

REPUBLIC OF KENYA



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DATE: 04 DEC 2024 DAY: WEDNESDAY

REPORT

BY: Hon. SILVANUS OSORO
MAJORITY PARTY WITH
CLERK AT THE TABLE: HAILE HUSSEIN

OF

THE AUDITOR-GENERAL

ON

**HORN OF AFRICA GATEWAY DEVELOPMENT
PROJECT GRANT/CREDIT NUMBER 6768-KE**

**FOR THE YEAR ENDED
30 JUNE, 2024**

STATE DEPARTMENT FOR TRANSPORT



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HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT

STATE DEPARTMENT FOR TRANSPORT

PROJECT GRANT/CREDIT NUMBER: 6768-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2024

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

Horn of Africa Gateway Development Project
Annual Report and Financial Statements for the financial year ended June 30, 2024

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1. Acronyms and Glossary of Terms

CBK	Central Bank of Kenya
EOI	Expression of Interest
HoAGDP	Horn of Africa Gateway Development Project
ICPAK	Institute of Certified Public Accountants of Kenya
IDA	International Development Association
IMF	International Monetary Fund
INTP	Integrated National Transport Policy
IPSAS	International Public Sector Accounting Standards
NEMA	National Environment Management Authority
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDOT	State Department of Transport
SESA	Strategic Environmental and Social Assessment
TOR	Terms of Reference
WB	World Bank

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is Horn of Africa Gateway Development Project (HoAGDP).

Objective

The project development objectives are:

- a) To improve movement of people, goods & services
- b) To improve digital connectivity and access to social services to Communities at designated locations along the targeted sections of the Isiolo -Mandera regional Road Corridor and,
- c) To improve capacity of selected transport-related Institutions in Kenya.

Address

The project headquarters offices are Nairobi City, Nairobi County, Kenya.

The address of its registered office is:

HoAGD Project State Department for Transport

Transcom House

P.O. Box 52692-00200

NAIROBI

Contacts: The following are the project contacts

Telephone: (254) 2729200

E-mail: ps@transport.go.ke

Website: www.transport.go.ke

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	7 th October, 2020
Project End Date:	30 th June, 2028
Project Manager:	Mr Wilson Njuki
Project Sponsor:	International Development Association (WORLD BANK)

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the State Department for Transport
Project number	Credit No. 6768-KE
Strategic goals of the project	To strengthen Institutional and build capacity in the State Department for Transport (SDoT) and Associated Institutions to effectively coordinate the development of the transport sector
Summary of Project Strategies for achievement of strategic goals	<ul style="list-style-type: none"> a) Finalizing the development of a 50-Year Integrated Multi modal Transport Master plan. b) Provision of technical assistance and to build capacity at SOoT to effectively oversee and monitor the performance of all modes of transport in the country. c) Review of the Traffic Act; d) Undertake appropriate studies on the appropriate locations for establishing a dry port along the Isiolo-Mandera Regional Road Corridor; e) Support to Kenya Railways Corporation in setting up fully fledged dedicated Commuter Rail Unit as well as Standard Gauge Railway (SGR) Unit to undertake business development and monitor operations and

	<p>maintenance of the Commuter Rail Services and SGR system respectively; and</p> <p>f) Enhance the capacity of the marine training school at Kisumu.</p> <p>g) Development of a National Electric Mobility Policy</p> <p>h) Support the undertaking of Strategic Environmental Social Impact Assessment (SESA) on the reviewed Integrated National Transport Policy {INTP}</p> <p>i) Acquisition of three project vehicles</p>
Areas that the project was formed to intervene	The main project components are on roads construction and laying of Fiber cabling to support ICT, Alongside the two main components, there is a component on institutional strengthening and capacity building in which the State Department for Transport (SDoT) and Associated Institutions are players
Project duration	8 Years

2.4 Bankers

The following are the bankers for the project:

Central Bank of Kenya

P.O Box 75104-00200

Nairobi, Kenya

2.5 Independent Auditor

The project is audited by the

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 GPO 00100

Nairobi, Kenya

2.6 Roles and Responsibilities

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

Names	Title designation	Key qualification	Responsibilities
Wilson Njuki	Chief Economist	Qualified	Project Manager
Esther Gacanja	Principal Economist	Qualified	Deputy Project Manager
Pauline Tanu	Finance Officer	Qualified	Project Finance Officer
Priscah Ochanda	Accountant	Qualified	Project Accountant
Robert Nakhungu	Procurement Officer	Qualified	Project Procurement Officer
Wendy Maina	Assistant Director Rail	Qualified	Member Technical
Rachel Wanyamwai	Assistant Director Roads	Qualified	Member Technical
Pius Muchai	Director ICT	Qualified	Member Technical

2.7 Funding summary

The Project is for duration of eight years from 2020 to 2028 with an approved budget of Euro 10,700,000 equivalent to Kshs 1.3 billion as highlighted in the table below:

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date – (30 th June 2024)		Undrawn balance to date	
	Donor currency (Euro)	Kshs	Donor currency (Euro)	Kshs	Donor currency (Euro)	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
IDA World Bank	10,700,000	1,342,850,000	1,019,444	149,623,695	9,680,556	1,193,226,305
(ii) Counterpart funds						
Government of Kenya	1,070,000	134,285,000	258,565	32,449,945	811,435	101,835,055
Total	11,770,000	1,477,135,000	1,278,009	182,073,640	10,491,991	1,295,061,360

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2024)		Cumulative amount paid to date – (30 th June 2024)		Unutilised balance to date (30 th June 2024)	
	<i>Donor currency (Euro)</i>	<i>Kshs</i>	<i>Donor currency (Euro)</i>	<i>Kshs</i>	<i>Donor currency (Euro)</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
(i) Loan						
IDA World Bank	1,019,444	149,623,695	909,899	132,235,888	109,599	17,387,807
(ii) Counterpart funds						
Government of Kenya	290,437	32,449,945	258,565	32,449,945	0	0
Total	1,309,881	182,073,640	1,168,464	164,685,833	109,599	17,387,807

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

i) Budget performance against actual amounts for current year and for cumulative to-date

In the Financial year 2023-2024 the actual budget performance was Kshs 96,850,096 against an approved budget of Kshs 300,000,000 resulting in an absorption rate of 32%. Cumulative expenditure to date is Kshs 164,685,833 against a budget of 889,852,894 resulting in an overall absorption of 19%

ii) Physical progress based on outputs, outcomes, and impacts since project commencement

So far, the aviation policy is being concluded and consultations with stakeholders on the National Transport policy are ongoing. Capacity building of the core project staff has been conducted to improve their understanding and performance of project functions resulting in higher absorption rates of the project funds.

iii) absorption rate for each year since the commencement of the project

<i>FY</i>	<i>2020/21</i>	<i>2021/22</i>	<i>2022/23</i>	<i>2023/24</i>
<i>Cummulative Absorption rate</i>	0%	3%	2%	7%

iv) List the implementation challenges and recommended next steps.

1. Frequent changes of the project implementation team since inception and when the new team would be put in place they are not conversant with the world bank procedures to effectively execute the PIT mandates- this was corrected in this financial year with a successful training of the current PIT members towards the end of the financial year 2023/24
2. Delayed execution in procurement due to inadequate capacity in the procurement section

2.9 Summary of Project Compliance:

The project implementation is in full compliance with PFM guidelines and procedures. All necessary approvals were obtained from the donor before any commitment was done. The project has adhered to all bank regulations and other Statutory Acts

3. Statement of Performance against Project's Predetermined Objectives

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the project's agreement/ plan are to:

- a) To support the SDOT to effectively oversee the development of all modes of transport (air, roads, railways and maritime)
- b) To finalize the development of 50 years integrated multi-modal transport master plan for the country
- c) To identify the locations for the roadside stations and dry ports along Isiolo – Mandera corridor
- d) To review the traffic Act
- e) To strengthen the Marine Training School in Kisumu

Progress on attainment of strategic development objectives

Toward realization of the above stated objectives, the State Department for Transport has engaged four experts who are supporting in transport coordination, air, Roads Transport policy developments and in railways. The development of the 50 years multi-modal transport master plan, clearance for the Expression of Interest was granted by the World Bank and has put on the papers and websites for the interested consultancy firms to apply. Clearance to advertise for consultancy services for identifications for the roadside stations has been sought from the World Bank. We have strengthened Kisumu Marine School by procuring various items for the school and trained officers from KCAA and SDOT in order to support skills development.

Project	Objective	Outcome	Indicator	Performance
Institutional Strengthening and Capacity Building	To support SDOT to effectively oversee the development of all modes of transport (air, roads, railways and maritime)	Improved quality of work by the State Department for Transport	1. Number of experts hired 2. Number of policies reviewed/developed	4 experts hired Concluding the aviation policy, Electric Policy is in finalization stage National Urban Transport Policy in preparation stage
	To finalize the development of 50 years integrated multi-modal transport master plan for the country	Improved transport planning and development	% completion of the masterplan	expression of interest advertised awaiting responses
	To identify the locations for the roadside stations and dry ports along Isiolo - Mandera corridor	Reduced accidents and incidents along the along Isiolo - Mandera transport corridors	% annual change in roads accidents and incidences	Terms of Reference (TOR) developed and cleared by World Bank. Expression of Interest (EOIs) idents submitted to World Bank for clearance for advertisement for Expression of Interest

	To review the traffic Act	Improved compliance with traffic laws and regulations	% completion of review	TOR being developed
	To strengthen the Marine Training School in Kisumu	<ul style="list-style-type: none"> •Increased enrolment in the marine school •Enhanced safety for the students 	Number of students enrolling annually <ul style="list-style-type: none"> • Number of drowning cases reported 	Procured safety item, 1 rescue boat procured 0 drowned

4. Environmental and Sustainability reporting

Overall environmental Safeguards Performance of the HOAGDP is moderately satisfactory while the Environment Risk-Rating is considered substantial because of the implementation of reviewed Integrated National Transport Policy and the 50-Year Transport Master Plan.

1. Sustainability strategy and profile

The accounting officer (The Principal Secretary ensures GOK counter parts for capacity building is allocated for sustainability of the project components)

2. Environmental performance

Under the institutional strengthening and capacity building components, the State Department for Transport operated under the existing environmental policies and with Presidential Directives on tree growing, its growing trees in different areas.

3. Employee welfare

The guiding principles for either recruiting experts is gender sensitivity while ensuring set standards are met.

4. Market place practices-

a) Responsible Supply chain and supplier relations-

The project through the procurement ensures considerations of the AGPO and prompt payments for the goods and services offered by the suppliers.

b) Responsible ethical practices

Open tendering process was exercised in all the procurement undertaken with support from the project.

c) Regulatory impact assessment

Safeguard citizen and stakeholder's rights.

5. Community Engagements

Under the institutional strengthening and capacity building, there was no direct involvement with the community along Isiolo – Mandera corridor. However, while undertaking the study on the RSS and the Dry ports location the components will supports the community on civic educations

5. Statement of Project Management responsibilities

The Principal Secretary for the State Department for Transport and the Project Manager for *Horn of Africa Gateway Development 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, 2024.

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 Principal Secretary for the State Department for Transport and the Project Manager for *Horn of Africa Gateway Development 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 International Public Sector Accounting Standards.

The Principal Secretary for the State Department for Transport and the Project Manager for *Horn of Africa Gateway Development Project* are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2024, and of the Project's financial position as at that date. The Principal Secretary for State Department for Transport and the Project Manager for *Horn of Africa Gateway Development Project* further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the State Department for Transport and the Project Manager for *Horn of Africa Gateway Development Project* confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and

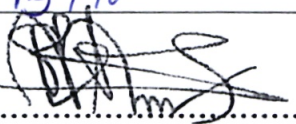

***Horn of Africa Gateway Development Project
Annual Report and Financial Statements for the financial year ended June 30, 2024***

that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project Financial Statements

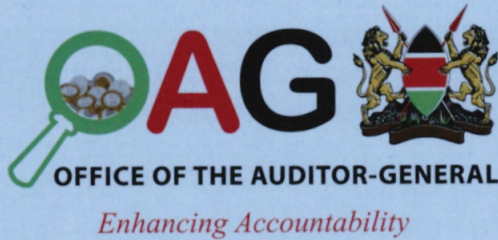
The Project financial statements were approved by the *Principal Secretary* State Department for Transport and the Project Manager for *Horn of Africa Gateway Development Project* on

15/10
2024 and signed by:

		
.....
Mr Mohamed Daghar	Mr Wilson Njuki	Priscah Ochanda
Principal Secretary	Project Manager	Project Accountant
		ICPAK Member No:13464

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: 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 HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT GRANT/CREDIT NUMBER 6768-KE FOR THE YEAR ENDED 30 JUNE, 2024 – STATE DEPARTMENT FOR TRANSPORT

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 the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the 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, risk management environment and 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, is effective in the use of resources, or that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Horn of Africa Gateway Development Project set out on pages 1 to 18, which comprise of the statement of

Report of the Auditor-General on Horn of Africa Gateway Development Project Loan No. 6768-KE for the year ended 30 June, 2024 – State Department for Transport

financial assets as at 30 June, 2024 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, the financial statements present fairly, in all material respects, the financial position of the Horn of Africa Gateway Development Project as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement between the International Development Association (IDA) and the Republic of Kenya dated 07 October, 2020.

Basis for Opinion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Horn of Africa Gateway Development Project Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted receipts of Kshs.300,000,000 consisting of Kshs.270,000,000 from the donor and Kshs.30,000,000 from GOK counterpart. However, the actual receipts amounted to Kshs.91,268,140 from the donor and a nil balance as counterpart funds, resulting in an under-collection of Kshs.208,731,860 or 70% of the budget. Further, the statement reflects a total budgeted expenditure of Kshs.300,000,000 against the actual expenditure of Kshs.96,850,096 resulting in an under-expenditure of Kshs.203,149,904.00 or 68% of the budgeted expenditure.

The under-funding and under-expenditure is an indication that the Project may not have achieved the planned objectives which may have a negative impact on service delivery to the public.

My opinion is not modified in respect of this matter.

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

Unresolved Prior Year Matters

In the audit report of previous year, several issues were raised under Emphasis of Matter and under the Report on Lawfulness and Effectiveness in Use of Public Resources. However, the issues remained unresolved at the end of the year under review. This is contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require the Accounting Officers designated to try to resolve any issues resulting from an audit that remain outstanding.

Other Information

Management is responsible for the other information set out on page iv to xvii which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Horn of Africa Gateway Development Project financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and 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

Delay in Project Implementation

During the year under review, the approved budget for proceeds from borrowings and the budgeted project expenditure was Kshs.300,000,000. However, the Project received an amount of Kshs.91,268,140 from borrowings, out of which, only Kshs.96,850,096 was spent. The cumulative expenditure to date is Kshs.164,685,833 against the expected amount of Kshs.889,852,894 thus indicating a low uptake of funds of 19% and yet the Project is in its fourth year of implementation.

In the circumstances, the general and specific objectives, outcome and performance of the project may not be realized in a timely way, which will impact negatively on service delivery to the public.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Lack of Internal Audit Check

During the year under review, no internal audit was conducted on the Project. Further, no quarterly reports were provided for audit as required by project implementation manual.

In the circumstances, the effectiveness of internal controls of the Project could not be confirmed.

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 controls, 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

Conclusion

As required by International Development Agency (IDA), I report based on my audit, that: 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:

- i. Information given in the Project Management on pages iv to xvii is consistent with the financial statements;

- ii. 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.

Basis for Conclusion

The Financing Agreement requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Project's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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


My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the

INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I also I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

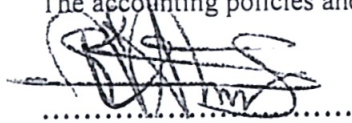
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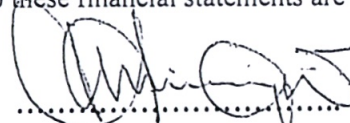
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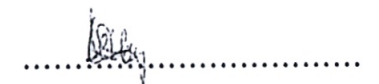
7. Statement of Receipts and Payments for the year ended 30th June 2024.

	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	Cumulative to-date (From inception)
		<i>2023-2024</i>			<i>2022-2023</i>			
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Receipts								
Transfer from Government entities	1	-	-	-	-	-	-	32,449,945
Loan from external development partners	2	91,268,140	-	91,268,140	-	-	-	149,623,695
Total receipts		91,268,140	-	91,268,140	-	-	-	182,073,640
Payments								
Purchase of goods and services	3	86,660,675	-	86,660,675	4,250,678	-	4,250,678	126,019,368
Acquisition of non-financial assets	4	10,189,421	-	10,189,421	28,477,044	-	28,477,044	38,666,465
Total payments		96,850,096	-	96,850,096	32,727,722	-	32,727,722	164,685,833
Surplus/ (deficit)		(5,581,956)	-	(5,581,956)	(32,727,722)	-	(32,727,722)	17,387,806

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


.....
Mr Mohamed Daghar
Principal Secretary


.....
Mr Wilson Njuki
Project Manager

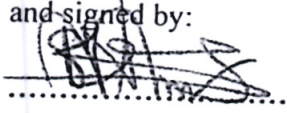

.....
Priscah Ochanda
Project Accountant
ICPAK Member No:13464

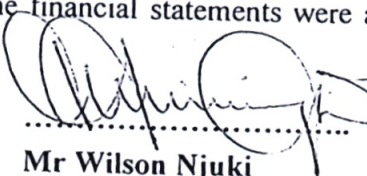
*Horn of Africa Gateway Development Project
Annual Report and Financial Statements for the financial year ended June 30, 2024*

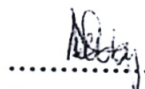
8. Statement of Financial Assets as at 30th June 2024

Description	Note	2023-2024	2022-2023
		Kshs	Kshs
Financial Assets			
Cash and Cash equivalents			
Bank Balances	5	17,387,806	22,969,762
Total Cash and Cash equivalents		17,387,806	22,969,762
Net Assets		17,387,806	22,969,762
Represented By			
Fund Balance B/fwd.	6	22,969,762	55,697,484
Surplus/(Deficit) for the Year		(5,581,956)	(32,727,722)
Net Financial Position		17,387,806	22,969,762

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 15/10 2024 and signed by:


.....
Mr Mohamed Daghar
Principal Secretary


.....
Mr Wilson Njuki
Project Manager

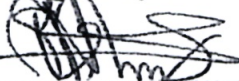

.....
Priscah Ochanda
Project Accountant
ICPAK Member No:13464

*Horn of Africa Gateway Development Project
Annual Report and Financial Statements for the financial year ended June 30, 2024*


9. Statement of Cashflow for the year ended 30th June 2024

Description	Notes	2023-2024	2022-2023
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
Transfer from government entities		-	-
Payments			
Purchase of goods and services	3	86,660,675	4,250,678
Total Payments		86,660,675	4,250,678
Net receipts/(payments)		(86,660,675)	(4,250,678)
Adjustments during the year			
Net cash flow from operating activities		(86,660,675)	(4,250,678)
Cashflow from investing activities			
Acquisition of non-financial assets	4	10,189,421	28,477,044
Net cash flows from investing activities		(10,189,421)	(28,477,044)
Cash flow from financing activities			
Proceeds from foreign borrowings	2	91,268,140	-
Net cash flow from financing activities		91,268,140	-
Net increase in cash and cash equivalents		(5,581,956)	(32,727,722)
Cash and cash equivalent at beginning of the year	11	22,969,762	55,697,484
Cash and cash equivalent at end of the year	11	17,387,806	22,969,762

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 15/10 2024 and signed by:


.....
Mr Mohamed Daghar
Principal Secretary

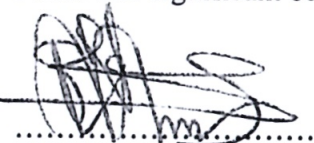

.....
Mr Wilson Njuki
Project Manager


.....
Priscah Ochanda
Project Accountant
ICPAK Member No:13464

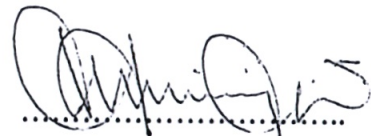
10. Statement of Comparison of Budget and Actual amounts for year ended 30th June 2024

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	30,000,000	-	30,000,000	0	30,000,000	0%
Proceeds from borrowings	270,000,000	-	270,000,000	91,268,140	178,731,860	34%
Total Receipts	300,000,000	-	300,000,000	91,268,140	208,731,860	
Payments						
Purchase of goods and services	273,248,831	-	273,248,831	86,660,675	186,588,156	32%
Acquisition of non-financial assets	26,751,169	-	26,751,169	10,189,421	16,561,748	38%
Total Payments	300,000,000	-	300,000,000	96,850,096	203,149,904	
Surplus or Deficit				(5,581,956)		

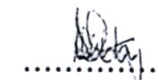
Note: The significant budget utilisation/performance differences in the last column are explained in Annex 2 to these financial statements.



 Mr Mohamed Daghar
 Principal Secretary



 Mr Wilson Njuki
 Project Manager



 Priscah Ochanda
 Project Accountant
 ICPAK Member No:13464

11. Significant Accounting Policies

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

a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include 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 Horn of Africa gateway Development Project under the State Department for Transport. The financial statements are for the reporting entity Horn of Africa gateway Development Project as required by Section 81 of the PFM Act, 2012.

c) Reporting currency

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

d) Recognition of receipts

Horn of Africa gateway Development Project recognises all receipts from the various sources when the event occurs, and the related cash has been received.

i) 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.

Significant Accounting Policies (continued)

ii) External Assistance

External assistance is monies 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 at the time associated cash is received.

iv) Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

v) Proceeds from borrowing.

Borrowing includes 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.

Significant Accounting Policies (continued)

e) Recognition of payments

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

i) Compensation to 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.

iii) Interest on borrowing

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

Significant Accounting Policies (continued)

v) Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

f) In-kind donations

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

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Significant Accounting Policies (Continued)

h) Restriction on cash

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

i) Imprests and Advances

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

j) Contingent Liabilities

A contingent liability is:

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

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

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.

Significant Accounting Policies (Continued)

k)Contingent Assets

Horn of Africa gateway Development 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 Horn of Africa gateway Development 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.

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' 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

Significant Accounting Policies (Continued)

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.

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, 2024.

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s).

12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	2023-2024	2022-2023	Cumulative to-date (from inception)
	Kshs	Kshs	Kshs
<i>Counterpart funding through National Treasury</i>			
Counterpart funds Quarter 1			
Counterpart funds Quarter 2			
Counterpart funds Quarter 3			
Counterpart funds Quarter 4	-	-	32,449,945
Total	-	-	32,449,945

Notes to the Financial Statements (Continued)

2. Loan from External Development Partners

During the financial period to 30 June 2024, we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Description		2023-2024				2022-2023	Cumulative to date
Name of Donor	Date received	Amount in loan currency	Loans received in actual amount	Loans received as direct payment	Total amount in Kshs	Total amount in Kshs	
		(Euro)	Kshs	Kshs	Kshs	Kshs	
Loans received from Multilateral Donors (International Organizations)							
International Development Association (IDA)	15 th Nov 2023	575,000	91,268,140	-	91,268,140	-	149,623,695
Total		575,000	91,268,140	-	91,268,140	-	149,623,695

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Description	2023-2024			2022-2023	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Foreign Travel and Subsistence				4,250,678	4,250,678
Training payments	21,580,367	-	21,580,367	0	56,688,382
Specialized materials and services	21,035,270	-	21,035,270	0	21,035,270
Other operating payments	44,045,038	-	44,045,038	0	44,045,038
Total	<u>86,660,675</u>	=	<u>86,660,675</u>	<u>4,250,678</u>	<u>126,019,368</u>

Notes to the Financial Statements (Continued)

4. Acquisition of Non-Financial Assets

Description	2023-2024			2022-2023	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	Kshs
Purchase of vehicles & other transport equipment	-	-	-	14,097,734	14,097,734
Purchase of ICT Equipment	10,189,421	-	10,189,421	-	10,189,421
Research, studies, project preparation, design & supervision	-	-	-	14,379,310	14,379,310
Total	<u>10,189,421</u>	=	<u>10,189,421</u>	<u>28,477,044</u>	<u>38,666,465</u>

Notes to the Financial Statements (Continued)

5. Cash And Cash equivalents

Description	2023-2024	2022-2023
	Kshs	Kshs
Bank accounts	17,387,806	22,969,762
Total	<u>17,387,806</u>	<u>22,969,762</u>

Horn of Africa Gateway Development Project has 1 project account within the project implementation area.

5. A Bank Accounts

Project Bank Accounts

Details	2023-2024	2022-2023
	Kshs	Kshs
<u>Local Currency Accounts</u>		
Central Bank of Kenya [A/c No 1000484306]	17,387,806	22,969,762
Total local currency balances	<u>17,387,806</u>	<u>22,969,762</u>

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2024 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

*Horn of Africa Gateway Development Project
Annual Report and Financial Statements for the financial year ended June 30, 2024*

Special Deposit Accounts Movement Schedule

Description	2023-2024	2022-2023
	Kshs	Kshs
(i) A/C Name: HOFGDP-SDOT [A/c No 1000474866]		
Opening balance	629,278,245	598,424,644
Total amount deposited in the account	57,190,178	30,853,601
Total amount withdrawn (as per Statement of Receipts & Payments)	(91,268,140)	-
Closing balance (as per SDA bank account reconciliation attached)	<u>595,200,283</u>	<u>629,278,245</u>

(The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as Appendix 3 support these closing balance.

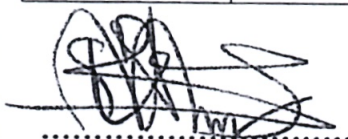
6. Fund Balance Brought Forward

Description	2023-2024	2022-2023
	Kshs	Kshs
Bank accounts	22,969,762	55,697,484
Total	22,969,762	55,697,484

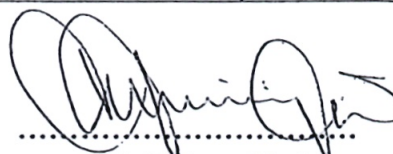
13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
931	Budgetary Control and Performance		Not Resolved	
932	Training Needs Assessment		Resolved	
933	Delay in Project Implementation		Not Resolved	



.....
Mr Mohamed Daghar
Principal Secretary



.....
Mr Wilson Njuki
Project Manager

*Horn of Africa Gateway Development Project
Annual Report and Financial Statements for the financial year ended June 30, 2024*

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

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	30,000,000	0	(30,000,000)	0%	
Proceeds from borrowings	270,000,000	91,268,140	(178,731,860)	34%	
Total Receipts	300,000,000	91,268,140	(208,731,860)		
Payments					
Purchase of goods and services	273,248,831	86,660,675	186,588,156	32%	
Acquisition of non-financial assets	26,751,169	10,189,421	16,561,748	38%	
Total payments	300,000,000	96,850,096	203,149,904		