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Enhancing Accountability

REPORT		
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THE AUDITOR-GENERAL

ON

**REGIONAL ROADS COMPONENT
(MERILLE-MARSABIT ROAD)
(KE/001/09) PROJECT LOAN AGREEMENT
NO.KE/FED/2009/021-655**

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

KENYA NATIONAL HIGHWAYS AUTHORITY





OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT &
PUBLIC WORKS**



PROJECT NAME: MERILLE MARSABIT ROAD REHABILITATION PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

**PROJECT GRANT/CREDIT NUMBER: LOAN ID KE/FED/2009/021-655
PROJECT NO KE/001/09**

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

CONTENTS

PAGE

1.	PROJECT INFORMATION AND OVERALL PERFORMANCE	i
2.	STATEMENT OF PERFORMANCE AGAINST PROJECT’S PREDETERMINED OBJECTIVES	iv
3.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING	v
4.	STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES	vii
5.	REPORT OF THE INDEPENDENT AUDITORS ON THE MERILLE MARSABIT ROAD REHABILITATION PROJECT.....	viii
6.	STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2020.....	1
7.	STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2020	2
8.	STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020.....	3
9.	STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS	4
10.	NOTES TO THE FINANCIAL STATEMENTS	5
11.	OTHER IMPORTANT DISCLOSURES	12
12.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	13
	ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS.....	14
	ANNEX 2A - ANALYSIS OF PENDING BILLS.....	15
	ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER	16

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Merille Marsabit Road Rehabilitation Project

Objective:

The Merille River – Marsabit Road is to serve the strategic transport corridor linking Mombasa Port and Nairobi to Addis Ababa in Ethiopia. The road is part of the Trans East African Corridor from Cairo to Gaborone Botswana

Address: Barabara Plaza,
Jomo Kenyatta International Airport (JKIA)
Off Mazao Road (Opposite KCAA Headquarters)
Nairobi Kenya

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

1.2 Project Information

Project Start Date:	28 th January ,2013
Project End Date:	27 th May, 2017
Project Engineer	Eng Daniel S Cheron
Project Sponsor:	European Union(EU)

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	KE/FED/2009/021-655
Strategic goals of the project	The strategic goals of the project are as follows:

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

Achievement of strategic goals	The project management aims to achieve the goals through the following means: <ul style="list-style-type: none"> To provide regional economic integration. To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards It offers an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia.
Other important background information of the project	The project is funded jointly between The Government of Kenya (37.47%) and European Union (62.53%). The Project is about 120.6 Kms
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: <ul style="list-style-type: none"> Reducing Transport cost and travel time between Kenya and Ethiopia. Improvement of transportation of Animal Products and Natural resources produced to and from the project area Improvement of economic and living standard of people in towns along the corridor
Project duration	The project started on 28 th January 2013 and was taken over on 26 th May, 2017.

1.4 Bankers

Cooperative Bank of Kenya Ltd
Upper Hill Branch, Nairobi
Account Number: 01141160979900
Po Box 48400-0100
Nairobi

1.5 Auditors

Auditor General
Office of Auditor General
Po Box 30084-0100
Nairobi

1.6 Roles and Responsibilities

The following are the people working under the project

Names	Title designation/Representing	Key qualification	Responsibilities
Eng. Francis Gitau	Employer (MOTI)	Qualified	Employer
Eng D.A Muchilwa	Director Development	Qualified	Oversight
Eng. Daniel S Cheronu	Deputy Director	Qualified	Project Co-ordinator & Supervisor
Eng. C.M Muriuki	Materials (MOTI)	Qualified	Material Specialist
David Komen	National Treasury	Qualified	Financial Specialist

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

1.7 Funding summary

The Project is for duration of Three (3) years from 2013 to 2016 with an approved budget of Euro 88,200,000 equivalent to Kshs 10,596,348,000 at the Exchange rate of Kshs. 120.14 as at 30th June, 2020 and Kshs 5,085,066,841 Government of Kenya Portion as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitments		Amount received to date (30.06.2020)		Undrawn balance to date (30.06.2020)	
	EURO	Kshs	EURO	Kshs	EURO	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') – (B')
(i) Loan						
European Union (EU)	88,200,000	10,596,348,000	78,039,035	9,375,609,654	10,160,965.09	1,220,738,346.00
(ii) Counterpart Funds	-	5,085,066,841	-	5,085,066,841	-	-
Total	88,200,000	15,681,414,841	78,039,035	14,460,676,495	10,160,965.09	1,220,738,346

1.8 Summary of Overall Project Performance:

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

	2019/2020		
	Actual	Budget	%
Counterpart Funds - Gok	231,523,703	250,485,224	92%
Loan from External Development Partners	-	70,000,000	-
Total	231,523,703	320,485,224	72%

Physical progress based on outputs, outcomes and impacts since project commencement, The Project is substantially complete and taken over by the employer

1.9 Summary of Project Compliance:

There is no significant case of non-compliance with applicable laws and regulations and essential external financing agreements /covenants was reported during the year

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Introduction

The key development objectives of the project are to:

- a) To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards
- b) It offers an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia Reduce transit time and costs incurred in cross-border movement.

Progress on attainment of Strategic development objectives

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

Objective	Outcome	Indicator	Performance
To support the transport infrastructure sector is to attain sustainable, safe roads network that facilitates economic growth and the improvement in living standards	Reducing Transport cost and travel time between Kenya and Ethiopia.	Increased movement of people and goods between Kenya and Ethiopia.	The road is 100% complete in the financial year 2016/17.
To offer an alternative port to Mombasa to import and export goods through the proposed Lamu port to Southern Sudan and Ethiopia Reduce transit time and costs incurred in cross-border movement.	Linked road from Mombasa Port and Nairobi to Addis Ababa in Ethiopia.	Increased discharge of containers from the Port of Mombasa	The road is 100% complete in the financial year 2016/17.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

3.1. Sustainability strategy and profile

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

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

3.2. Environmental performance

The Authority is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact Assessment (EIA) Audits, carries out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

3.3. Employee welfare

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

3.4. Market place practices

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

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

3.5. Community Engagements

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. The aim is not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

The Contractor has been involved in various CSR activities geared towards providing the local residents through construction of water kiosks along the project road, improvement of access roads and enhancing learning and playing environment in schools along the project road. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues

Some of the CSR carried out by this project were building of classrooms, providing water tanks to the local community, repair of water tank and building of the market. However, there were no CSR carried out in the current financial year given the project was completed in 2017.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation 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 Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation 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, 2020, and of the Project's financial position as at that date. The Director General and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation 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 and the Project Implementation Team Leader for Merille Marsabit Road Rehabilitation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit 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 Merille Marsabit Road Rehabilitation Project on 26 AUG 2020 2020 and signed by them.



Eng. Peter M. Mundinia
Director General



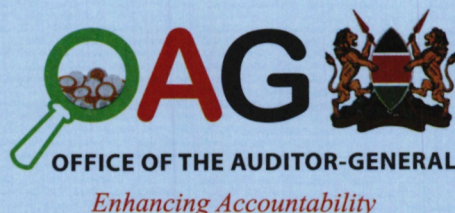
Eng. David A. Muchilwa
Director -Development



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

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON REGIONAL ROADS COMPONENT (MERILLE-MARSABIT ROAD) (KE/001/09) PROJECT LOAN AGREEMENT NO.KE/FED/2009/021-655 FOR THE YEAR ENDED 30 JUNE, 2020 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Regional Roads Component (Merille-Marsabit Road) (KE/001/09) Project set out on pages 1 to 13, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and the statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with provisions of Article 229 of the Constitution of Kenya 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 Regional Roads Component (Merille-Marsabit Road) Project as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No. KE/FED/2009/021-655 between the European Commission and the Republic of Kenya dated 20 April, 2010 and the Public Finance Management Act, 2012.

Basis for Opinion

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

1. Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.141,566,761 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant additional interest costs and penalties with the continued delay in making payments.

2. Budget Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.231,523,703 against estimated receipts of Kshs.320,485,224 resulting into a shortfall of Kshs.88,961,521 or 28%. Similarly, there was an under-expenditure of an equal amount. Reasons for the receipts shortfall and the under expenditure were not provided.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall

governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by European Commission (EU), I report based on my audit, that: -

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the

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

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

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

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

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


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

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

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

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

23 December, 2020

MERILLE MARSABIT ROAD REHABILITATION PROJECT

Reports and Financial Statements For the financial year ended June 30, 2020

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

	Note	2019/20		2018/19		Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payments controlled by the entity	Payments made by third parties	
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
RECEIPTS						
Transfer from Government entities	10.2	231,523,703	-	111,908,906	-	5,085,066,841
Grant from external Development Partners	10.3	-	-	172,932,067	-	9,375,609,654
TOTAL RECEIPTS		231,523,703	-	284,840,973	-	14,460,676,495
PAYMENTS						
Purchase of Goods & Services	10.4	92,400	-	138,700	-	10,140,536
Acquisition of non-financial assets	10.5	231,431,303	-	284,702,273	-	14,450,535,959
TOTAL PAYMENTS		231,523,703	-	284,840,973	-	14,460,676,495
SURPLUS/DEFICIT		-	-	-	-	-

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



Eng. Peter M. Mundinia
Director General



Eng. David A. Muchilwa
Director -Development




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

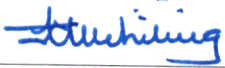
MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

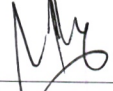
7. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2020

	Notes	2019/20	2018/19
		Kshs.	Kshs.
FINANCIAL ASSETS			
TOTAL FINANCIAL ASSETS		-	-
REPRESENTED BY:-			
NET FINANCIAL POSITION		-	-

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


 Eng. Peter M. Mundinia
 Director General


 Eng. David A. Muchilwa
 Director -Development

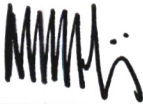

 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279

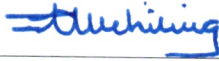
MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020


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

	Notes	2019/20 Kshs.	2018/19 Kshs.
RECEIPTS			
Transfers from Government entities	10.2	231,523,703	111,908,906
Net Receipts for operating income		231,523,703	172,932,067
Purchase of Goods and Services	10.4	(92,400)	(138,700)
Net Payments for operating expenses		(92,400)	(138,700)
Net cash flow from operating activities		231,431,303	284,702,273
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of non- financial assets	10.5	(231,431,303)	(284,702,273)
Net cash flows from Investing Activities		(231,431,303)	(284,702,273)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		-	-
Cash and cash equivalent at Beginning of the year		-	-
Cash and cash equivalent at End of the year		-	-

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


 Eng. Peter M. Mundinia
 Director General


 Eng. David A. Muchilwa
 Director -Development

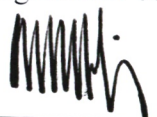

 CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% Var
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfers from Government entities	30,720,000	219,765,224	250,485,224	231,523,703	18,961,521	92%
Proceeds from foreign borrowings	250,000,000	(180,000,000)	70,000,000	-	70,000,000	-
Total Receipts	280,720,000	39,765,224	320,485,224	231,523,703	88,961,521	72%
Payments						
Purchase of goods and services				92,400		
Acquisition of non-financial assets	280,720,000	39,765,224	320,485,224	231,431,303	88,961,521	72%
Total Payments	280,720,000	39,765,224	320,485,224	231,523,703	88,961,521	72%

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



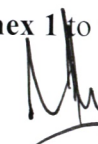
Eng. Peter M. Mundinia
 Director General

26 AUG 2020
 Date



Eng. David A. Muchilwa
 Director -Development

26 AUG 2020
 Date



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

26 AUG 2020
 Date

10. NOTES TO THE FINANCIAL STATEMENTS

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

10.1. Basis of Preparation

10.1.1. Statement of compliance and basis of preparation

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

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

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

10.1.2. Reporting entity

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

10.1.3. Reporting currency

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

10.1.4. Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

• Transfers from the Exchequer

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

• External Assistance

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

Donations and grants

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

Proceeds from borrowing

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

Undrawn external assistance

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

• **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

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

• **Compensation of employees**

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

• **Use of goods and services**

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

• **Interest on borrowing**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

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

d) Cash and cash equivalents

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

Restriction on cash

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

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

f) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year **No** grant disbursements were received in form of direct payments from third parties.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

j) Comparative figures

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

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2020

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

10.2. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2019/20	2018/19	Cumulative to-date
	Kshs	Kshs	
Counterpart funds Quarter 1	317,794	14,700	1,862,556,227
Counterpart funds Quarter 2	-	124,000	1,008,739,612
Counterpart funds Quarter 3	17,282,176	95,269,036	1,147,980,890
Counterpart funds Quarter 4	213,923,733	16,501,170	1,065,790,112
TOTAL	231,523,703	111,908,906	5,085,066,841

MERILLE MARSABIT ROAD REHABILITATION PROJECT

Reports and Financial Statements For the financial year ended June 30, 2020

10.3. PROCEEDS FROM FOREIGN GRANTS

Name of Donor	Date Received	Loans Received as Direct payments	Total amounts in Kshs.	
			FY 2019/20	FY 2018/19
		Kshs	Kshs	Kshs
European Union (EU)	2019/20	-	-	172,932,067
Total		-	-	172,932,067

10.4. PURCHASE OF GOODS AND SERVICES

Description	FY 2019/20			FY 2018/19	Cumulative to date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence	92,400	-	92,400	138,700	8,673,136
Advertising and services	-	-	-	-	1,467,400
Total	92,400	-	92,400	138,700	10,140,536

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

10.5. ACQUISITION OF NON-FINANCIAL ASSETS

Description	FY 2019/20			FY 2018/19	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Rehabilitation & renovation of plant, equipment & machinery	-	-	-	-	2,489,500
Research, studies, project preparation, design & supervision	-	-	-	27,137,828	546,337,397
Construction of roads	231,431,303	-	231,431,303	257,564,446	13,825,731,367
Acquisition of land	-	-	-	-	75,977,696
Total	231,431,303	-	231,431,303	284,702,273	14,450,535,959

10.6. CHANGES IN ACCOUNTS PAYABLE –RETENTIONS

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

11. OTHER IMPORTANT DISCLOSURES

11.1. PENDING BILLS (Annex 2A)

	Balance b/f FY 2019/2020	Adjustments for the period	Paid during the year	Balance c/f FY 2019/2020
Description	Kshs	Kshs	Kshs	Kshs
Construction of Roads	403,057,264	(30,059,200)	231,431,303	141,566,761
Total	403,057,264	(30,059,200)	231,431,303	141,566,761

Note- The adjustment is for a reversal of interest overbilled.


11.2. CONTINGENT ASSET: RETENTION GUARANTEE

The contractor has provided retention guarantee of Euro 12,790,461 Equivalent to Kshs.1,536,645,984 at Exchange rate of Kshs.120.1400 as at 30th June, 2020 .The Retention Guarantee represents a contingent asset.

12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

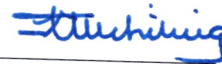
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe : (Put a date when you expect the issue to be resolved)
1	Note 9.1 to the financial statements reflects pending bills amounting to Kshs.403,057,264 as at 30 th June, 2019. Although Management has committed to liaise with the line Ministry and National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.	The Authority is liaising with the Parent Ministry and National Treasury in an effort to secure adequate budgetary provisions to settle the GoK portion of certificates. This is evidenced by reduction of pending bills from kshs 403M in FY 2018/2019 to kshs 141M in FY 2019/2020. The Authority will continue liaising with line Ministry and National Treasury, to make sure that timely payments are made for all the certified works.	Eng. Daniel Cherono	Continuous	Continuous



Eng. Peter M. Mundinia
 Director General

26 AUG 2020
 Date



Eng. David A. Muchilwa
 Director -Development

26 AUG 2020
 Date

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	250,485,224	231,523,703	18,961,521	92%	
External financing	70,000,000	-	70,000,000	-	
Total receipts	320,485,224	231,523,703	88,961,521	72%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	95,000	92,400	2,600	97%	
Acquisition of non-financial assets	320,390,224	231,431,303	88,958,921	72%	
Total Payments	320,485,224	231,523,703	88,961,521	72%	

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2020	2019	
	a	b	c	d=a-c		
Construction of roads						
Gulsan Insaat	143,589,070	31/05/2017	84,198,999	59,390,071	59,390,071	45
Gulsan Insaat	186,703,684	21/11/2017	133,272,300	53,431,384	89,705,480	46
Gulsan Insaat	479,790,643	07/08/2017	452,721,653	27,068,990	221,908,403	47
Supply of Services						
HP Gauff	1,676,316	02/12/2015	-	1,676,316	1,676,316	5A
Grand Total	842,136,707		700,569,946	141,566,761	403,057,264	

MERILLE MARSABIT ROAD REHABILITATION PROJECT
Reports and Financial Statements For the financial year ended June 30, 2020

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class		Purchases/Additions in the Year	Disposals in the Year	
	Opening Cost			Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)
	2019/20	2019/20	2019/20	2019/20
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	14,143,126,961	231,431,303		14,374,558,264
Land	75,977,696	-	-	75,977,696
Total	14,219,104,656	231,431,303	-	14,450,535,959



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