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	40,000,000	27,972,967	12,027,033	70%	Prolonged procurement process, however, in the FY 19/20 we were able to secure works contractor.
External financing	550,000,000.00	-	550,000,000.00	-	Prolonged procurement process however, in the FY 19/20 we were able to secure works contractor.
Total receipts	590,000,000	27,972,967	562,027,033	5%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	9,000,000	8,615,683	384,317	96%	
Acquisition of non-financial assets	581,000,000	19,357,284	561,642,716	3%	Prolonged procurement process, however, in the FY 19/20 we were able to secure works contractor.
Total Payments	590,000,000	27,972,967	562,027,033	5%	

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Reports and Financial Statements

For the five months period ending June 30, 2020

ANNEX 2A - ANALYSIS OF PENDING BILLS

As at 30th June 2020, there was no analysis of pending bills.

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	Purchases/Additions	Disposals in the	Closing Cost
	(KShs) 2019/20	(KShs) 2019/20	(KShs) 2019/20	(KShs) 2019/20
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	-	-		-
Consultancy Services	-	19,357,284		19,357,284
Land	-	-	-	-
Total	-	19,357,284	-	19,357,284

