

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF THE NATIONAL ASSEMBLY
PAPERS L A I D

DATE: 08 MAR 2023

DAY

THE AUDITOR GENERAL

BY:

CLERK-AT
THE-TABLE:

Hon. Dwen Baya, CBS, MP
Deputy Majority leader
Christine Ndlovu

ON

**DUALLING OF MAGONGO ROAD (A109L):
PHASE II (FIDIC EPC/TURNKEY BASED)**

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

**KENYA NATIONAL HIGHWAYS
AUTHORITY**



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



Kenya National Highways Authority

Quality Highways, Better Connections

**PROJECT NAME: DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC
EPC/TURNKEY BASED)**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

PROJECT GRANT/CREDIT NUMBER.....N/A.....

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

Contents

1. Project Information and Overall Performance	iv
2. Statement of Performance Against Project's Predetermined Objectives	viii
3. Environmental and Sustainability Reporting	x
4. Statement of Project Management Responsibilities.....	xiii
5. Report of the Independent Auditors on The Dualling Of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)	xiv
6. Statement of Receipts and Payments for the period ended 30th June 2022.....	1
7. Statement of Financial Assets as at 30th June 2022.....	2
8. Statement of Cashflow for the year ended 30th June 2022	3
9. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30 th June 2022	4
10. Significant Accounting Policies	5
11. Notes to the Financial Statements	11
12. Other Important Disclosures.....	14
13. Prior Year Auditor-General's Recommendations	16
14. Annexes	21

1. Project Information and Overall Performance

1.1 Name and registered office

Dualling of Magongo Road (A109L): Phase II (FIDIC/TURNKEY BASED)

Objective:

The development objectives of the Project are to increase trade and regional integration and to contribute to the Government of Kenya's social and economic development and poverty reduction efforts by providing a more efficient and effective transport system.

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

Contacts:

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 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:	April, 2018
Project End Date:	February, 2023
Project Engineer	Eng. Paul Omondi
Project Sponsor:	1. Trade Mark East Africa (TMEA) 2. Government of Kenya (GoK)

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works
Project number	N/A
Strategic goals of the project	The strategic goals of the project are as follows: (i) Improve cargo off take from the port (ii) Reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport. (iii) Enhance social economic development of the people around the project area.
Achievement of	The project management aims to achieve the strategic goals through

strategic goals	implementation of the project in a timely, efficient and effective manner.
Other important background information of the project	1. The project is jointly financed by Trade Mark East Africa (TMEA) and The Government of Kenya (GoK). In the financing agreement, TMEA contribution is 32% while GoK contribution is 68%
Project duration	The Project is for a duration of 60 months made up of 24 months for design and construction and 36 months for defects notification period.

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

National Bank of Kenya
Hill Branch
P.O Box
Nairobi.

1.5 Auditors Auditor General
Office of the Auditor General
Po Box 30084-0100,
Nairobi.

1.6 Roles and Responsibilities

List of the people working on the project.

Names	Title designation	Key qualification	Responsibilities
Eng. Charles Obuon	Director-Development	Qualified	Project Implementing Team Leader
Eng. Paul Omondi	Deputy Director-Special Projects	Qualified	Project Engineer
Mr. Walter Nyatwang'a	Deputy Director-Environment & Social Interests	Qualified	Project Safeguards Specialist
Ms. Norah Odingo	Deputy Director-Legal Services	Qualified	Project Legal Specialist
Mr. Chanje Kera	Deputy Director-Finance & Accounts	Qualified	Project Financial Specialist
Ms. Rose Oloo	Assistant Director-Social Interests	Qualified	Project Social Development Specialist
Mr. Richard Kilel	Assistant Director-Supply Chain Management	Qualified	Project Procurement Specialist

Project Information and Overall Performance (Continued)

1.7 Funding summary

The Project is for duration of 5 years from April, 2018 to March, 2023 with an approved budget of USD 10,886,121 equivalent to Kshs. 1,100,042,519 as highlighted in the table below:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30.06.2022)		Undrawn balance to date (30.06.2022)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
TMEA	10,886,121	1,100,042,519	11,785,982	1,190,973,504	-	-
(ii) Counterpart funds						
Government of Kenya	-	-	21,870,417	2,210,005,629	-	-
Total	10,886,121	1,100,042,519	33,656,399	3,400,979,133	-	-

B. Application of Funds

Application of funds	Amount received to date - (30.06.2022)		Cumulative Amount paid to date - (30.06.2022)		Unutilised balance to date - (30.06.2022)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
TradeMark East Africa (TMEA)	11,785,982	1,190,973,504	11,785,982	1,190,973,504	-	-
(i) Loan						
(ii) Counterpart funds						
Government of Kenya (GoK)	-	2,210,005,629	-	2,137,006,127	-	72,999,502
Total	11,785,982	3,400,979,133	11,785,982	3,327,979,631	-	72,999,502

Project Information and Overall Performance (Continued)

1.8 Summary of Overall Project Performance:

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

Budget	FY 2021/2022		
	Actual	Budget	%
Counterpart Funds - GoK	5,000,000	75,000,000	7%
Grants from External Development Partners			
TMEA	90,930,985	310,000,000	29%
TOTAL	95,930,985	385,000,000	25%

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

As at 30th June, 2022, the physical progress of works was 85.57%. Time elapsed is 50 months representing 126.1%

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

- The project procurement process is conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- The authority (KeNHA) has put in place adequate checks & balances on appointment of the works consultant supervision who oversees the project implementation on daily basis on consultation and subsequent approvals from the employer and the bank.
- In addition to works supervision, the consultant undertakes design review before commencement of roads construction works to reduce uncertainties.
- Regular auditing of the project by Internal Auditors, External Auditors and Quality Assurance Departments.
- Project site review meetings by the Development Partners through supervision missions
- Monthly site meetings that involve the employer, the consultant and the contractor.

(d) During implementation, the project has faced challenges of inadequate budgetary provisions and delays in possession of right of way occasioned by delays in compensation of Project Affected Persons (PAPs). However, the Authority is closely liaising with Parent Ministry, The National Treasury and National Land Commission to address these challenges.

1.9 Summary of Project Compliance:

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

2. Statement of Performance Against Project's Predetermined Objectives

Introduction

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

The key development objectives of the project are to:

- a) To improve cargo off take from the port of Mombasa
- b) To reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport
- c) To enhance social economic development of the people around the project area

Progress on attainment of Strategic development objectives

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

Objective	Outcome	Indicator	Performance
To improve cargo off take from the port	Reduced congestion in Mombasa town. Reduced travel time between Mombasa and Malaba	Increased volume of Import Export trade handled at the port of Mombasa.	Improved cargo movement out of the Port of Mombasa
To reduce the vehicle operating cost and facilitate the transport of goods and passengers to and from the container terminal and Moi International Airport	Reduced congestion in Mombasa town.	Increased volume of Import Export trade handled at the port of Mombasa.	Improvement of traffic movement at intersections

Objective	Outcome	Indicator	Performance
To enhance social economic development of the people around the project area	Improved air quality along the project road hence improved health among communities along the project road.	Reduced CO ₂ concentration along the project road as a result of reduced traffic congestion	Trade volumes have increased along the project road as a result of ease of access to business premises.

3. Environmental and Sustainability Reporting

Dualling of Magongo Road (A109L) exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

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

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

2. Environmental performance

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

Environmental and Sustainability Reporting (Continuous)

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

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

3. Employee welfare

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

4. Market place practices

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

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

Further, the Authority endeavours to honour its contractors and vendors payments through paying within the set payment timelines in the contracts and agreements.

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

Environmental and Sustainability Reporting (Continuous)

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.

During the project execution, the Contractor continued to offer employment opportunities to the locals as casuals. The Contractor also carried out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross-cutting issues.

4. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

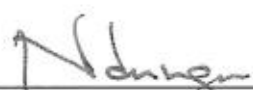
The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

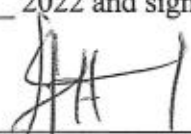
The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2022, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/TURNKEY BASED) further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.


The Director General, KeNHA and the Project Implementation Team Leader for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) 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 Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) on 30 AUG 2022 2022 and signed by them.


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon CPA
Director-Development


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

REPUBLIC OF KENYA

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Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC EPC/TURNKEY BASED) FOR THE YEAR ENDED 30 JUNE, 2022 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) set out on pages 1 to 20, which comprise

the statement of financial assets as at 30 June, 2022 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) as at 30 June, 2022, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement between the Government of the Republic of Kenya and Trade Mark East Africa (TMEA) dated 24 November, 2010.

Basis for Qualified Opinion

1. Inaccurate Comparative Balances

The financial statements reflect a comparative Nil opening fund balance in the current financial year while the closing fund balance in the 2020/2021 financial year was Kshs.8,690,882. The movement in the balance has neither been explained nor reconciled.

2. Variance in Disclosed Retention

The interim payment certificate Number 8 issued on 1 July, 2021 and paid on 10 June, 2022 indicate the total retention amount to date as Kshs.93,015,748 while the financial statements reflect an amount of Kshs.72,999,502 resulting to an unreconciled variance of Kshs.20,016,246.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based) Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.385,000,000 and Kshs. 95,930,985 respectively, resulting to an underfunding of Kshs.287,069,015 or 75%. Similarly, Kshs.95,930,985 was spent on the Project against an approved budget of Kshs.385,000,000, resulting to an under expenditure of Kshs.289,069,015 or 75%.

Further, review of records provided for audit revealed that the project had a total approved budget and actual receipts of Kshs.2,697,004,754 and Kshs.1,356,927,820 for acquisition of land which was to be funded by the Government of Kenya resulting to underfunding of Kshs.1,340,076,934. This resulted in limited right of way due to land compensation challenges, which further resulted in delay of the project completion and attracted prolongation cost claim of Kshs.2,851,043,577.

In the circumstances, the underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public. Further, it was not possible to confirm the completion of the project within time and without cost overruns, against the initial cost of Kshs.1,100,042,519.

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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Failure to Budget for Pending Bills

Note 12 to the financial statements - other important disclosures and the corresponding analysis at Annex 3, reflects pending bills of Kshs.1,810,729,098. These pending bills are made up of consultancy services Kshs.17,715,072, civil works Kshs.447,385,527 and land compensation Kshs.1,356,927,820.

As reported in the previous years, Management liaised with The National Treasury to obtain adequate budgetary allocation to pay the pending bills. However, review of the approved budget for the year 2021 - 2022 revealed that Management did not budget for the them, contrary to the provisions of Regulation 31(2) of the Public Finance

Management (National Government) Regulations, 2015 which requires the Accounting Officer to budget for and obtain approval for all services which can be foreseen.

Management was in breach of the law.

2. Delay in Completion of the Project

As previously reported, the Project commenced on 1 May, 2018 for a period of twenty-four (24) Months ending 1 May, 2020. The contractor was later granted extension with the expected completion date of 20 August, 2021. According to the project implementation briefs as at August, 2022 the works were still ongoing with an overall progress of approximate 86% and time covered of fifty-two (52) months or 131% of the projected time. However, there was no evidence of any further extension of the contract period. Further, according to the contractor's interim claim No.14 of 30 June, 2022 the delay attracted prolongation claim of Kshs.2,851,043,577, which is approximately 118% of the initial project contract sum of Kshs.2,420,327,630. The claim is yet to be evaluated by the Management who attribute the delay to inadequate budgetary allocation and disruption of the contractor's sequence of work arising from the long time taken by the National Land Commission to compensate the Project Affected Persons (PAPs).

In the circumstances, the underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the ability of the Project 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 intention to terminate the Project or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to sustain its services.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 November, 2022


***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2022***


6. Statement of Receipts and Payments for the period ended 30th June 2022

Note	FY 2021/22			FY 2020/21			Cumulative to Date
	Receipts & Payments Controlled by the Entity	Payments Made by Third Parties	Total	Receipts & Payments Controlled by the Entity	Payments Made by Third Parties	Total	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
RECEIPTS							
Transfer from Government entities							
Grants from external development partners	5,000,000	-	5,000,000	1,152,106,668	-	1,152,106,668	2,210,005,629
	-	90,930,985	90,930,985	-	155,354,082	155,354,082	1,190,973,504
TOTAL RECEIPTS	5,000,000	90,930,985	95,930,985	1,152,106,668	155,354,082	1,307,460,750	3,400,979,133
PAYMENTS							
Purchase of goods and services	-	-	-	3,198,180	-	3,198,180	25,593,067
Acquisition of non-financial assets	5,000,000	90,930,985	95,930,985	1,117,646,860	155,354,082	1,273,000,942	3,302,386,564
TOTAL PAYMENTS SURPLUS/DEFICIT FOR THE YEAR	5,000,000	90,930,985	95,930,985	1,120,845,040	155,354,082	1,276,199,122	3,327,979,631
	-	-	-	31,261,628	-	31,261,628	72,999,502

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


Eng. Kungu Ndungu
Director General

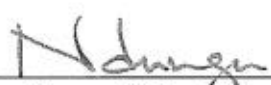

Eng. Charles Obuon
Director-Development


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


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

	Note	FY 2021/22	FY 2020/21
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5A	72,999,502	72,999,502
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
Total Cash and Cash Equivalents		72,999,502	72,999,502
Accounts Receivables		-	-
TOTAL FINANCIAL ASSETS		72,999,502	72,999,502
FINANCIAL LIABILITIES			
Payables- Deposits and Retentions	6	72,999,502	64,308,620
NET ASSETS		-	8,690,882
REPRESENTED BY			
Fund balance b/fwd	7	-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	8,690,882
NET FINANCIAL POSITION		-	8,690,882

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


Eng. Kungu Ndungu
 Director General

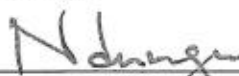

Eng. Charles Obuon
 Director-Development

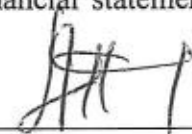

CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279


8. Statement of Cashflow for the year ended 30th June 2022

	Note	FY 2021/2022	FY 2020/2021
Receipts for operating income		Kshs	Kshs
Transfer from Government entities	1	5,000,000	1,152,106,668
Proceeds from domestic and foreign grants	2	90,930,985	155,354,082
Miscellaneous receipts		-	-
Payments for operating expenses			
Purchase of goods and services	3	-	(3,198,180)
Net cash flow from operating activities		95,930,985	1,304,262,570
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	4	(95,930,985)	(1,273,000,942)
Net cash flows from Investing Activities		(95,930,985)	(1,273,000,942)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	5	-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		-	31,261,628
Cash and cash equivalent at BEGINNING of the year		72,999,502	41,737,874
Cash and cash equivalent at END of the year		72,999,502	72,999,502

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


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development


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


9. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30th June 2022

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	150,000,000	(75,000,000)	75,000,000	5,000,000	70,000,000	7%
Proceeds from Grants	310,000,000	-	310,000,000	90,930,985	219,069,015	29%
Total Receipts	460,000,000	(75,000,000)	385,000,000	95,930,985	289,069,015	25%
Payments						
Purchase of goods and services	-	-	-	-	-	0%
Acquisition of non-financial assets	460,000,000	(75,000,000)	385,000,000	95,930,985	289,069,015	25%
Total Payments	460,000,000	(75,000,000)	385,000,000	95,930,985	289,069,015	25%
Surplus/Deficit	-	-	-	-	-	-

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


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development


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

10. Significant Accounting Policies

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

10.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

10.2 Reporting entity

The financial statements are for Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) under the State Department of Infrastructure. The financial statements are for the reporting entity's Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) as required by Section 81 of the PFM Act, 2012.

10.3 Reporting currency

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

10.4 Recognition of receipts

Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

10.5 Recognition of payments

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

- **Compensation of employees**

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

- **Use of goods and services**

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

- **Interest on borrowing**

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

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

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

Significant Accounting Policies (Continued)

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts

items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

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

10.6 In-kind donations

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

10.7 Cash and cash equivalents

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

10.8 Restriction on cash

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

10.9 Imprests and Advances

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

Significant Accounting Policies (Continued)

10.10 Contingent Liabilities

A contingent liability is:

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

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

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

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

10.11 Contingent Assets

Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/ Turnkey Based) in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

10.12 Pending bills

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

Significant Accounting Policies (Continued)

10.13 Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as

the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of

Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

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

10.14 Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments. During the year **Kshs 95,930,985** disbursements were received in form of direct payments from third parties.

10.15 Exchange rate differences

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

10.16 Comparative figures

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

10.17 Subsequent events

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

Significant Accounting Policies (Continued)

10.18 Prior period adjustments

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

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

11. Notes to the Financial Statements

1. Transfers from Government Entities

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

	FY 2021/22	FY 2020/21	Cumulative
	Kshs	Kshs	to-date
Counterpart funding through Ministry of Transport and Infrastructure			
Counterpart funds Quarter 1	5,000,000	75,683,957	85,954,939
Counterpart funds Quarter 2	-	666,468,996	696,988,507
Counterpart funds Quarter 3	-	217,898,385	449,151,703
Counterpart funds Quarter 4	-	192,055,330	977,910,480
Total (See Annex 2)	5,000,000	1,152,106,668	2,210,005,629

2. Proceeds from Foreign Grants

During the 12 months to 30 June 2022 we received grants from donors as detailed in the table below:

Name of Donor	Amount in Donor Currency	Grants Received in Cash	Grants Received as Direct Payment	Total Amount in Kshs	
				FY 2021/22	FY 2020/21
	UA	Kshs	Kshs	Kshs	Kshs
Grants Received from Multilateral Donors (International Organisations)					
Trademark East Africa (TMEA)	899,861	-	90,930,985	90,930,985	155,354,082
Total			90,930,985	90,930,985	155,354,082

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Item	FY 2021/22			FY 2020/21	Cumulative to Date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	KSh	KSh	KSh	KSh	KSh
Domestic Travel & Subsistence	-	-	-	3,198,180	24,958,708
Hospitality Supplies & Services	-	-	-	-	221,448
Printing, Adverts & Information Supplies	-	-	-	-	412,911
Total	-	-	-	3,198,180	25,593,067

4. Acquisition of Non-Financial Assets

	FY 2021/22			FY 2020/21	Cumulative to-date
	Payments Made by the Entity in Cash	Payments Made by Third Party	Total Payments		
	KSh	KSh	KSh	Kshs	Kshs
Research, Studies, Project Preparation, Design & Supervision	-	25,452,985	25,452,985	24,648,226	108,383,613
Construction of Roads	-	65,478,000	65,478,000	424,695,735	1,837,075,131
Acquisition of Land	5,000,000	-	5,000,000	823,656,981	1,356,927,820
Total	5,000,000	90,930,985	95,930,985	1,273,000,942	3,302,386,564

5. Cash and Cash Equivalents Carried Forward

	FY 2021/22	FY 2020/21
Description	Kshs	Kshs
Bank accounts (Note 5A)	72,999,502	72,999,502
Total	72,999,502	72,999,502

Notes to the Financial Statements (Continued)

5A Bank Accounts

	FY 2021/22	FY 2020/21
	Kshs	Kshs
Local Currency Accounts		
National Bank of Kenya Ltd. [A/c No. 0100132733200]	72,999,502	64,308,620
Co-operative Bank of Kenya [A/c No. 01141160979900]	-	8,690,882
Total bank account balances	72,999,502	72,999,502

6. Accounts Payables - Retentions

Description	FY 2020/21	FY 2019/20
	Kshs	Kshs
Retentions	72,999,502	64,308,620
Total	72,999,502	64,308,620

7. Fund Balance Brought Forward

	FY 2021/22	FY 2020/21
	Kshs	Kshs
Bank accounts	-	-
Total	-	-

8. Changes in Accounts Payable - Retentions

Description	FY 2021/22	FY 2020/21
	Kshs	Kshs
Retentions as at 1 st July	64,308,620	41,737,874
Closing Retention as at 30 th June	72,999,502	64,308,620
Change in Retention	8,690,882	22,570,746

12. Other Important Disclosures

1. Pending Bills (See Annex 3)

Description	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance c/f FY 2021/22
	Kshs	Kshs	Kshs	Kshs
Construction of civil works	143,928,052	368,935,475	65,478,000	447,385,527
Lands Compensation	1,350,628,499	-	5,000,000	1,345,628,499
Supply of services	1,516,424	41,651,633	25,452,985	17,715,072
Total	1,496,072,975	410,587,108	95,930,985	1,810,729,098

2. External Assistance

a) External assistance relating to loans and grants

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
External assistance received as grants	90,930,985	155,354,082
Total	90,930,985	155,354,082

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	FY 2021/2022	FY 2020/2021
Description		Kshs	Kshs
Undrawn external assistance - grants	Consultancy services, Goods & Services	-	-
Total		-	-

Grant amount exhausted

c) Classes of providers of external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Multilateral donors	90,930,985	155,354,082
Total	90,930,985	155,354,082

External assistance for road construction works, design & supervision consultancy services.

Other important disclosures (Continued)

d) Purpose and use of external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Acquisition of Assets	90,930,985	155,354,082
Total	90,930,985	155,354,082

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

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

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Multilateral donors	90,930,985	155,354,082
Total	90,930,985	155,354,082

13. Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status	Timeframe
1	<p><u>Basis for Opinion</u></p> <p>1 Un-Supported Receipts from Government Entities</p> <p>Note 1 to the financial statements reflects Kshs 1,152,106,668 in respect to transfers from other Government entities. However, the supporting documents provided was in form of exchequer requisitions made during the year which amounted to Kshs 1,679,382,094 resulting into an unexplained difference of Kshs 527,275,426. In the circumstances, the accuracy, completeness and validity of receipts from other Government units could not be confirmed.</p>	During the Financial Year 2020/21, the Authority made exchequer requests amounting to Kshs 1,679,382,094 as rightfully observed. However out of the requests made, the Authority received Kshs 1,152,106,668 as correctly indicated in Note 1 to the financial statements.	Resolved	Resolved

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2022***

2	Unreconciled Retentions Balance		<p>The payables-deposits and retentions and as disclosed under Note 6 to the financial statements reflect a balance of Kshs 64,308,620 as at 30 June, 2021. However, review of the last contractor interim payment certificate No. 5 revealed that retentions totalling Kshs 72,999,481 had been deducted from the contractor's payments leading to an unexplained variance of Kshs 8,690,861.</p> <p>Consequently, it was not possible to confirm if payables-deposits and retentions balance of Kshs. 64,308,602 as at 30 June, 2021 was fairly stated.</p>	<p>Kshs 8,690,861 is retention money received from Exchequer but had not yet been transferred to retention bank account hence formed part of the outstanding balance on IPC 4 & 5 as indicated in Annex 3A of the financial statements – Analysis of Pending Bills.</p>	Resolved	Resolved
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***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2022***

3	<p>Unexplained Variance in Surplus for the Year</p> <p>The statement of receipts and payments reflects surplus for the year of Kshs 31,261,628 whereas the statement of financial assets shows a surplus of Kshs 8,690,882 resulting into an unexplained variance of Kshs 22,570,746.</p> <p>In the circumstances, the fair statement of surplus for the year could not be ascertained.</p>	<p>The amount reflected as a surplus for the year in the statement of receipts and payments represent retention money received during the FY 2020/21 from Exchequer and transferred to retention bank account of Kshs 22,570,746 as per Note 8 to the Financial Statements plus Kshs 8,690,882 being retention money received from Exchequer but not yet transferred to the retention account hence in the Exchequer bank account as indicated in Note 5A to the financial statements – Bank Accounts. In the statement of financial assets, Kshs 22,570,746 is part of the Kshs 64,308,620 Financial Liabilities i.e, Payables – Deposits and Retentions.</p>	Resolved	Resolved
4	<p>Misstated Fund Balance Brought Forward</p> <p>The statement of financial assets reflects nil balance in respect to fund balance brought forward from the previous year. However, audited financial statements for 2020 financial year indicated that the Project reported a surplus of Kshs. 41,737,874 which should have been disclosed as fund balance brought forward.</p> <p>Consequently, the fund balance is not fairly stated in the financial statements.</p>	<p>Kshs 41,737,874 represent prior year closing retention amount which was reclassified from the Fund balance b/f to Financial liabilities – Payables (retention) in the financial statements as required by the PSASB revised reporting template for FY 2020/21</p>	Resolved	Resolved

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2022***

Other Matter				
1	<p>Delay in Completion of the Project</p> <p>The Project commenced on 1 May, 2018 with the expected completion date of 1 May 2020 as the contract period was 24 months. The contractor was later granted 476 days extension of time which revised the expected completion date to 20 August, 2021. However, physical verification of the Project which was conducted in 21 October, 2021 revealed that works were still ongoing with an overall progress approximated at 83 %. In addition, it was noted that the Project supervision contract had been extended twice due to delay in completion, occasioning an increase in the awarded contract price from Kshs 97,236,900 to Kshs 126,312,917 representing an increase of Kshs 28,986,017 or about 30% of the original cost.</p> <p>In the foregoing, delayed completion of the project has occasioned extra costs since it is not clear when the project will be completed.</p>	<p>This has been due to challenges in appropriating sufficient budgetary allocations for the project. As indicated in the Financial Statements, there were no development partner budgetary allocation for the project for two consecutive years when the project started. Further, besides facing insufficient budgetary allocations towards acquisition of land for construction right of way, funds remitted to NLC would take long to be availed to the project affected persons, thereby disrupting the contractor's sequence of works.</p>	Not Resolved	Continuous
2	<p>Pending Bills</p> <p>Note 12.1 under Other Important Disclosures reflects pending bills totalling Kshs 1,496,072,975 analysed in Annex 3A. The Management explained that it was liaising with the line Ministry and the National Treasury to obtain adequate budgetary allocation to secure exchequer release for prompt payment of the pending bills in the subsequent financial year.</p>	<p>This has been due to inadequate budgetary provisions and delays in Exchequer releases to facilitate prompt contractual payments. In FY 2021/22 the project had a budget of Kshs 150 million which has been utilized towards reducing these bills.</p>	Not Resolved	Continuous

***Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2022***

	However, the Project is at risk of incurring extra costs in interest and penalties due to continued delay in settling of the outstanding bills.			
3	<p>Notice of Suspension of Works Due to Delayed Demolitions of Structures.</p> <p>On 21 October, 2021, the contractor issued a notice of suspension of works to their employees for a period of between three (3) and Six (6) months with effect from 23 November, 2021 due to delay in demolition of structures encroaching on the Project site which inhibited the continuation of work. Management did not explain efforts put in place to secure demolition of the structures to forestall suspension of work. Suspension of works will lead to further delay in completion of the project and may also attract extra charges from the contractors.</p>	<p>This has been due to slow compensation of project affected persons (PAPs) as a result of inadequate budgetary provisions and delays in exchequer releases to facilitate prompt compensation to PAPs.</p>	Not Resolved	Continuous



**Eng. Kungu Ndungu
Director General**

30 AUG 2022

Date



**Eng. Charles Obuon
Director-Development**

30 AUG 2022

Date


14. Annexes

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


	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	75,000,000	5,000,000	70,000,000	7%	Inadequate exchequer release
External financing	310,000,000	90,930,985	219,069,015	29%	Exhaustion of grant
Total receipts	385,000,000	95,930,985	289,069,015	25%	
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of goods and services	385,000,000	-	289,069,015	25%	Inadequate Exchequer release and exhaustion of grant
Acquisition of non-financial assets		95,930,985			
Total payments	385,000,000	95,930,985	289,069,015	25%	

Annex 2 – Reconciliation of Inter-Entity Transfers

	Project Name:	DUALLING OF MAGONGO ROAD (A109I): PHASE II (FIDIC EPC/TURNKEY BASED)		
Break down of Transfers from the State Department of Infrastructure				
a.	Government Counterpart Funding			
	-	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
	Quarter 1	8-Jul-21	5,000,000	FY 2021/22
	Quarter 2	-	-	-
	Quarter 3	-	-	-
	Quarter 4	-	-	-
	Total		5,000,000	


Eng. Kungu Ndungu
Director General

30 AUG 2022
Date


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

30 AUG 2022
Date

Annex 3 – Analysis of Pending Bills

Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2022	2021	
	a	b	c	d=a-c		
Consultancy Services						
Multiscope	3,736,065	07.12.2020	3,277,250	458,815	458,815	FN 26
Multiscope	3,004,875	07.12.2020	2,635,855	369,020	369,020	FN 27
Multiscope	3,004,873	07.12.2020	2,636,345	368,528	368,528	FN 28
Multiscope	2,606,211	07.12.2020	2,286,150	320,061	320,061	FN 29
Multiscope	3,444,922	16.08.2021	-	3,444,922	-	FN 30
Multiscope	2,978,201	16.08.2021	2,567,415	410,786	-	FN 31
Multiscope	2,915,219	16.08.2021	2,513,120	402,099	-	FN 32
Multiscope	2,921,889	16.08.2021	2,518,870	403,019	-	FN 33
Multiscope	1,384,245	16.08.2021	-	1,384,245	-	FN 34
Multiscope	3,041,114	27.09.2021	2,621,650	419,464	-	FN 35
Multiscope	3,057,447	27.09.2021	2,635,730	421,717	-	FN 36
Multiscope	3,034,688	27.09.2021	2,616,110	418,578	-	FN 37
Multiscope	3,078,362	31.10.2021	2,653,760	424,602	-	FN 38
Multiscope	2,429,446	04.11.2021	2,094,350	335,096	-	FN 39
Multiscope	3,034,189	09.11.2021	2,615,680	418,509	-	FN 40
Multiscope	3,034,908	11.11.2021	2,616,300	418,608	-	FN 41
Multiscope	3,035,047	23.12.2021	-	3,035,047	-	FN 42
Multiscope	1,212,200	22.02.2022	-	1,212,200	-	FN 43
Multiscope	3,049,756	22.02.2022	-	3,049,756	-	FN 44
Sub-total	54,003,657		36,288,585	17,715,072	1,516,424	
Civil Works						
China Wu Yi	206,267,817	16.03.2020	206,267,817	-	656,093	Ipc 4
China Wu Yi	133,912,667	20.07.2020	133,912,667	-	8,034,789	Ipc 5
China Wu Yi	82,997,367	29.10.2020	-	82,997,367	82,997,367	VoP 1
China Wu Yi	163,727,001	04.01.2021	131,125,253	32,601,748	32,601,748	Ipc 6
China Wu Yi	98,622,714	29.01.2021	78,984,659	19,638,055	19,638,055	Ipc 7
China Wu Yi	47,539,042	23.06.2022	-	47,539,042	-	1-Int
China Wu Yi	80,591,658	23.06.2022	-	80,591,658	-	VoP 2
China Wu Yi	103,481,715	29.07.2021	65,478,001	38,003,714	-	Ipc 8
China Wu Yi	23,150,410	23.06.2022	-	23,150,410	-	2-Int
China Wu Yi	122,863,533	23.12.2021	-	122,863,533	-	Ipc 9

Dualling of Magongo Road (A109L): Phase II (FIDIC EPC/Turnkey Based)
Annual Report and Financial Statements for the financial year ended June 30, 2022

Supplier of Goods/Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
Sub-total	1,063,153,923		615,768,396	447,385,527	143,928,052	
Land Compensation		30.06.2019	1,356,927,820	1,345,628,499	1,350,628,499	
Grand-Total	1,117,157,580		2,008,984,801	1,810,729,098	1,496,072,975	

Annex 4 – Summary of Fixed Asset Register

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(KSh)	(KSh)	(KSh)	(KSh)
	2021/22	2021/22	2021/22	2022
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Land	1,351,927,820	5,000,000	-	1,356,927,820
Construction of Roads	1,854,527,759	90,930,985	-	1,945,458,744
Total	3,206,455,579	95,930,985	-	3,302,386,564

