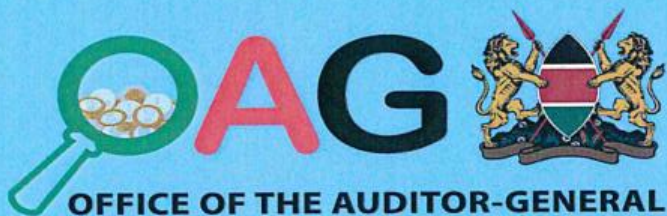


REPUBLIC OF KENYA



*Enhancing Accountability*

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 12 APR 2023	DAY: Wed
REPORT BY: D-LON	
CLERK-AT THE-TABLE: Mado	

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**HORN OF AFRICA GATEWAY  
DEVELOPMENT PROJECT LOAN  
NO.6768-KE**

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

**KENYA NATIONAL HIGHWAYS  
AUTHORITY**





OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

01 SEP 2022

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



**Kenya National Highways Authority**

*Quality Highways, Better Connections*

**PROJECT NAME: HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

**PROJECT CREDIT NUMBER: LOAN ID 6768-KE  
PROJECT NO P-161305**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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





**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
***Annual Report and Financial Statements for the financial year ended June 30, 2022***

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## **1. PROJECT INFORMATION AND OVERALL PERFORMANCE**

### **1.1 Name and registered office**

**Name:** Horn of Africa Gateway Development Project (HoAGDP)

**Objective:**

The overarching objective of the HoA Program, which the proposed project will contribute to, is “enhancing connectivity among the HoA countries and access to seaports; facilitation of domestic and regional trade and economic integration, and road safety”. This will be achieved through a sequential improvement in physical and institutional infrastructure and promoting trade and investing in development facilitation interventions.

It is envisaged that this project will unlock existing potential and productivity, promote completeness by improving access to public services within the Horn of Africa Region in a bid to enhance the growth of the Country’s Gross Domestic Product. The project will also contribute to the reduction of transport cost that will in turn help lower the cost of economic development, services delivery, and ease of doing business.

The main objectives of the initiative is to improve:

- a) The movement of people and goods and digital connectivity and access to social services to communities at designated locations along the targeted sections of the Isiolo-Mandera Regional Road Corridor.
- b) The capacity of selected transport related institutions in Kenya.
- c) Enhancing connectivity among the HoA countries and access to seaports; facilitation of domestic and regional trade and economic integration, and road safety a contribution towards the HoA program objective.

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

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Kenya National Highways Authority  
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**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
*Annual Report and Financial Statements for the financial year ended June 30, 2022*

**1.2 Project Information**

Project Start Date:	16 <sup>th</sup> February, 2017
Financing Agreement Effectiveness Date:	22 <sup>nd</sup> December 2020  The Government received a Project Preparation Advance (PPA) for the preparation of North Eastern Transport Improvement Project (NETIP) However, the project name changed to Horn of Africa Gateway Development Project (HoAGDP). This was necessitated by the virtue of the project changing its scope into a regional project under the Horn of Africa initiative. Further, the PPA was refinanced & recouped from the proceeds of the HoAGDP loan upon its becoming effective.
Project Closing Date	30 <sup>th</sup> June 2028
Project Engineer	Eng Paul Omondi
Project Sponsor:	International Development Agency (IDA) and The Government of Kenya

**1.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport, Infrastructure, and Housing, Urban Development & Public Works
Project number	P-161305
Strategic goals of the project	The strategic goals of the project are as follows <ul style="list-style-type: none"> <li>• Road construction of a 350KM section of the road corridor •</li> <li>• Development of social and economic infrastructure in some sections of the road •</li> <li>• Installation of fibre optic cable along the 740KM road</li> </ul>
Achievement of strategic goals	<ul style="list-style-type: none"> <li>• Reduction in travel time;</li> <li>• Reduction in transport cost to users;</li> <li>• Reduction in cost of ICT access in area served</li> <li>• Road in good and fair condition; and</li> <li>• Improved processing time at border crossings</li> </ul>

Other important background information of the project	<p>The total Financing cost of the HoAGDP program is US\$750 million.</p> <p>Part of the project amount is to be expended through KeNHA as one of the six (6) designated implementing agencies in accordance with the Project Appraisal Document (PAD). The amount shall be utilized in the following project components to be undertaken by KeNHA</p> <ul style="list-style-type: none"> <li>➤ <b>Component A: Improving the movement of people and goods, and digital connectivity:</b> Sub-component A1: Upgrading Selected Critical Road Infrastructure – <b>USD 642.54</b></li> <li>➤ <b>Component B: Facilitation of Regional Trade and Transport:</b> Sub-component B2: Regional Transport Facilitation by KeNHA - <b>USD 46.58</b></li> <li>➤ <b>Component C: Improve Access to Selected Basic Social Services at Designated location along the road corridor</b> – <b>USD 36.98</b></li> <li>➤ <b>Component D: Institutional Strengthening of Selected Transport and Related Institutions:</b> Subcomponent D1: Strengthening the capacity of KeNHA and associated Institutions – <b>USD 42.93</b></li> </ul> <p>The total Counterpart funding for KeNHA components is <b>USD 642.87 Million</b> equivalent and GoK <b>USD 126.14 Million</b></p>
Project Closing Date	30 <sup>th</sup> June 2028

**1.4 Bankers**

NIC Bank Ltd  
NIC House Branch  
Po Box 44599  
Nairobi

**1.5 Auditors**

Auditor General  
Office of the Auditor General  
Kenya National Audit Office  
P.o Box 30084-0100  
Nairobi

**1.6 Roles and Responsibilities**

Names	Title designation	Key qualification	Responsibilities
Eng.Charles Obuon	Director-Development	Qualified	Team Leader
Eng.Paul Omondi	Deputy Director	Qualified	Team Coordinator & Construction Specialist
Mr Walter Nyatwanga	Deputy Director	Qualified	Safeguards Specialist
Mr Chanje Kera	Deputy Director	Qualified	Financial Specialist
Mr R Kilel	Assistant Director	Qualified	Procurement Specialist

**1.7 Funding summary**



**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2022**

The Project duration runs from 2017 to 2028 with an approved budget of Euro. 573,700,000 equivalents to Kshs 73,232,977,110 at the Exchange rate of Kshs. 127.6503 and Kshs 55,099,103.

**A. Source of Funds**

Source of funds	Donor Commitment-		Amount received to date – (30th June 2022)		Undrawn balance to date (30th June 2022)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Grant</b>						
-	-	-	-	-	-	-
<b>(ii) Loan</b>						
International Development Bank- ADB	573,700,000	73,232,977,110	35,044,111	4,473,391,323	538,655,889	68,759,585,787
<b>(iii) Counterpart funds</b>						
Government of Kenya	-	60,099,103	-	143,823,304	-	(83,724,201)
<b>Total</b>	<b>573,700,000</b>	<b>73,293,076,213</b>	<b>35,044,111</b>	<b>4,617,214,627</b>	<b>538,655,889</b>	<b>68,675,861,586</b>

**B. Application of Funds**

Application of funds	Amount received to date – (30 <sup>th</sup> June 2022)		Cumulative Amount paid to date – (30 <sup>th</sup> June 2022)		Unutilised balance to 30th June 2022	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
	USD	KSHS	USD	KSHS	USD	KSHS
<b>(i) Loan</b>						
International Development Association- IDA	35,044,111	4,473,391,323	26,835,604	3,425,572,953	-	1,047,818,370
<b>(ii) Counterpart funds</b>						
Government of Kenya		143,823,304		143,823,304		-
<b>Total</b>	<b>35,044,111</b>	<b>4,647,606,358</b>	<b>35,044,111</b>	<b>3,599,787,988</b>		<b>1,047,818,370</b>

**1.8 Summary of Overall Project Performance:**

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

<b>Current Year</b>		
<b>Budget 2021/22</b>	<b>Actual 2021/22</b>	<b>Performance %</b>
4,806,000,000	2,932,626,698	61%

**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
**Annual Report and Financial Statements for the financial year ended June 30, 2022**

**Status of the Project**

<b>Road Section</b>	<b>Name of Contractors</b>	<b>Progress Reported to Date</b>
1. Isiolo – Kula Mawe 77kms Contract type: Works Contract Signed: Commencement Date : Projected Completion date: Contract amount:  Consultant: Egis International in association with Egis Kenya	China State Construction Engineering Corporation Limited	Works to Commence on 1 <sup>st</sup> September 2022, Advance payment Ksh.249,247,945.31 made
2. Kula Mawe – Modogashe 113 kms	China State Construction Engineering Corporation Limited	Works to Commence on 1st September 2022, advance payment of Ksh.414,110,383.55 made
3. Modogashe – Samatar 90kms Contract type: Contract Signed: Commencement Date : Projected Completion date: Contract amount:	Intercontinental Consultants and Technocrats Pvt Ltd in Joint venture with ITEC Engineering Ltd, Kenya	Design Review complete Works proposed Financing under Annuity Program
4. Samatar – Wajir Contract type: Tender Administration and construction supervision	Intercontinental Consultants and Technocrats Pvt Ltd in Joint venture with ITEC Engineering Ltd, Kenya	Design Review complete Works proposed Financing by BADEA  No objection to issue the RFP has been issued by the bank
5. Wajir – Kutulo 119kms Contract type: Contract Signed: Projected Completion date: Contract amount:	GIBB Africa Limited	Design Review Complete submitted to the World Bank for Review  Works to be financed by the World Bank  Procurement process of Contractor is ongoing Final Bidding documents sent to the Bank for clearance

**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
***Annual Report and Financial Statements for the financial year ended June 30, 2022***

<b>Road Section</b>	<b>Name of Contractors</b>	<b>Progress Reported to Date</b>
6. Kutulo – Elwak 56kms Contract type: Consultancy Contract Signed: Projected Completion date: Contract amount:		Procurement process of Contractor is ongoing. Bidding documents under review.
7. Elwak - Rhamu 142kms Contract type: Contract Signed: Commencement Date: Contract amount:	GIBB Africa Limited	Design Review Complete submitted to the World Bank for Review  Works proposed to be Financed by ADB

**1.9 Summary of Project Compliance:**

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

## **2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES**

The proposed project development objectives are to improve the movement of goods and people along Isiolo-Wajir-Mandera part of the Mombasa-Garissa- Wajir- Mandera- Mogadishu road corridor and to enhance connectivity between Kenya and Somalia and Ethiopia. The project will comprise upgrading road infrastructure and associated roadside social amenities including designing and establishing facilities and marketing system for pilot pastoralist road side markets and provision of market shades, milk cooler, slaughter houses, veterinary posts, livestock holding area in selected locations.

The objectives, Outcome, indicator and performance of the project are highlighted in the table below;

Objective	Outcome	Indicator	Performance
To open up North Eastern Kenya and provide Gateway to the Horn of Africa through Ethiopia and Somalia. Facilitate Trade and Transport & Communication through provision of fibre Optic Cable, Boost economic growth in North Eastern Region,	<ul style="list-style-type: none"> <li>Improved Trade, Transport and Communication</li> <li>Efficient Transport system</li> <li>Improved livelihood for communities</li> <li>Economic growth</li> </ul>	<ul style="list-style-type: none"> <li>Average Travel time between Isiolo to Modogashe; and Wajir to Elwak, disaggregated by passengers and freight;</li> <li>Number of public transport service providers along Isiolo-Modogashe and Wajir-Elwak;</li> <li>Number of road crash fatalities between Isiolo-Mandera road section (per 1,000 vehicles)</li> <li>Average processing time at border crossing for freight trucks and passenger vehicles.</li> <li>Number of online public services used by communities along the corridor per month;</li> <li>Number of women and children utilizing the improved social services (Social/Gender disaggregated)</li> <li>Road Management Information System utilized for decision making and setting performance targets; and</li> <li>Number of non-Kenyans trained in new skills in Kenyan institutions.</li> </ul>	Procurement of a Monitoring and Evaluation Entity for the project is ongoing.



## **1. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

Horn of Africa Gateway Development Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

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

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

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

### **2. Environmental performance**

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

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

### **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 Authority is committed to provide CSR activities geared towards improving the lives of local residents and since the project is in design stage, a Consultant is undertaking needs assessment in the Region to come up with desirable list for CSR activities

#### **4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Director General and the Project Implementation Team Leader for Horn of Africa Gateway Development Project (HoAGDP) 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.

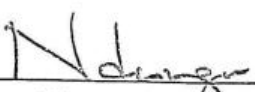
The Director General and the Project Implementation Team Leader for Horn of Africa Gateway Development Project (HoAGDP) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance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


The Director General and the Project Implementation Team Leader for Horn of Africa Gateway Development Project (HoAGDP) 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/period ended June 30, 2022, and of the Project's financial position as at that date. The Director General and the Project Implementation Team Leader for Horn of Africa Gateway Development Project (HoAGDP) 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 Horn of Africa Gateway Development Project (HoAGDP) 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/period 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 Horn of Africa Gateway Development Project (HoAGDP) on 30 AUG 2022 2022 and signed by them.

  
Eng. Kungu Ndungu  
Director General

  
Eng. Charles Obuon  
Director -Development

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



# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT LOAN NO.6768-KE 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 Horn of Africa Gateway Development Project set out on pages 1 to 19 which comprise of the statement of financial assets as at 30 June, 2022, and the statement of receipts and payments, statement of cash flow and the 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Horn of Africa Gateway Development Project Loan No. 6768 KE as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement between the International Development Association (IDA) and the Republic of Kenya dated 07 October, 2020 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 Qualified Opinion

#### 1. Inaccuracies in the Financial Statements

Review of the Project's financial statements revealed the following inaccuracies;

- (i). Paragraph 1.7 of the financial statements on funding summary reflects an approved budget of Euro 573,700,000 equivalent to Kshs.73,232,977,110. However, an amount Kshs.55,099,103 appearing in the same paragraph has not been identified to any of the funding sources mentioned. Further, section A on source of funds reflects donor commitment (approved budget) as USD 573,700,000 thereby misstating the currency denomination for the Project and therefore implying that the donor commitment has been reflected in both Euros and US Dollars.
- (ii). Note 2 to the financial statements shows loan received from bilateral donors (IDA) of Euro 29,892,254 whereas paragraph 1.7 B of the financial statements on application of funds reflects amounts received to date (30 June, 2022) of USD 31,596,438. This therefore results to a lack of consistency in currency reporting.



- (iii). The statement of receipts and payments reflects miscellaneous receipts of Kshs.27,134,920. However, the ledger and support schedule provided reflect an amount of Kshs.27,724,596 resulting in an unexplained difference of Kshs.589,676.
- (iv). The statement of financial assets reflects a fund balance brought forward of Kshs.202,030,967. However, the audited financial statements for 2020/2021 reflected a balance of Kshs.180,875,330. The resultant difference of Kshs.21,155,637 has not been explained.
- (v). Note 8 to the financial statements on special deposit account disclosure reflects a total amount withdrawn from the special deposit account Kshs.69,044,470 while the statement of receipts and payments reflects receipts from external development partner of Kshs.905,096,500. The resultant variance of Kshs.836,052,030 has not been explained.

Further, review of the special account statement revealed that the special account had an opening balance of Euro 8,450,000, deposits of Euro 556,719, a withdrawal of Euro 7,000,000 (which was deposited in the Project account) and a closing balance of Euro 2,006,719. However, all these amounts have not been disclosed in Note 8 to the financial statements.

- (vi). Note 12 to the financial statements on other important disclosures reflects project information as paragraph 1 instead of paragraph 4.
- (vii). Annex 1 to the financial statements on variance explanations reflects Kshs.80,971,344, Kshs.2,761,868,804 and Kshs.27,724,596 as actual receipts under transfers from Government entities, transfer from external development partner and miscellaneous receipts respectively. However, the statement of receipts and payments reflects Kshs.83,724,201, Kshs.3,226,868,804 and Kshs.27,134,920 as actual receipts under transfers from Government entities, transfer from external development partner and miscellaneous receipts respectively. The resultant differences of Kshs.2,752,857, Kshs.465,000,000 and Kshs.589,676 respectively have not been explained.

Further, the annex reflects Kshs.108,181,235, Kshs. nil, and Kshs.2,821,048,211 as actual payments under purchase of goods and services, research studies and design and miscellaneous charges respectively. However, the statement of receipts and payments reflects Kshs.110,934,092, Kshs.2,380,951,711 and Kshs.54,720 for the same item respectively. The resultant differences of Kshs.2,752,857, Kshs.2,380,951,711 and Kshs.2,820,993,491 respectively have not been explained.

- (viii). The period at Note 12.3 (d) to the financial statements on purpose and use of external assistance is reflected as 2021/2021 instead of 2021/2022.

In the circumstances, the accuracy of the financial statements could not be confirmed.

## **2. Purchase of Goods and Services**

The statement of receipts and payments reflects purchase of goods and services of Kshs.110,934,092. As disclosed at Note 4 to the financial statements, the amount comprises of domestic travel expenses of Kshs.79,035,786, printing and advertising of Kshs.2,063,175, hospitality expenses of Kshs.4,029,238, communication supplies of Kshs.9,389,056 and training cost of Kshs.16,416,837. However, a detailed work plan to confirm that the activities paid for related to the Project was not provided for audit review. Further, expenditure totalling to Kshs.4,632,411 was described as relating to the previous North Eastern Transport Improvement Project (NETRIP).

In the circumstances, the accuracy and validity of the purchase of goods and services expenditure of Kshs.110,934,092 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Horn of Africa Gateway Development 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 qualified opinion.

### **Key Audit Matters**

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

### **Other Matter**

#### **1. Lack of an Itemized Expenditure Budget**

The statement of comparison of budget and actual amounts indicates that the Project budgeted to receive Kshs.150,000,000 and Kshs.4,656,000,000 as Government of Kenya counterpart funds and loan from external development partners respectively for the implementation of Horn of Africa Gateway Development (HoAGDP) Project. The statement further indicates that Kshs.110,934,092 and Kshs.2,380,951,711 were spent on purchase of goods and services and acquisition of non-financial assets respectively. However, the project expenditure budget was not provided.

In the circumstances, it was not possible to confirm the budget from which the expenditure was incurred.

## **2. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects total budgeted receipts of Kshs.4,806,000,000 against actual receipts of Kshs.3,337,727,925 thereby resulting in an under-collection of Kshs. 1,468,272,075 or 30.5% of the budgeted receipts. Further, the statement reflects total budgeted expenditure of Kshs.4,806,000,000 against actual payments of Kshs.2,491,940,523 resulting in an under-expenditure of Kshs.2,314,059,477 or 48% of the budgeted expenditure.

The under-collection of receipts and under-expenditure is an indication that the Project may not have achieved the planned objectives.

## **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. Delayed Project Milestones**

Review of the project information as presented in the financial statements and the project activities implementation status as at 30 June, 2022 revealed that although the project financing agreement was signed in October, 2020, construction works for the road sections had not started with some sections at the design stage while others were either at contractor's procurement stage or works contracted but not started. This is as detailed in **Appendix I** attached.

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

#### **2. Lack of a Fixed Assets Register**

Annex 3 to the financial statements – summary of fixed assets, reflects a balance of Kshs.2,984,244,300 as the closing cost of the road asset. However, contrary to Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015, the Project's Management did not maintain a register of assets.

In the circumstances, Management was in breach of the law.

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 International Development Agency (IDA), 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 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 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 review 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 Project's 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 controls.
- 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.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

07 December, 2022



## Appendix I

<b>Project Milestone</b>	<b>Status as at June, 2021</b>	<b>Status as at June, 2022</b>	<b>Comments</b>
Isiolo-Kula Mawe 77Kms	Design review completed and works advertised.	Works contracted. Contract Sum: 7,982,654,036.25. Advance payment certified Kshs.1,197,398,106.44 with Kshs.830,839,200 paid as at 30 June, 2022	Works contracted but not started.
Kula Mawe- Modogashe 127Kms	Design review completed and works advertised.	Works contracted. Advance payment certified: Kshs.1,652,216,655.55 with Kshs.1,183,172,525.52 paid as at 30 June, 2022	Works contracted but not started.
Modogashe - Samatar 90Kms	Design review completed, works proposed for financing under annuity program	Design review completed, works proposed for financing under roads annuity program	Design completed but works not contracted.
Samatar- Wajir	Design review completed, works proposed for financing by BADEA	No Objection to issue the RFP issued by the bank	Project still at design stage.
Wajir -Katulo 119Kms	Design review completed and submitted to the bank for review	Design review completed and submitted to the bank for review Procurement of contractor on going	Designs completed but contractor not procured
Katulo- Elwak 56Kms	Design review completed and submitted to the bank for review	Procurement of contractor on going	Contractor not procured
Elwak- Rhamu 142Kms	Design review completed and submitted to the bank for review. works proposed for financing by ADB	Design review completed and submitted to the bank for review	Designs completed but contractor not procured
Strengthening the capacity of KeNHA and associated Institutions	Trainings	Trainings	Performance indicators and outcomes not disclosed





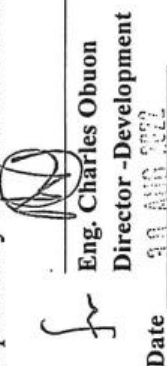
**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
**Reports and Financial Statements For the financial year ended June 30, 2022**

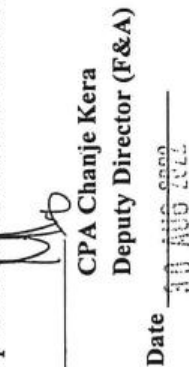
**6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2022**

	NOTES	2021/22			2020/2021			Cumulative to date
		Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Total	Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Total	
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>RECEIPTS</b>								
1	Transfer from Government entities	83,724,201	-	83,724,201	25,303,983	-	25,303,983	143,823,304
2	Transfer from External Development Partner	905,096,500	2,761,868,804	3,666,965,304	198,084,575	66,502,989	264,587,564	4,473,391,323
3	Miscellaneous Receipts	27,724,596	-	27,724,596	962,004	-	962,004	30,391,731
	<b>Total receipts</b>	<b>1,016,545,297</b>	<b>2,761,868,804</b>	<b>3,778,414,101</b>	<b>224,350,562</b>	<b>66,502,989</b>	<b>290,853,551</b>	<b>4,647,606,358</b>
<b>PAYMENTS</b>								
4	Purchase of goods and services	110,934,092	-	110,934,092	25,578,429	-	25,578,429	174,794,886
5	Acquisition of non-financial assets	59,179,407	2,761,868,804	2,821,048,211	48,856,098	66,502,989	115,359,087	3,424,340,800
6	Miscellaneous Payments	644,395	-	644,395	4,440	-	4,440	652,302
	<b>TOTAL PAYMENTS</b>	<b>170,757,894</b>	<b>2,761,868,804</b>	<b>2,932,626,698</b>	<b>74,438,967</b>	<b>66,502,989</b>	<b>140,941,956</b>	<b>3,599,787,988</b>
	<b>SURPLUS/DEFICIT FOR THE YEAR</b>	<b>845,787,403</b>	<b>-</b>	<b>845,787,403</b>	<b>149,911,595</b>	<b>-</b>	<b>149,911,595</b>	<b>1,047,818,370</b>

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

  
**Eng. Kungu Ndungu**  
 Director General  
 Date 30 AUG 2022

  
**Eng. Charles Obuon**  
 Director - Development  
 Date 30 AUG 2022

  
**CPA Chanje Kera**  
 Deputy Director (F&A)  
 Date 30 AUG 2022

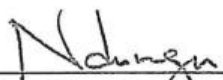



**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
**Reports and Financial Statements For the financial year ended June 30, 2022**


**7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2022**

	Note	2021/22	2020/21
		Kshs	Kshs
<b>Financial assets</b>			
Bank Balances			
Cash Balances	7	1,047,818,371	202,030,967
<b>Total Cash and Cash equivalents</b>		<b>1,047,818,371</b>	<b>202,030,967</b>
<b>Financial Liabilities</b>			
Payables - Retentions		-	21,155,637
<b>Net assets</b>		<b>1,047,818,371</b>	<b>180,875,330</b>
<b>Represented By:</b>			
Fund balance b/fwd		202,030,967	31,379,795
Surplus/(Deficit) for the year		845,787,403	149,495,535
<b>Net Financial Position</b>		<b>1,047,818,371</b>	<b>180,875,330</b>

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

  
**Eng. Kungu Ndungu**  
**Director General**

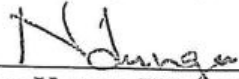
  
**Eng. Charles Obuon**  
**Director -Development**


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

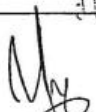
**8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2022**

	Note	2021/22	2020/21
<b>Receipts</b>			
Transfer from Government entities	1	83,724,201	25,303,983
Proceeds from domestic and foreign grants			
Miscellaneous Receipts	3	27,724,596	962,004
<b>Total Receipts</b>		<b>111,448,797</b>	<b>26,265,987</b>
<b>Payments</b>			
Purchase of goods and services	4	(110,934,092)	(25,578,429)
Miscellaneous Payments	6	(644,395)	(4,440)
<b>Total Payments</b>		<b>(111,578,487.00)</b>	<b>(25,582,869.00)</b>
<b>Net cash flow from operating activities</b>		<b>(10,582,091)</b>	<b>(19,750,927)</b>
<b>Adjustments during the year</b>			
<b>Cashflow from investing activities</b>			
Acquisition of non-financial assets	4	(110,934,092)	(25,578,429)
<b>Net cash flows from investing activities</b>		<b>(9,911,625,114)</b>	<b>(7,154,243,148)</b>
<b>Cashflow from financing activities</b>			
Proceeds from foreign Borrowings	2	9,595,683,674	6,020,692,319
<b>Net cash flow from financing activities</b>		<b>9,595,683,674</b>	<b>6,020,692,319</b>
<b>Net increase in cash and cash equivalent</b>		<b>(155,922,439)</b>	<b>(58,634,285)</b>
<b>Cash and cash equivalent at beginning of the year</b>		<b>467,133,315</b>	<b>525,767,600</b>
<b>Cash and cash equivalent at end of the year</b>		<b>311,210,876</b>	<b>467,133,315</b>

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

  
**Eng. Kungu Ndungu**  
**Director General**

  
**Eng. Charles Obuon**  
**Director -Development**

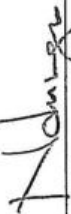
  
**CPA Chanje Kera**  
**Deputy Director (F&A)**  
**ICPAK Member No. 8279**

**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
*Reports and Financial Statements For the financial year ended June 30, 2022*

**9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2022**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Utilisation
	a	b	c=a+b	d	e=d-c	f=d/c %
<b>Receipts</b>						
Transfer from Government entities	240,000,000	(90,000,000)	150,000,000	83,724,201	66,275,799	56%
Proceeds from borrowings	9,150,000,000	(4,494,000,000)	4,656,000,000	3,666,965,304	989,034,696	79%
Miscellaneous Income	-	-	-	27,724,596	(27,724,596)	-
<b>Total Receipts</b>	<b>9,390,000,000</b>	<b>(4,584,000,000)</b>	<b>4,806,000,000</b>	<b>3,778,414,101</b>	<b>1,027,585,899</b>	<b>79%</b>
<b>Payments</b>						
Purchase of goods and services				110,934,092		
Research, studies, project preparation, design & supervision	9,390,000,000	(4,584,000,000)	4,806,000,000	2,821,048,211	7,516,758,514	61%
Miscellaneous Charges				644,395		
<b>Total Payments</b>	<b>9,390,000,000</b>	<b>(4,584,000,000)</b>	<b>4,806,000,000</b>	<b>2,932,626,698</b>	<b>7,516,758,514</b>	<b>61%</b>

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

  
**Eng. Kungu Ndungu**  
 Director General

30 AUG 2022

Date

  
**Eng. Charles Obuon**  
 Director -Development

30 AUG 2022

Date

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

Date



## **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 the Horn Of Africa Gateway Development (HoAGDP) Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

### **10.3 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.

### **10.4 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.

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

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

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

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

**Significant Accounting Policies (Continued)**

**iii) Other receipts**

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

**vi) Undrawn external assistance**

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

**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.

**i) Compensation of employees**

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

**ii) Use of goods and services**

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

**Significant Accounting Policies (Continued)**

**iii) Interest on borrowing**

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

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

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

**v) Acquisition of fixed assets**

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

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

**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.

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

### **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 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.

### **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.

Annex 5 of this financial statement is a register of contingent liabilities in the year.

### **10.11 Contingent Assets**

The Eastern Africa Regional, Transport, Trade & Development Facilitation Project does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Eastern Africa Regional, Transport, Trade & Development Facilitation Project in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can

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

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.

#### **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 3.66 billion being loan 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

**Significant Accounting Policies (Continued)**

assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

**Significant Accounting Policies (Continued)**

**10.16 Comparative figures**

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

**10.17 Subsequent events**

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

**10.18 Prior Period Adjustments**

Prior period Adjustments relate to errors and other adjustments noted arising from previous year(s). There are no prior year adjustments for the financial year under review.

## **11. NOTES TO THE FINANCIAL STATEMENTS**

### **1. Transfers from Government entities**

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

	<b>2021/22</b>	<b>2020/21</b>	<b>Cumulative to-date</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>to-date</b>
Counterpart funds Quarter 1	17,465,866	2,665,253	32,794,015
Counterpart funds Quarter 2	18,530,115	2,323,364	26,838,373
Counterpart funds Quarter 3	29,123,729	7,968,096	48,401,432
Counterpart funds Quarter 4	18,604,491	12,347,270	35,789,484
<b>Total</b>	<b>83,724,201</b>	<b>25,303,983</b>	<b>143,823,304</b>

### **1. Loan from External Development Partners**

Name of Donor	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in Kshs	
				2021/22	2020/21
	USD	Kshs	Kshs	Kshs	Kshs
Loans Received from Bilateral Donors (IDA)	35,044,111	4,473,391,323	3,425,572,953	7,898,964,276	264,587,564
<b>Total</b>	<b>35,044,111</b>	<b>4,473,391,323</b>	<b>3,425,572,953</b>	<b>7,898,964,276</b>	<b>264,587,564</b>

### **2. Miscellaneous Receipts**

	<b>2021/22</b>	<b>2020/21</b>	<b>Cumulative</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>to-date</b>
Bank Interest	27,724,596	962,004	30,391,731
<b>Total</b>	<b>27,724,596</b>	<b>962,004</b>	<b>30,391,731</b>

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**3. Purchase of Goods and Services**

Description	2021/22			2020/21	Cumulative to-date
	Payments made by the Entity	Payments Made by Third Party	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence	90,611,355	-	90,611,355	24,723,741	153,617,461
Advertisement	2,063,175	-	2,063,175	854,688	2,917,863
Hospitality Supplies & Services	3,615,362	-	3,615,362	-	3,615,362
Communication Supplies	8,332,413	-	8,332,413	-	8,332,413
Training Payments	6,311,787	-	6,311,787	-	6,311,787
<b>Total</b>	<b>110,934,092</b>	<b>-</b>	<b>110,934,092</b>	<b>25,578,429</b>	<b>174,794,886</b>

**4. Acquisition of Non-Financial Assets**

Description	2021/22			2020/21	Cumulative to-date
	Payments made by the Entity	Payments Made by Third Party	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	
Research, studies, project preparation, design & supervision	59,179,407	2,761,868,804	2,821,048,211	115,359,087	3,424,340,800
Rehabilitation of Roads					
Acquisition of land					
<b>Total</b>	<b>59,179,407</b>	<b>2,761,868,804</b>	<b>2,821,048,211</b>	<b>115,359,087</b>	<b>3,424,340,800</b>

**5. Miscellaneous Payments**

	2021/22	2020/21	Cumulative
	Kshs	Kshs	to-date
Bank Charges	644,395	4,440	652,302
<b>Total</b>	<b>644,395</b>	<b>4,440</b>	<b>652,302</b>

**6. Cash and Cash Equivalents C/Fwd**

	2021/22	2020/21
<b>Bank accounts (Note 6A)</b>	<b>1,047,818,371</b>	<b>202,030,967</b>
	<b>1,047,818,371</b>	<b>202,030,967</b>

**6A Bank Accounts**

	2021/22	2020/21
<b>Local Currency Accounts</b>		
NCBA [A/c No 01001032662501]	1,047,818,371	180,875,330
National Bank of Kenya [A/c No 01001-327332-00]	-	21,155,637
<b>Total bank account balances</b>	<b>1,047,818,371</b>	<b>202,030,967</b>

**7. Special Deposit Accounts**

The balances in the Project's Special Deposit Account(s) as at 30<sup>th</sup> June 2022 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

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

	2021/22	2020/21
	Euro	Euro
Eastern Africa Regional Transport Trade & Development Facilitation Project Loan Credit No 5638-Ke Da-B [A/c No 100243767-Central Bank of Kenya]		
Opening balance	8,450,000	10,000,000
Total amount deposited in the account	556,719	
Total amount withdrawn (as per Statement of Receipts & Payments)	7,000,000	1,550,000
Amount withdrawn (cash in transit as at 30 <sup>th</sup> June, 2021)		-
Closing balance (as per SDA bank account reconciliation attached)	<b>2,006,719</b>	<b>8,450,000</b>

**8. Accounts payable**

Description	2021-2022	2020-2021
	Kshs	Kshs
Retention - Payments controlled by the entity	-	21,155,637
<b>Total</b>	<b>-</b>	<b>21,155,637</b>

**9. Fund balance brought forward**

Description	2021-2022	2020-2021
	Kshs	Kshs
Bank Accounts	202,030,967	31,379,795
<b>Total</b>	<b>202,030,967</b>	<b>31,379,795</b>

**10. Changes in accounts payable – Retentions – Payments controlled by the entity**

Description	2021-2022	2020-2021
	Kshs	Kshs
Deposit and Retentions as at 1st July 2021(A)	21,155,637	20,739,577
Deposit and Retentions as at 1st July 2022 (B)	-	416,060
Deposit and Retentions paid during the Year D=A+B+C	21,155,637	-
<b>Total</b>	<b>-</b>	<b>21,155,637</b>

**12. OTHER IMPORTANT DISCLOSURES**

**1. Pending accounts payable (see annex 3)**

	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance c/f FY 2021/2022
Description	Kshs	Kshs	Kshs	Kshs
Supply of services	-	2,821,048,211	2,821,048,211	-
<b>Total</b>	-	<b>2,821,048,211</b>	<b>2,821,048,211</b>	-

**2. Changes in accounts payable – Retentions payments made by third party**

Description	2021-2022	2020-2021
	KShs	KShs
Deposit and Retentions as at 1 <sup>st</sup> July	-	2,734,615
Deposit and Retentions as at 30th June	-	2,734,615
Change in Payables	-	-

**3. External assistance**

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
External assistance received as grants	-	-
External assistance received as loans	3,666,965,304	264,587,564

**a. External assistance relating loans and grants**

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
External assistance received as loans	3,666,965,304	264,587,564
<b>Total</b>	<b>3,666,965,304</b>	<b>264,587,564</b>



**Other Important disclosures**  
**(Continued)**

**b. Undrawn external assistance**

	<b>Purpose for which the undrawn external assistance may be used</b>	<b>FY 2021/2022</b>	<b>FY 2020/2021</b>
<b>Description</b>		<b>Kshs</b>	<b>Kshs</b>
Undrawn external assistance - loans		68,759,585,787	72,426,551,091
<b>Total</b>		<b>8,759,585,787</b>	<b>72,426,551,091</b>

**c. Classes of providers of external assistance**

	<b>FY 2021/2022</b>	<b>FY 2020/2021</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Multilateral donors	3,666,965,304	264,587,564
<b>Total</b>	<b>3,666,965,304</b>	<b>264,587,564</b>

**d. Purpose and use of external assistance**

<b>Payments Made by Third Parties</b>	<b>FY 2021/2021</b>	<b>FY 2020/2021</b>
	<b>Kshs</b>	<b>Kshs</b>
Acquisition of Assets	66,502,989	130,574,533
<b>TOTAL</b>	<b>66,502,989</b>	<b>130,574,533</b>

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

	<b>FY 2021/2022</b>	<b>FY 2020/2021</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Multilateral donors	2,761,868,804	66,502,989
<b>Total</b>	<b>2,761,868,804</b>	<b>66,502,989</b>

## **1. PROJECT INFORMATION**

The Government received a Project Preparation Advance (PPA) for the preparation of North Eastern Transport Improvement Project (NETIP) However, the project name changed to Horn of Africa Gateway Development Project (HoAGDP). This was necessitated by the virtue of the project changing its scope into a regional project under the Horn of Africa initiative. Further, the PPA was refinanced & recouped from the proceeds of the HoAGDP loan upon its becoming effective.


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**13 PROGRESSES ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe:
<b>Other matter</b>				
	<p><b>Unsupported Budget Amounts</b>  The approved budget provided for audit shows that the Project's total budget which was classified under accommodation allowance and tuition fees allowance was Kshs. 105,001,521. However, the statement of comparative budget and actual amounts reflects a final budget after adjustments for the combined components of purchase of goods and services, research, studies, project preparation and supervision and miscellaneous charges of Kshs. 760,000,000. In the circumstances, it was not possible to trace the latter amount to the approved budget under the budget line items of purchase of goods and services, research, studies, project preparation and supervision and miscellaneous charges</p> <p><b>Budgetary Control and Performance</b>  The statement of comparative budget and actual amounts reflects total budgeted receipts of Kshs. 760,000,000 against actual receipts of Kshs. 290,853,551 thereby resulting in an under – collection of Kshs 469,146,449 or 62% of the budgeted receipts.  Further, the statement reflects total budgeted expenditure of Kshs. 760,000,000 against actual payments of Kshs. 140,941,956 resulting in an under-expenditure of Kshs. 619,058,044 or 81% of the budgeted expenditure.</p>	<p>We have noted the auditor's observation and wish to clarify that the approved budget of Kshs 105,001,521 under Accommodation allowance and Tuition fees is an allocation under Ministry of Transport, Infrastructure, Housing, Urban Development &amp; Public works and not under KeNHA hence not included in the project financial statements.</p> <p>Planned Milestones for Design Review delayed due to the sensitive security situation along the project area, especially for Wajir – Kotulo – Elwak where Security threats were high. Further, Final Inspection and Acceptance for Design review of Wajir – Kotulo, Kotulo – Elwak &amp; Elwak - Rhamu delayed since the Inspection and Acceptance</p>	<p>Not Resolved</p> <p>Not Resolved</p>	<p>Continuous</p> <p>Continuous</p>

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe:
<b>Basis of conclusion</b>	The under – collection of receipts and under – expenditure is an indication that the project may not have achieved the planned objectives	Committee could not visit the site for inspection due to insecurity and COVID-19 restrictions. Final Payments therefore delayed as a result	Resolved	Resolved
	<b>Lack of an Asset Register</b> Annex 3 to the financial statements – Summary of fixed assets, reflects a balance of Kshs. 603,292,589 as the closing cost of the road asset. However, contrary to section 143(1) of the Public Finance Management Regulations, 2015 the Project's Management did not maintain a register of assets.	We disagree with the observation of the auditor and wish to note that the Fixed Assets Register which is maintained by the authority has all the information pertaining to the project. It is worth to note that Annex 3 of the financial statement, has all the information required under the project reporting template as provided by IPSAS	Resolved	Resolved

  
**Eng. Kungu Ndungu**  
 Director General

30 AUG 2022

Date

  
**Eng. Charles Obuon**  
 Director Development

30 AUG 2022

Date



**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
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**14 ANNEXES**

**ANNEXE 1-VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR FY 2021-'**


	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 %	
<b>RECEIPTS DURING THE YEAR/PERIOD</b>					
Transfers from Government Entity	150,000,000	80,971,344	69,028,656	56%	Reduction of budget
Transfer from External Development Partner	4,656,000,000	2,761,868,804	1,894,131,196	79%	Reduction of budget
Miscellaneous receipts	-	27,724,596	(27,724,596)		Interest earned during the year
<b>Total receipts</b>	<b>4,806,000,000</b>	<b>3,778,414,101</b>	<b>1,027,585,899</b>		
<b>PAYMENTS DURING THE YEAR/PERIOD</b>					
Miscellaneous Payments	-	-	-		
Construction of Works	1,876,770,554	-	1,876,770,554	0%	
Purchase of Goods and Services	108,181,235	108,181,235	-	100%	
Research, studies, project preparation, design & supervision	-	-	-		
Miscellaneous Charges	2,821,048,211	2,821,048,211	-	100%	
<b>Total payments</b>	<b>4,806,000,000</b>	<b>2,929,229,446</b>	<b>1,877,414,949</b>		

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**ANNEX 2 - RECONCILIATION OF INTER-ENTITY TRANSFERS**

<b>BREAK DOWN OF TRANSFERS FROM THE MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT AND PUBLIC WORKS</b>			
<b>Government Counterpart Funding</b>	<b>Bank Statement Date</b>	<b>Amount (KShs)</b>	<b>FY</b>
Counterpart funds Quarter 1	08.07.2021	17,465,866	2021/22
Counterpart funds Quarter 2	23.11.2021	18,530,115	2021/22
Counterpart funds Quarter 3	23.03.2022	29,123,729	2021/22
Counterpart funds Quarter 4	21.06.2022	18,604,491	2021/22
<b>Total</b>		<b>83,724,201</b>	

The above amounts have been communicated to and reconciled with the parent Ministry/ state department

  
**Eng. Kungu Ndungu**  
**Director General**

30 AUG 2022

**Date**



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

30 AUG 2022

**Date**

**HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (HoAGDP)**  
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**ANNEX 3 SUMMARY OF FIXED ASSET**

Asset class	Opening Cost	Purchases/Additions in the Year		Disposals in the Year		Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)	(KShs)	
	2021/22	2021/22	2021/22	2021/22	2021/22	(KShs)
	(a)	(b)	(c)	(d) = (a) + (b) - (c)		(KShs)
Road Asset	603,292,589	2,821,048,211	-		3,424,340,800	
Land Acquisition	-	-			-	
<b>Total</b>	<b>603,292,589</b>	<b>2,821,048,211</b>	<b>-</b>		<b>3,424,340,800</b>	

**Appendices**

- 1. Bank Reconciliation**
- 2. Special Deposit Account Reconciliation Statements**