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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability



THE NATIONAL ASSEMBLY	
REPORT	
DATE: 18 FEB 2021	DAY: THURSDAY
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CLERK-AT THE-TABLE: Susan Nantini	

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THE AUDITOR-GENERAL

ON

**KAPCHORWA-SUAM-KITALE AND ELDORET
BYPASS ROADS (KENYA) PROJECT
ID NO. P-Z1-DB0-183**

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

KENYA NATIONAL HIGHWAYS AUTHORITY



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



**PROJECT NAME: MULTINATIONAL UGANDA –KENYA: KAPCHORWA –SUAM –
KITALE & ELDORET TOWN BYPASS ROADS PROJECT**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

**PROJECT GRANT/CREDIT NUMBER:
AFRICAN DEVELOPMENT BANK (ADB) LOAN NO 2000200001052
AFRICAN DEVELOPMENT FUND (ADF) LOAN NO 2100150037300**

PROJECT NO P-ZI-DBO-183

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)**

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1 PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Multinational Uganda –Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads Project

Objective:

The African Development Bank Group (AfDB) approved USD 256.36 million of loans to the Governments of Kenya (USD 150.56 million) and Uganda (USD 105.7 million) for the upgrading of 118 km road section connecting the two countries as well as the construction of the 32 km Eldoret town bypass, in Kenya. Once completed in 2021, the project will contribute to improve the living standards of the 1.4 million people in the project zone of influence.

The construction of the Eldoret bypass (32km) will reduce traffic congestion in Eldoret Town, by avoiding crossing of the city centre. Thus, the average speed will increase from 26km/hr in the existing road to 42km/hr

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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
Website: www.kenha.co.ke

1.2 Project Information

Project Start Date:	19 th May,2017
Project End Date:	31 st May 2021
Project Engineer	Eng Daniel Cherono
Project Sponsor:	African Development Bank (AfDB)

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	P-ZI-DBO-0183
Strategic goals of the project	The strategic goals of the project are as follows: <ul style="list-style-type: none"> • To Connect Kenya and other Part of East & Central African • Facilitate Trade and movement of people in East and Central African by improving the transit time
Achievement of strategic goals	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> • Rehabilitation of already deteriorated road that is in poor condition to reduce transportation cost and transit time <p>Involving the local communities and community based organisations in monitoring conditions along the road, including preservation of the road signs. This will assist in dealing with environmental issues and the guarding against damages and the theft to road signs and road Infrastructure</p> <p>The upgrading of the 118km road connecting Kapchorwa (Uganda) to Kitale (Kenya) will provide</p> <ol style="list-style-type: none"> An all-weather access for citizens, farmers and traders. The project also includes a construction of a One Stop Border Post in Suam to facilitate trade between the two countries, travellers and transport operators. The upgrading of the road will reduce the travel time in Uganda (Kapchorwa-Suam) from 4hrs to 1.5hrs and in Kenya (Suam-Kitale) from 1.5hrs to 45 minutes. The project area is very fertile and has high agricultural potential and the upgrading of the road from gravel to bitumen standard will facilitate the supply of farm inputs and evacuation of produce to major market centers.
Other important background information of the project	The AfDB and ADF loans will cover 88% of the Kenya project costs whereas the Government of Kenya contribution will be 12% of the project cost.

*Multinational Uganda –Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads
Project Reports and Financial Statements For the financial year ended June 30, 2020*

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 Nairobi and Kampala. • Improvement of transportation of farm inputs and produces to and from the project area • Improvement of economic and living standard of people in towns along the corridor
Project duration	

1.4 Bankers Cooperative Bank of Kenya Ltd
Upper Hill Branch,Nairobi
Account Number 01141160979900

1.5 Auditors Auditor General
Office of The Auditor General
P.O Box 30084-0100
Nairobi

1.6 Roles and Responsibilities

List of the people who are working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng David A. Muchilwa	Director Development	Qualified	Oversight
Eng.Daniel Cheronon	Deputy Director	Qualified	Project Co-Ordinator
Mr W Nyatwanga	Deputy Director	Qualified	Safeguard Specialist
Mr I. Kamotho	Assistant Director-	Qualified	Financial Specialist
Mr R Kilel	Assistant Director	Qualified	Procurement Specialist

1.7 Funding summary

The Project has an approved budget of USD 130,000,000 equivalent to Kshs 13,847,912,000 and Kshs 4,216,797,743 as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (30/06 /2018)		Undrawn Balance to date (30/06/2018)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i)Loan						
Africa Development Bank(ADB)	82,000,000	8,734,836,800	22,027,576	2,346,430,274	59,972,424	6,388,406,526
Africa Development Bank(ADF)	48,000,000	5,113,075,200	17,681,302	1,883,454,776	30,318,698	3,229,620,424
(ii)Counterpart funds						
Government of Kenya	-	4,216,797,743	-	4,216,797,743	-	-
Total	130,000,000	18,064,709,743	39,708,879	8,446,682,793	90,291,121	9,618,026,950

1.8 Summary of Overall Project Performance:

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

Current Year		
Budget 2019/2020	Actual 2019/2020	Performance %
5,836,706,886	4,994,111,549	86%

1.9 Summary of Project Compliance:

There is 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 Project is a multinational operation that provides an important link between Uganda and Kenya by connecting through the border post of Suam. The Uganda side of the project road is Kapchorwa-Suam and the Kenya side of the project road are Suam-Kitale and Eldoret Bypass. The project road supports the regional integration objective of member countries of East African Community (EAC) and Great Lakes Region, especially Uganda and Kenya by connecting to Suam and further linking with Democratic Republic of Congo (DRC) and South Sudan. This is a transformative project that contributes to socio-economic development, poverty reduction and regional integration in eastern Uganda and western Kenya

The key development objectives of the project are to:

- a) The project is a regional road traversing via Suam border and supports regional and national social-economic growth strategies and improves the traffic congestion in Eldoret Town
- b) The improvement of the road will promote the effort of the Governments in poverty reduction through better road infrastructure in the two countries by providing all weather access for the supply of farm inputs and evacuation of produce to major market centers, thus improving the level of service and efficiency of the road network and reducing transport costs.
- c) It will also support regional integration, economic co-operation and foster transport linkage with Uganda, Kenya, DRC and South Sudan.

Below we provide the progress on attaining the stated objectives:

Objective	Outcome	Indicator	Performance
Contribute to the improvement of economic and social welfare of citizens of Uganda and Kenya	Reduced transport costs	GDP per Capita	Uganda USD1099, an increase of 39% and Kenya, USD 2189, an increase of 38% in 20
Enhance regional trade between Uganda and Kenya	Reduced Congestion	Trade volume in USD using Suam border	To increase to USD4.92million worth of trade (Kenya with Uganda) by 2025
Costs and travel time for specific types of vehicles and trips	Reduced transport costs	(a) Average passenger fare /person on Kapchorwa-Suam and Suam-Kitale. (b) Annual average Composite VOC per	a) USD 1.2Uganda (reduction of 29%) and USD1.71 (Kenya-reduction of 25%) in 2021. (b) Reduced by 40% to USD 0.449(Uganda) and by 49% USD0.472 (Kenya) in 2021.

*Multinational Uganda –Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads
Project Reports and Financial Statements For the financial year ended June 30, 2020*

Objective	Outcome	Indicator	Performance
		vehicle km. (c) Average vehicle travel time on Kapchorwa-Suam and Suam-Kitale.	(c)Reduced by 63% to 1.5hrs (Uganda) and by50% to 45 minutes in Kenya in 2021.
Road accidents	Improved rate of survival out of vehicle accidents	Rate of survival out of accidents.	Uganda-by 2021, 30% reduction in fatalities per 10,000 vehicles. Kenya -by 2021; 20% reduction in fatalities per 10,000 vehicles

3 CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

3. Employee welfare

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

4. Market place practices

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

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

5. Community Engagements

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

The Contractor has been involved in various CSR activities geared towards providing 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.

4 STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General and the Project Implementation Team Leader for Multinational Uganda – Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads Project & Eldoret Town Bypass 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.

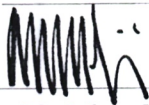
The Director General and the Project Implementation Team Leader Multinational Uganda –Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads Project accept responsibility for the Project’s financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General and the Project Implementation Team Leader for Multinational Uganda – Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads 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 Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads 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.

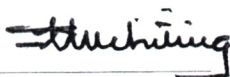
The Director General and the Project Implementation Team Leader for Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the 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 and the Project Implementation Team Leader for Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads Project on 25 AUG 2020 2020 and signed by them.



Eng. Peter M. Mundinia
Director General



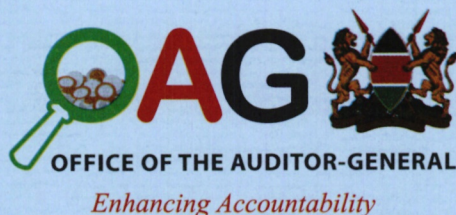
Eng. David A. Muchilwa
Director -Development



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

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Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KAPCHORWA-SUAM-KITALE AND ELDORET BYPASS ROADS (KENYA) PROJECT ID NO. P-Z1-DB0-183 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 Kapchorwa-Suam-Kitale and Eldoret Bypass Roads (Kenya) Project set out on pages 1 to 13, which comprise of the statement of financial assets as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the statement of comparative of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with provisions of Article 229 of the Constitution of Kenya, Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kapchorwa-Suam-Kitale and Eldoret Bypass Roads (Kenya) Project as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreements Nos.2100150037300 and 2000200001052 dated 19 May, 2017 between African Development Fund (ADF) and African Development Bank (AfDB) respectively and the Republic of Kenya and the Public Finance Management Act, 2012 .

In addition, the Special Account Statement, presents fairly, the special account transactions and the ending balance has been reconciled with the books of account.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kapchorwa-Suam-Kitale and Eldoret Bypass Roads (Kenya) 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 in the year under review.

Other Matter

1. Pending Bills

Note 11.1 to the financial statements reflects pending accounts payables amounting to Kshs.946,931,517 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 interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to, distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

2. Budget Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.5,836,706,886 and Kshs.5,002,642,568 respectively resulting to an under-funding of Kshs.834,064,318 or 14% of the budget. The Project expenditure was limited to the amount realised.

Based on the approved estimates, the under funding affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by African Development Fund (ADF) and African Development Bank (AfDB), except for the matters under other matter 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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the 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 governance

and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,

forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

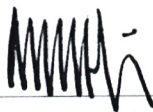
Nairobi

30 December, 2020

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

	NOTES	2019/20		2018/19		Cumulative to date Kshs
		Kshs	Kshs	Kshs(Restated)	Kshs(Restated)	
		Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	
RECEIPTS						
Transfer from Government entities	10.3	3,253,028,289	-	892,111,625	-	4,216,797,743
Proceeds from domestic and foreign Loans	10.4	-	1,749,614,279	-	791,933,355	4,229,885,050
Total receipts		3,253,028,289	1,749,614,279	892,111,625	791,933,355	8,446,682,793
PAYMENTS						
Purchase of goods and services	10.5	8,187,158	-	32,822,035	-	77,439,359
Acquisition of non-financial assets	10.6	3,236,310,112	1,749,614,279	857,771,503	791,933,355	8,359,194,328
TOTAL PAYMENTS		3,244,497,270	1,749,614,279	890,593,538	791,933,355	8,436,633,687
SURPLUS/DEFICIT FOR THE YEAR		8,531,019	-	1,518,087	-	10,049,106

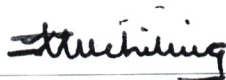
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



Eng. Peter M. Mundinia
 Director General

25 AUG 2020

Date



Eng. David A. Muchilwa
 Director -Development

25 AUG 2020

Date



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

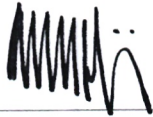
25 AUG 2020

Date

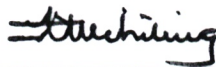
7 STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2020

	Note	2019/20	2018/2019
		Kshs	Kshs(Restated)
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances		10,049,106	1,518,087
TOTAL FINANCIAL ASSETS		10,049,106	1,518,087
REPRESENTED BY:			
Cash and cash equivalents b/fwd		1,518,087	1,518,087
Surplus/Deficit for the year		8,531,019	-
NET FINANCIAL POSITION		10,049,106	1,518,087


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 23 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 No.8279

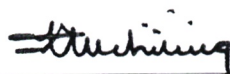
8 STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020

Receipts for operating income		2019/20	2018/2019
		Kshs	Kshs(Restated)
Transfer from Government entities	10.3	3,253,028,289	892,111,625
Payments for operating expenses			
Purchase of Goods & Services	10.5	(8,187,158)	(32,822,035)
Net cash flow from operating activities		3,244,841,131	859,289,590
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Non Financial Assets	10.6	(4,985,924,391)	(1,649,704,858)
Net cash flows from Investing Activities		(4,985,924,391)	(1,649,704,858)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	10.4	1,749,614,279	791,933,355
Net cash flow from financing activities		1,749,614,279	791,933,355
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT		8,531,019	1,518,087
Cash and cash equivalent at BEGINNING of the year		1,518,087	-
Cash and cash equivalent at END of the year		10,049,106	1,518,087

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved 25 AUG 2020 2020 and signed by:



Eng. Peter M. Mundinia
 Director General



Eng. David A. Muchilwa
 Director -Development

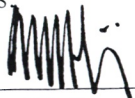


CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK No.8279

9 STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

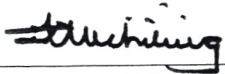
Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	1,374,518,690	2,176,188,196	3,550,706,886	3,253,028,289	297,678,597	92%
Proceeds from borrowings	3,000,000,000	(714,000,000)	2,286,000,000	1,749,614,279	536,385,721	77%
Total Receipts	4,374,518,690	1,462,188,196	5,836,706,886	5,002,642,568	834,064,318	86%
Payments						
Goods & Services				8,187,158		
Acquisition of Non Financial Assets	4,374,518,690	1,462,188,196	5,836,706,886	4,985,924,391	842,595,337	86%
Total Payments	4,374,518,690	1,462,188,196	5,836,706,886	4,994,111,549	842,595,337	86%

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


23 AUG 2020

Date


 Eng. David A. Muchilwa
 Director -Development

23 AUG 2020

Date


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

23 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 Multinational Uganda –Kenya: Kapchorwa –Suam – Kitale & Eldoret Town Bypass Roads Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.1.3 Reporting currency

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

10.2 Significant Accounting Policies

a) Recognition of receipts

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

• Transfers from the Exchequer

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

• External Assistance

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

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

Proceeds from borrowing

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

Undrawn external assistance

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

• Other receipts

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

b) Recognition of payments

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

• Compensation of employees

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

• Use of goods and services

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

• Interest on borrowing

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- **Acquisition of fixed assets**

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

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

c) In-kind donations

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

d) Cash and cash equivalents

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

Restriction on cash

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

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 **Kshs 1.749** Billion being loan 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 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 end with a significant impact on the financial statements for the year ended June 30, 2020

l) Errors

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

10.3 RECEIPTS FROM GOVERNMENT OF KENYA

	2019/20 Kshs	2018/19 Kshs	Cumulative Todate
Quarter 1	203,062,850	300,277,299	510,523,006
Quarter 2	311,608,873	102,042,592	449,851,777
Quarter 3	561,311,671	160,897,121	734,502,122
Quarter 4	2,177,044,895	328,894,613	2,521,920,838
	3,253,028,289	892,111,625	4,216,797,743

10.4 LOAN FROM EXTERNAL DEVELOPMENT PARTNER

During the 12 months to 30 June 2020 we received funding from Development Partners in form of loans negotiated by the National Treasury as detailed in the table below

Name of Donor	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in Kshs	
				2019/20 Kshs	2018/19 Kshs(Restated)
	USD	Kshs	Kshs	Kshs	Kshs(Restated)
Loans Received from Bilateral Donors (Foreign Governments)					
African Development Bank	9,067,118	-	965,851,119	965,851,119	315,987,517
African Development Fund	7,357,731	-	783,763,160	783,763,160	475,945,838
Total	16,424,848		1,749,614,279	1,749,614,279	791,933,355

10.5 PURCHASE OF GOODS & SERVICES

Description	2019/20			2018/19	Cumulative to-date Kshs
	Receipts & Payments Controlled by the Entity Kshs	Receipts & Payments made by the Third Party Kshs	Total Payments Kshs	Total Payments Kshs	
Domestic travel and subsistence	8,187,158	-	8,187,158	32,822,035	77,439,359
Total	8,187,158	-	8,187,158	32,822,035	77,439,359

10.6 ACQUISITION OF NON-FINANCIAL ASSETS

	2019/20			2018/19	Cumulative to-date
	Payments made by the Entity	Payments Made by Third Party	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs(Restated)	Kshs
Research, studies, project preparation, design & supervision	38,361,847.00	200,018,367	238,380,214	168,841,616	447,937,233
Rehabilitation of Roads	362,093,903.00	1,549,595,912	1,911,689,815	811,662,305	4,406,201,796
Acquisition of land	2,835,854,362.00	-	2,835,854,362	669,200,937	3,505,055,299
Total	3,236,310,112.00	1,749,614,279	4,985,924,391	1,649,704,858	8,359,194,328

10.7 CASH AND CASH EQUIVALENTS C/FWD

	2019/20 Kshs	2018/19 Kshs(Restated)
Bank accounts (Note 10.7A)	10,049,106	1,518,087
	10,049,106	1,518,087

	2019/20 Kshs	2018/19 Kshs(Restated)
<u>Local Currency Accounts</u>		
Opening Balance	1,518,087	1,518,087
Deficit/Surplus	8,531,019	-
National Bank of Kenya [A/c No.01001-327332-00]	10,049,106	1,518,087

10.8 PRIOR YEAR ADJUSTMENT

	Balance b/f FY 2018/2019 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2018/2019
Description of the error	Kshs	Kshs	Kshs
Bank Account Balances	-	1,518,087	1,518,087
Acquisition of Non - Financial assets	1,722,877,360	(73,172,502)	1,649,704,858
	1,722,877,360	(71,654,415)	1,651,222,945

* This prior year adjustment has been necessitated by PSAB introduction of the Note on Retentions in the Financial Statements in FY 2019/20. Retentions amounts had previously been expensed and have now been introduced in the Statement of Financial Assets

10.9 CHANGES IN ACCOUNTS PAYABLE – RETENTIONS – PAYMENTS MADE BY THIRD PARTY

Description of the error	2019 - 2020 KShs	2018 - 2019 KShs
Retentions as at 1 st July 2019 (A)	71,142,288	-
Retentions held during the year (B)	181,639,015	71,142,288
Deposit and Retentions paid during the Year (C)	-	-
Net changes in account receivables D= A+B-C	252,781,303	71,142,288

10.10 CHANGES IN ACCOUNTS PAYABLE – RETENTIONS – PAYMENTS CONTROLLED BY THE ENTITY

Description of the error	2019 - 2020 KShs	2018 - 2019 KShs
Retentions as at 1 st July 2019 (A)	1,518,087	-
Retentions held during the year (B)	8,531,019	1,518,087
Retentions paid during the Year (C)	-	-
Net changes in account receivables D= A+B-C	10,049,106	1,518,087

11 OTHER IMPORTANT DISCLOSURES

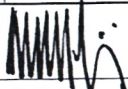
11.1 PENDING ACCOUNTS PAYABLE (Annex 2A)

	Balance b/f FY 2019/2020	Additions for the period	Paid during the year	Balance c/f FY 2019/2020
Description	Kshs	Kshs	Kshs	Kshs
Construction of Civil Works	133,291,601	1,973,220,216	1,911,689,815	194,822,002
Land Compensation	3,449,658,130	125,008,667	2,835,854,362	738,812,435
Supply of services	31,502,562	220,174,732	238,380,214	13,297,080
Total	3,614,452,293	2,318,403,615	4,985,924,391	946,931,517

12 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

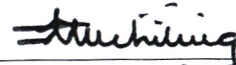
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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


 Eng. Peter M. Mundinia
 Director General

23 AUG 2020

Date


 Eng. David A. Muchilwa
 Director Development

23 AUG 2020

Date

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	3,550,706,886	3,253,028,289	297,678,597	92%	
External financing	2,286,000,000	1,749,614,279	536,385,721	77%	Addition of the budget during supplementary allocation
Total receipts	5,836,706,886	5,002,642,568	834,064,318	86%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of Goods & Services	5,836,706,886	8,187,158	842,595,337	86%	Addition of the budget during supplementary allocation
Acquisition of Non Financial Assets		4,985,924,391			
Total payments	5,836,706,886	4,994,111,549	842,595,337	86%	

ANNEX 2A - ANALYSIS OF PENDING BILLS

	IPC/Fee Note No	Supplier of Goods or Services	Project	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance
							2019/20	2018/19
				a	b	c	d=a-c	
A	Supply of services							
	26	ABDUL MULLICK ASSOCIATES	ELDORET BY PASS	7,908,499	05-Jun-20	971,219	6,937,280	
	27	ABDUL MULLICK ASSOCIATES	ELDORET BY PASS	7,250,172	22-Jun-20	890,372	6,359,800	
	Sub Total			15,158,671		1,861,591	13,297,080	31,502,562
B	Works Construction							
	10	CHINA WU YI LTD	ELDORET BY PASS	309,470,093	07-May-20	114,648,091	194,822,002	
				309,470,093		114,648,091	194,822,002	133,291,601
C	Land Compensation			3,449,658,130		2,710,845,695	738,812,435	3,449,658,130
		Total		3,774,286,894		2,827,355,377	946,931,517	3,614,452,293

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)
	2019/20	2019/20	2019/20	(KShs)
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Road Asset	2,704,069,000	2,150,070,029		4,854,139,029
Land Acquisition	669,200,937	2,835,854,362		3,505,055,299
Total	3,373,269,937	4,985,924,391	-	8,359,194,328

