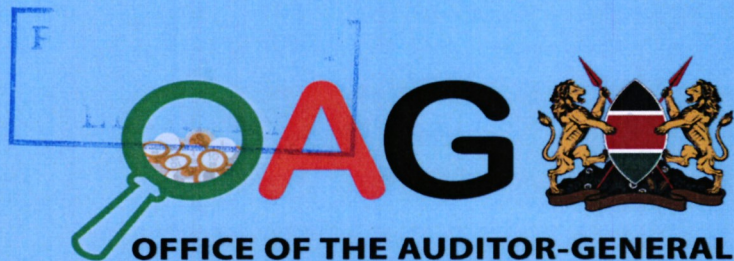


REPUBLIC OF KENYA



*Enhancing Accountability*

THE NATIONAL ASSEMBLY <b>REPORT</b>	
DATE: 14 MAR 2023	DAY: TUESDAY
TABLED BY: <b>OF</b>	WEDNESDAY DEPUTY MAJORITY LEADER
CLERK-AT THE-TABLE:	INZOFU MWALE

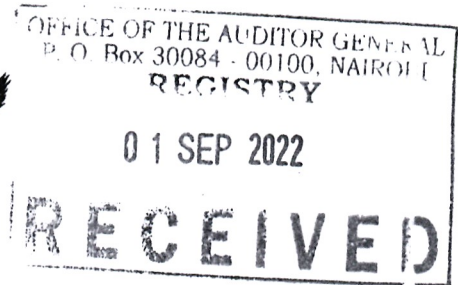
**THE AUDITOR-GENERAL**

**ON**

**MOMBASA SPECIAL ECONOMIC ZONE  
DEVELOPMENT PROJECT (I)**

**FOR THE YEAR ENDED  
30 JUNE, 2022**

**KENYA NATIONAL  
HIGHWAYS AUTHORITY**



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



**PROJECT NAME: MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT  
(I)**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2022**

---

***Mombasa Special Economic Zone Development Project (I)***  
***Annual Report and Financial Statements for the financial year ended June 30, 2022***

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## 1. Project Information and Overall Performance

### 1.1 Name and registered office

**Name:** Mombasa Special Economic Zone Development Project

#### Objective:

The objective of the Project is to enhance transportation capacity and to stabilize power supply condition, by constructing a berth, main road and electric facilities for Mombasa Special Economic Zone which is located in Dongo Kundu. This will thereby contribute to improvement of investment environment of the area.

#### Registered Office Address

Barabara Plaza  
 Jomo Kenyatta International Airport (JKIA) off Mazao Road  
 Nairobi Kenya

#### Contacts:

Director General  
 Kenya National Highways Authority  
 Po Box 49712-00100  
 Nairobi  
 Telephone: (254) 020 495000  
 E-mail: dg@Kenha.co.ke  
 Website: www.kenha.co.ke

### 1.2 Project Information

Project Start Date:	27 <sup>th</sup> February 2020
Project End Date:	31 <sup>st</sup> December 2024
Project Engineer	Eng. Samuel O. Ogege
Project Sponsor:	1. Government of Kenya (GoK) 2. Japan International Cooperation Agency (JICA)

### 1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works
Project number	N/A
Strategic goals of the project	The strategic goals of the project are as follows: (i) To enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance social economic development of the people at Dongo Kundu area
Achievement of strategic goals	The project management aims at implementation of the project in timely, efficient and effective manner.
Other important	There are two components under this project that are being implemented

**Mombasa Special Economic Zone Development Project (I)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2022**

background information of the project	the	by Kenya National Highways Authority (KeNHA). 1. Civil Engineering works for the construction of a main road to Dongo Kundu Special Economic Zone 2. Consultancy services for the civil engineering works
Project duration		The project is for duration of 4 years

**1.4 Bankers**

Co-operative Bank of Kenya  
 Upper Hill Branch  
 Po Box  
 Nairobi

**1.5 Auditors**

Auditor General  
 Office of the Auditor General  
 Po Box 30084-00100  
 Nairobi

**1.6 Roles and Responsibilities**

List of the people who are working on the project

Names	Title designation	Key qualification	Responsibilities
Eng. Charles Obuon	Director-Development	Qualified	Project Implementing Team Leader
Eng. Samuel Ogege	Deputy Director-Special Projects	Qualified	Project Engineer
Ms Levina Wanyoyi	Deputy Director-Supply Chain Management	Qualified	Project Procurement Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Qualified	Project Legal Specialist
Mr. Walter Nyatwanga	Deputy Director-Environment & Social Interest	Qualified	Project Safeguards Specialist
Mr Chanje Kera	Deputy Director-Finance & Accounts	Qualified	Project Financial Specialist

**Mombasa Special Economic Zone Development Project (I)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2022**

**1.7 Funding summary**

The Project is for duration of 4 years from 27<sup>th</sup> February 2020 to 31<sup>st</sup> December 2024 with an approved budget of Japanese Yen 37,090,000,000 equivalent to Kshs. 33,887,315,590 as highlighted in the table below:

**A. Source of Funds**

Source of funds	Donor Commitment-		Amount received to date – (30.06.2022)		Undrawn balance to date - (30.06.2022)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i)Loan</b>						
Japan International Cooperation (JICA)	37,090,000,000	33,887,278,500	731,675	73,973,910	37,089,268,325	33,813,304,590
<b>Total</b>	<b>37,090,000,000</b>	<b>33,887,278,500</b>	<b>731,675</b>	<b>73,973,910</b>	<b>37,089,268,325</b>	<b>33,813,304,590</b>
<b>(ii)Counterpart Funds</b>						
Government of Kenya (GoK)	-	-	-	-	-	-
<b>Total</b>	<b>37,090,000,000</b>	<b>33,887,278,500</b>	<b>731,675</b>	<b>73,973,910</b>	<b>37,089,268,325</b>	<b>33,813,304,590</b>

**B. Application of Funds**

Application of funds	Amount received to date - (30.06.2022)		Cumulative Amount paid to date - (30.06.2022)		Unutilised balance to date - (30.06.2022)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Loan</b>						
Japan International Cooperation (JICA)	80,965,260	73,973,910	80,965,260	73,973,910	-	-
<b>(ii) Counterpart funds</b>						
Government of Kenya (GoK)	-	-	-	-	-	-
<b>Total</b>	<b>80,965,260</b>	<b>73,973,910</b>	<b>80,965,260</b>	<b>73,973,910</b>	<b>-</b>	<b>-</b>

**1.8 Summary of Overall Project Performance:**

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

Budget	FY 2021/2022		
	Actual	Budget	%
Counterpart Funds - GoK	-	-	-
<b>Loan from Development Partners</b>			
Japan International Cooperation (JICA)	73,973,910	150,000,000	49%
<b>TOTAL</b>	<b>73,973,910</b>	<b>150,000,000</b>	<b>49%</b>

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

There was no physical progress as at 30<sup>th</sup> June 2022

(c) **Comment on value for money achievements.**

- The project procurement process is conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- 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.
- Project site review meetings by the Development Partners through supervision missions
- Monthly site meetings that involve the employer, the consultant and the contractor.

#### **1.9 Summary of Project Compliance:**

There are no significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants, which has been reported

## **2. Statement of Performance Against Project's Predetermined Objectives**

### **Introduction**

The key development objectives of the project are to:

- a) To enhance transportation capacity & power supply stability at Dongo Kundu area
- b) Enhance social economic development of the people at Dongo Kundu area.

### **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:

<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
To enhance transportation capacity & power supply stability at Dongo Kundu area	Improved accessibility to Dongo Kundu Special Economic Zone	Reduced travel time between SEZ and other parts of the country	Project at its initial preparation stage
Enhance social economic development of the people at Dongo Kundu area	Enhanced population access to social services.	Improved living standards of people living in Dongo Kundu.	Project at its initial preparation stage

### **3. Environmental and Sustainability Reporting**

Mombasa Special Economic Zone Development Project (I) exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

#### **1. Sustainability strategy and profile**

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

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

#### **2. Environmental performance**

The Authority is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact Assessment (EIA)

## **Environmental and Sustainability Reporting (Continued)**

Audits, carries out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

While executing works, the Contractor continued to perform air quality management such as regularly dampening of deviations and other dust-prone accesses to lay dust; Sprinkling of stockpiles (mainly the quarry dust) at the construction camp; control of construction vehicle speed limits along the deviations and dusty accesses; regularly servicing of vehicles and other machinery to control exhaust gas emissions, maintenance of the asphalt and concrete batching plants including the dust collection systems to ensure effectiveness in dust collection.

### **3. Employee welfare**

In all its staff appointments, the Authority takes deliberate actions to embrace Equal Employment Opportunity policies, gender mainstreaming, addresses concerns around Persons Living with Disabilities (PWDs) and takes affirmative action in line with prevailing Government Policy guidelines. The Authority prioritizes training to develop technical capacity of staff in the fields of Value Engineering, Project Financing, Project, Contract Management, Performance Based Maintenance and Safety.

### **4. Market place practices**

The Authority strives to ensure responsible competition practices through undertaking annual governance audits in projects, monitoring the implementation of policies and further promotes ethical conduct in projects. The Authority equally sensitizes staff on corruption and integrity.

The Authority undertakes to be actively involved in the negotiations during budget sector hearings in order to increase budgetary allocations for projects thus honouring contracts by paying its liabilities on time.

### **5. Community Engagements**

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to

build roads that foster development but to ensure collaboration with the local communities to achieve sustainable

**Environmental and Sustainability Reporting (Continued)**

development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

During the project execution, the Contractor is encouraged to offer employment opportunities to the locals as casuals, carry out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

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.

#### **4. Statement of Project Management Responsibilities**

The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) 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, 2022. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

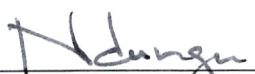
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

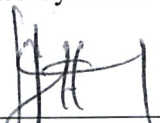
The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2022, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone 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 Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

#### **Approval of the Project financial statements**

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader for Mombasa Special Economic Zone Development Project (I) on 30 AUG 2022 2022 and signed by them.

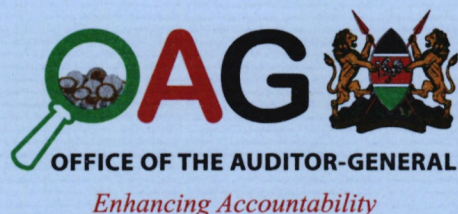
  
\_\_\_\_\_  
**Eng. Kungu Ndungu**  
**Director General**

  
\_\_\_\_\_  
**Eng. Charles Obuon**  
**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 MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT (I) FOR THE YEAR ENDED 30 JUNE, 2022 - KENYA NATIONAL HIGHWAYS AUTHORITY

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### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Mombasa Special Economic Zone Development Project (I) set out on pages 1 to 15, which comprise the statement of

financial assets as at 30 June, 2022 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 Mombasa Special Economic Zone Development Project (I) as at 30 June, 2022, and 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 Project Loan No. KE - P35.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mombasa Special Economic Zone Development Project (I) 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 audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional 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**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.150,000,000 and Kshs.73,973,910 respectively, resulting to an underfunding of Kshs.76,026,090 or 51%. Similarly, Kshs.73,973,910 was spent on the Project against an approved budget of Kshs.150,000,000, resulting to an under expenditure of Kshs.76,026,090 or 51%.

Further, the funding summary section of the annual report reflects project's approved budget of Kshs.33,887,315,590 which differs with the corresponding balance of Kshs.33,887,278,500, reflected under sources of funds section of the report, resulting to an unexplained variance of Kshs.37,090.

The underfunding and under performance affected the implementation of planned activities, which 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.

### **Responsibilities of Management and those Charged with Governance**

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of 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 Management is responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control does 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 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 sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

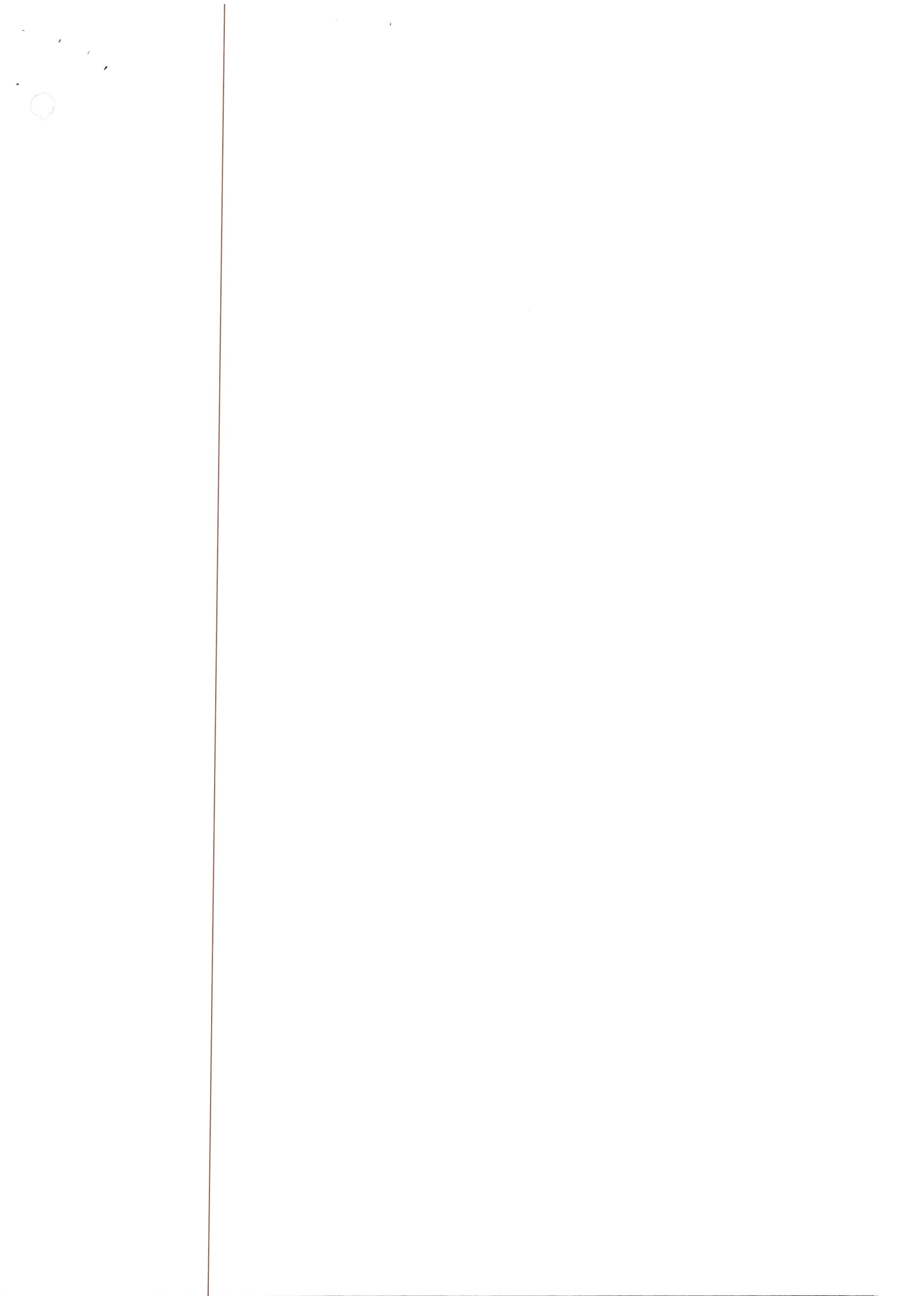
I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

24 November, 2022





*Mombasa Special Economic Zone Development Project (I)  
Annual Report and Financial Statements for the financial year ended June 30, 2022*

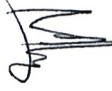
6. Statement of Receipts and Payments for the Period Ended 30th June 2022

	Note	FY 2021/22		FY 2020/21		Cumulative to date
		Receipts & Payments Controlled by the Entity	Payments Made by Third Parties	Receipts & Payments Controlled by the Entity	Payments Made by Third Parties	
		KShs	KShs	Kshs	Kshs	
<b>RECEIPTS</b>						
Transfer from Government entities	1	-	-	-	-	-
Loan from external Development Partners	2	-	73,973,910	-	-	73,973,910
<b>TOTAL RECEIPTS</b>		-	<b>73,973,910</b>	-	-	<b>73,973,910</b>
<b>PAYMENTS</b>						
Purchase of goods and services	3	-	-	-	-	-
Acquisition of non-financial assets	4	-	73,973,910	-	-	73,973,910
<b>TOTAL PAYMENTS SURPLUS/DEFICIT FOR THE YEAR</b>		-	<b>73,973,910</b>	-	-	<b>73,973,910</b>

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

  
Eng. Kungu Ndungu  
Director General

  
Eng. Charles Obuon  
Director-Development

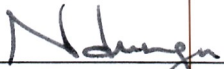
  
CPA Chanje Kera  
Deputy Director (F&A)  
ICPAK Member No. 8279


**Mombasa Special Economic Zone Development Project (I)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2022**


**7. Statement of Financial Assets as at 30th June 2022**

	Note	FY 2021/22	FY 2020/21
		Kshs	Kshs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	5A	-	-
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
<b>Total Cash and Cash Equivalents</b>		-	-
Accounts Receivables		-	-
<b>TOTAL FINANCIAL ASSETS</b>		-	-
<b>FINANCIAL LIABILITIES</b>			
Payables- Deposits and Retentions	6	-	-
<b>NET ASSETS</b>		-	-
<b>REPRESENTED BY</b>			
Fund balance b/fwd		-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	-
<b>NET FINANCIAL POSITION</b>		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30 AUG 2022 2022 and signed by:

  
 Eng. Kungu Ndungu  
 Director General


  
 Eng. Charles Obuon  
 Director-Development


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

**8. Statement of Cashflow For the Year Ended 30th June 2022**

	Note	FY 2021/22	FY 2020/21
		Kshs	Kshs
<b>Cashflow from operating activities</b>			
<b>Receipts</b>			
Transfer from Government entities	1	-	-
Proceeds from domestic and foreign grants		-	-
<b>Total Receipts</b>		-	-
<b>Payments</b>			
Purchase of goods and services	3	-	-
<b>Net cash flow from operating activities</b>		-	-
<b>Cashflow from investing activities</b>			
Acquisition of Assets	4	(73,973,910)	-
<b>Net cash flows from Investing Activities</b>		(73,973,910)	-
<b>Cashflow from financing activities</b>			
Proceeds from Foreign Borrowings	2	73,973,910	-
<b>Net cash flow from financing activities</b>		73,973,910	-
Net increase in cash and cash equivalents		-	-
<b>Cash and cash equivalent at beginning of the year</b>		-	-
<b>Cash and cash equivalent at end of the year</b>		-	-

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 30 AUG 2022 2022 and signed by:

  
 Eng. Kungu Ndungu  
 Director General

  
 Eng. Charles Obuon  
 Director-Development

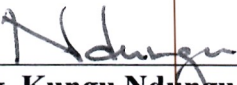
  
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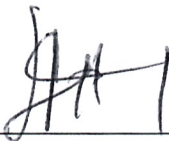
**Mombasa Special Economic Zone Development Project (I)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2022**

**9. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30<sup>th</sup> June 2022**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Transfer from Government entities	-	-	-	-	-	-
Proceeds from borrowings-Direct Payments	900,000,000	(750,000,000)	150,000,000	73,973,910	76,026,090	49%
<b>Total Receipts</b>	<b>900,000,000</b>	<b>(750,000,000)</b>	<b>150,000,000</b>	<b>73,973,910</b>	<b>76,026,090</b>	<b>49%</b>
<b>Payments</b>						
Purchase of goods and services	-	-	-	-	-	-
Acquisition of non-financial assets	900,000,000	(750,000,000)	150,000,000	73,973,910	76,026,090	49%
<b>Total Payments</b>	<b>900,000,000</b>	<b>(750,000,000)</b>	<b>150,000,000</b>	<b>73,973,910</b>	<b>76,026,090</b>	<b>49%</b>
<b>Surplus or Deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

  
 Eng. Kungu Ndungu  
 Director General

  
 Eng. Charles Obuon  
 Director-Development

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

## **10. Significant Accounting Policies**

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

### **10.1 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.

### **10.2 Reporting entity**

The financial statements are for Mombasa Special Economic Zone Development Project (I) under the State Department of Infrastructure. The financial statements are for the reporting entity's Mombasa Special Economic Zone Development Project (I) as required by Section 81 of the PFM Act, 2012.

### **10.3 Reporting currency**

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

### **10.4 Recognition of receipts**

Mombasa Special Economic Zone Development Project (I) recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

#### **i) Transfers from the Exchequer**

Transfer from Exchequer is to be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

#### **ii) External Assistance**

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

### **Significant Accounting Policies (Continued)**

#### **iii) Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements 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 on-going 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

### **10.5 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

- **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)**

- **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.

### **10.6 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.

### **10.7 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

### **10.8 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

### **10.9 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 are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

## **Significant Accounting Policies (Continued)**

### **10.10 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.

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

### **10.11 Contingent Assets**

Mombasa Special Economic Zone Development Project (I) 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 Mombasa Special Economic Zone Development Project (I) 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.

### **10.12 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.

## **Significant Accounting Policies (Continued)**

### **10.13 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.

### **10.14 Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments. During the year **Kshs 73,973,910** disbursements were received in form of direct payments from third parties.

### **10.15 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.

### **10.16 Comparative figures**

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

### **10.17 Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

**Significant Accounting Policies (Continued)**

**10.18 Prior period adjustments**

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

There were no prior year adjustments on the financial statements for the year ended June 30, 2022

## 11. Notes to The Financial Statements

### 1. Receipts from Government of Kenya

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

During the 12 months to 30 June 2022 we did not receive exchequer funding for the project. (Financial Year 2020/2021, Nil)

### 2. Loan from External Development Partner

Name of Donor	Loans received in cash	Loans received as direct payment	Total	
			FY 2021/22	FY 2020/21
			Kshs	Kshs
<b>Loans Received from Multilateral Donors (International Organisations)</b>				
Japan International Cooperation	-	73,973,910	73,973,910	-
<b>Total</b>		<b>73,973,910</b>	<b>73,973,910</b>	<b>-</b>

### 3. Purchase of Goods and Services

During the 12 months to 30 June 2022 the project did not purchase any goods or services. (Financial Year 2020/2021, Nil)

### 4. Acquisition of Non-Financial Assets

	FY 2021/22			FY 2020/21	Cumulative to-date
	Payments made by the entity in Cash	Payments made by third parties	Total Payments		
	KSh	KSh	KSh	Kshs	Kshs
Research, studies, project preparation, design & supervision	-	73,973,910	73,973,910	-	73,973,910
Civil works	-	-	-	-	-
	-	<b>73,973,910</b>	<b>73,973,910</b>	-	<b>73,973,910</b>

**Notes to the Financial Statements (Continued)**

**5. Cash and Cash Equivalents Carried Forward**

	<b>FY 2021/22</b>	<b>FY 2020/21</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Bank accounts (Note 11.5A)	-	-
<b>Total</b>	-	-

**5A Bank Accounts**

	<b>FY 2021/22</b>	<b>FY 2020/21</b>
	<b>Kshs</b>	<b>Kshs</b>
Local Currency Accounts		
National Bank of Kenya Ltd. Retention [A/c No. 0100132733200]	-	-
Total local currency balances	-	-
<b>Total bank account balances</b>	-	-

**6. Accounts Payable**

<b>Description</b>	<b>FY 2020/21</b>	<b>FY 2020/21</b>
	<b>Kshs</b>	<b>Kshs</b>
Retention	-	-
<b>Total</b>	-	-

**7. Fund Balance Brought Forward**

	<b>FY 2021/22</b>	<b>FY 2020/21</b>
	<b>Kshs</b>	<b>Kshs</b>
Bank accounts	-	-
<b>Total</b>	-	-

**8. Changes in Accounts Payable - Retentions**

<b>Description</b>	<b>FY 2021/22</b>	<b>FY 2020/21</b>
	<b>Kshs</b>	<b>Kshs</b>
Retentions as at 1 <sup>st</sup> July	-	-
Closing Retention as at 30 <sup>th</sup> June	-	-
Change in Retention	-	-

## 12. Other Important Disclosures

### 1. Pending Accounts Payable (See Annex 3)

Description	Balance b/f FY 2021/2022	Additions for the period	Paid during the year	Balance c/f FY 2021/22
	Kshs	Kshs	Kshs	Kshs
Construction of civil works	-	-	-	-
Lands Compensation	-	-	-	-
Supply of services	-	-	-	-
<b>Total</b>	-	-	-	-

### 2. External Assistance

#### a) External assistance relating loans and grants

Description	FY 2021/2022	FY 2020/2021
	Kshs	Kshs
External assistance received as loans	73,973,910	-
<b>Total</b>	<b>73,973,910</b>	-

#### b) Undrawn external assistance

Description	Purpose for which the undrawn external assistance may be used	FY 2021/2022	FY 2020/2021
		Kshs	Kshs
Undrawn external assistance - loans	Civil works & consultancy services	33,813,304,590	33,887,278,500
<b>Total</b>		<b>33,813,304,590</b>	<b>33,887,278,500</b>

#### c) Classes of providers of external assistance

Description	FY 2021/2022	FY 2020/2021
	Kshs	Kshs
Multilateral donors	73,973,910	-
<b>Total</b>	<b>73,973,910</b>	-

*External assistance for road construction works & supervision consultancy services.*

**Other Important Disclosures (Continued)**

*d) Non-monetary external assistance*

	<b>FY 2021/2022</b>	<b>FY 2020/2021</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Goods	-	-
Services	-	-
<b>Total</b>	-	-

*e) Purpose and use of external assistance*

	<b>FY 2021/2022</b>	<b>FY 2020/2021</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Acquisition of Assets	73,973,910	-
<b>Total</b>	<b>73,973,910</b>	-

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


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

	<b>FY 2021/2022</b>	<b>FY 2020/2021</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Multilateral donors	73,973,910	-
<b>Total</b>	<b>73,973,910</b>	-

**Mombasa Special Economic Zone Development Project (I)  
Annual Report and Financial Statements for the financial year ended June 30, 2022**

**13. Prior Year Auditor-General's Recommendations**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
None	None	None	-	-

  
Eng. Kungu Ndungu  
Director General

  
Eng. Charles Obuon  
Director-Development

30 AUG 2022  
Date

30 AUG 2022  
Date

*Mombasa Special Economic Zone Development Project (I)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2022*

**14. Annexes**

**Annex 1 - Variance Explanations - Comparative Budget and Actual Amounts for FY 2021-2022**

	<b>Final Budget</b>	<b>Actual on Comparable Basis</b>	<b>Budget Utilisation Difference</b>	<b>% of Utilisation</b>	<b>Comments on Variance</b>
	a	b	c=a-b	d=b/a %	
<b>RECEIPTS DURING THE YEAR</b>					
Government of Kenya	-	-	-	-	
External financing	150,000,000	73,973,910	76,026,090	49%	Project at preparation stage
<b>TOTAL RECEIPTS</b>	<b>150,000,000</b>	<b>73,973,910</b>	<b>76,026,090</b>	<b>49%</b>	
<b>PAYMENTS DURING THE YEAR</b>					
Purchase of goods and services	-	-	-	-	
Acquisition of non-financial assets	150,000,000	73,973,910	76,026,090	49%	Project at preparation stage
<b>TOTAL PAYMENTS</b>	<b>150,000,000</b>	<b>73,973,910</b>	<b>76,026,090</b>	<b>49%</b>	

**Annex 2 – Summary of Fixed Asset Register**

<b>Asset class</b>	<b>Opening Cost</b>	<b>Purchases/Additions in the Year</b>	<b>Disposals in the Year</b>	<b>Closing Cost</b>
	<b>(KSh)</b>	<b>(KSh)</b>	<b>(KSh)</b>	<b>(KSh)</b>
	<b>FY 2021/22</b>	<b>FY 2021/22</b>	<b>FY 2021/22</b>	<b>FY 2022</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)= (a)+ (b)-(c)</b>
Construction of Roads	-	73,973,910	-	73,973,910
<b>Total</b>	-	<b>73,973,910</b>	-	<b>73,973,910</b>