 THE NATIONAL ASSEMBLY PAPERS LAID	
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TABLED BY: Majority Whip	THE AUDITOR-GENERAL
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REPORT

OF

ON

**IMPROVEMENT OF RURAL ROADS AND
MARKET INFRASTRUCTURE IN WESTERN
KENYA PROJECT CREDIT
NO.BMZ 2007-65 123 (KFW)**

**FOR THE YEAR ENDED
30 JUNE, 2021**

KENYA RURAL ROADS AUTHORITY



**Project Name: Improvement of Rural Roads and Market
Infrastructure in Western Kenya**

Implementing Entity: Kenya Rural Roads Authority

PROJECT GRANT/CREDIT NUMBER: 2007 65 123

KFW

GERMAN DEVELOPMENT BANK (KFW)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2021

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is Improvement of Rural Roads and Market Infrastructure in Western Kenya (IRRM)

Objective: The key objective of the project is Rehabilitation of rural roads to maintainable gravel standard and improvement of markets in Bungoma, Vihiga, Kakamega, Busia and Siaya counties.

Address: The project headquarters offices are Nairobi, Nairobi County, Kenya.

The address of its registered office is:

Kenya Rural Roads Authority,

Block B, Barabara Plaza, Off Msa Rd
Opposite KCAA Building Along Airport South Rd, JKIA
P.O. Box 48151-00100 Nairobi.

The project also has offices/branches as follows:

- Bungoma,
- Vihiga,
- Kakamega,
- Busia
- Siaya

Contacts: The following are the project contacts

Tel: 020-7807600/01-05

Mobil: 0711-851103

General: kerra@kerra.go.ke

Director General: dg@kerra.go.ke

Website: www.kerra.go.ke

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.2 Project Information

Project Start Date:	The project start date is 1st August 2012
Project End Date:	The project end date is 31st December, 2022
Project Manager:	The project manager is Argwings Oyoti (Eng)
Project Sponsor:	The project sponsors are Government of Kenya (GOK), which will contribute 50% and German Development Bank through their Lending arm KFW which will contribute 50%

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of Kenya Rural Roads Authority which falls under the State department of Infrastructure of the Ministry of Transport, Infrastructure, Housing, Public Works and Urban Development.
Project number	2007 65 123
Strategic goals of the project	The strategic goal of the project is Rehabilitation of rural roads to maintainable gravel standards using Labour Based Technology and improvement of markets in Bungoma, Vihiga, Kakamega, Busia and Siaya counties.

Achievement of strategic goals

The project management aimed to achieve the strategic goals through improvement of a continuous 281kms of rural road network in the counties of Bungoma, Vihiga, Kakamega, Busia and Siaya to maintainable gravel standards.

The market component was a Grant which was to be implemented under the ministry of Agriculture, Fisheries and Livestock Development while the Rural Roads Component is being implemented by KeRRA

Implementation of the Programme was completed by June, 2020 with the following achievements under the programme components.

Road Works

A total of 281km was achieved with 230km implemented under normal Contracts while 50km implemented under Trial Contracts.

Training

A total of 167 persons were trained under the Programme as shown in the table below;

S/No	Cadre	No Trained
1	Road Improvement Contractors (Trial Contractors)	99
2	Routine Maintenance Contractors	54
3	KeRRA Staff	40
4	Private Sector Supervisors	10
	Total	167

Endowments for Regional Managers'

1. Vehicles

Eight (8) new Double cabin Pick up Vehicles were bought under the Programme and shared among Kakamega, Bungoma, Vihiga and Busia Regions.

<p>Other important background information of the project</p>	<p style="text-align: center;">2. ICT and Office Furniture</p> <p>The Programme procured assorted items of Office Furniture and ICT Equipment which were also shared among four Regional offices (Bungoma, Kakamega, Vihiga and Busia)</p> <p>Environmental and Social Impact Assessment Studies (ESIAs): ESIAs for all the roadworks components was conducted and NEMA issued respective Licences as per the Batches.</p> <p>Workshops and Studies Four (4) stakeholder workshops were held on diverse dates since the programme started in the year 2012 within the focal area for the Programme. The purpose of these workshops was for prioritization of roads to be improved and other forms of sensitization.</p> <p>Socio-economic Baseline Study/Impact Study Report</p>
<p>Current situation that the project was formed to intervene</p>	<p>A Socio-Economic Baseline Study was conducted by the project management consultant in August, 2014. An Impact Study was later conducted in 2020 after the end of implementation of the roadworks. The project was formed to intervene in the following areas: (i) Improvement of accessibility to markets (ii) Infrastructure development</p>
<p>Project duration</p>	<p>The project started on 1st August 2012 and is expected to run until 30th May 2019. The PEA(Project Executing Agency-KeRRA) through the Authorised Party (The National Treasury), requested KfW to extend the disbursement period to end of February, 2020. The disbursement was later extended to 31st December, 2020 and further extension granted upto December 2022.</p>

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.4 Bankers

The following are the bankers for the current year:

(i) Special Deposit Account

Central Bank of Kenya- EURO Account Number 1000214295
Haile Selassie Avenue,
P.O. Box 60000-00200,
Nairobi Kenya

(ii) Local Special Project Accounts (Disposition Fund Accounts)

NCBA Bank Ltd
NIC House Branch
P.O Box 445990-00100
Nairobi Kenya
KeRRA KfW Account Number 1001255416
KfW Retention Account Number 1001965006

Kenya Commercial Bank
Kencom House, Moi Avenue Branch,
P.O. Box 48400-00100
Nairobi Kenya
GoK Counterpart Account Number 1179736249
GoK-D33-Busia Development Account No 1119722349
GoK-D33-Siaya Development Account No. 1119721962

Co-operative Bank of Kenya (Subsidiary)
Co-operative House, Haile Selassie Avenue
P.O Box 48231-00100
Nairobi Kenya
KfW Bungoma- Account Number 011415365435
KfW Kakamega- Account Number 01141545929700
KfW Vihiga- Account Number 01141472733300

1.5 Auditors

The project is audited by:

The Auditor General

Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100 Nairobi Kenya

Project Coordinating Team (PCT)

This team is based in Nairobi and is responsible for the project management and coordination functions. The PCT comprises of the Project Coordinator and a team of Technical Officers. The PCT is also supported by other administrative staff.

The key staff, who form the project coordinating team that is involved in the day to day management of the project and its implementation are:

Names	Title designation	Key qualification	Responsibilities
Eng. Philemon K. Kandie +254 (20) 2710464 dgkerra@kerra.go.ke	Ag. Director General	<i>P.Eng, Bsc. Hons., MIEK, MSc.</i>	Accounting Officer
Eng. Enoch. Ariga +254 (20) 2710464 enock.ariga@kerra.go.ke	Director Planning, Design & Environmental Interests	<i>P.Eng., MA (Planning), BSc., MIEK</i>	Supervisor
Eng. Argwings. Oyoti +254 (20) 2710464 argwings.oyoti@kerra.go.ke	Project Engineer	<i>BSc MIEK</i>	Coordination of the activities of the program

1.6 Funding summary

The original planned duration of the Project was seven (7) years from 2012 to 2019. A 3-year extension was granted, extending the project execution period to December, 2022. The project has an approved budget of Euros 13,700,000 equivalent to Kshs. 1,370,000,000 as highlighted in the table below:

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

Below is the funding summary:

A. Source of Funds

Source of Funds	Donor Commitment		Amount Received as at 30 th June 2021		Undrawn Balance as at 30 th June 2021	
	Euros (A)	Kshs (A'')	Euros (B)	Kshs (B')	Euros (A)-(B)	Kshs (A')-(B')
LOAN SUMMARY						
(ii) Loan						
German Development Bank	7,500,000	750,000,000	8,052,628	805,262,832	(552,628)	(55,262,832)
Gain on Exchange Rates	-	-	-	-	-	-
Total Loans	7,500,000	750,000,000	8,052,628	741,906,848	(552,628)	(55,262,832)
(iii) Counterpart Funds						
Government of Kenya	4,700,000	470,000,000	5,673,154	567,315,413	(973,154)	(97,315,413)
Interest Income	-	-	136,508	13,650,835		
Total GoK Counterpart	4,700,000	470,000,000	5,809,662	580,966,248	(973,154)	(97,315,413)
Total Funding Summary	13,700,000	1,370,000,000	13,862,291	1,322,873,096	(25,782)	(2,578,245)

Exch. Rate= Ksh. 100/ Euro

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2021)		Cumulative Amount paid to date – (30 th June 2021)	Unutilised balance to date (30th June 2021)	
	(Euros) (A)	Kshs (A')		(Euros) (A)-(B)	Kshs (A')-(B')
(i) Loan					
KfW	8,052,628.32	805,262,832.24	805,249,324.89	135.07	13,507.35
(ii) Counterpart funds					
Government of Kenya	5,673,154.13	567,315,413.00	467,965,647.80	993,497.65	99,349,765.21
Total	13,725,782.45	1,372,578,245.24	1,273,214,972.69	993,632.73	99,363,272.56

Exch. Rate = Kshs. 100/Euro

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.7 Summary of Overall Project Performance:

- i) The project absorbed 52% of the budget received in the financial year.
- ii) The physical progress of the project based on outputs, outcomes and impacts since project commencement is as below:

a) Batch 1 Contracts

The first Batch of twelve works contracts (Batch 1) were procured in late 2014. Commencement orders were sanctioned in March, 2015 after getting No Objection from the Development Partner-KfW. All the roads under Batch 1 have been completed.

Table 1: Projects undertaken under Batch 1 of the programme

County	Road Name	Road Length	Amount (Kshs)
Kakamega	Mumias- Imanga	7.4	16,121,715.50
	Imanga – Musanda	7.6	16,998,667.00
	Malava- Kimang’eti	6	12,439,251.00
	Kimang’eti-Ikoli	7.4	15,257,500.00
Bungoma	Mateka-Lunao	9.4	16,600,805.27
	Kaptama- Chesito	4.6	11,399,537.60
	Chesito- Kaboiywo	6.2	19,028,465.50
	Border- Namwela	6.7	17,550,457.00
	Makhonge- Chwele	5.3	13,753,131.15
	Dorofu- Mechimeru	8.4	16,776,307.20
Vihiga	Viyalo-Mbale	7.3	19,581,056.00
	Majengo- Hamisi	8.4	18,767,774.00
Total		84.7	194,274,668.07

b) Batch 2 Contracts

Implementation of 15 Number Batch 2 works contracts targeting to improve to gravel standard a further 83.5km of rural roads in the Counties of Bungoma, Vihiga, Siaya, Busia and Kakamega was concluded in 2018.

The list of projects implemented under Batch 2 is as depicted in table 2 below;

Table 2: Projects undertaken under Batch 2 of the programme

County	Road Name	Road Length	Contract Sum (Kshs)
Kakamega	Lumakanda- Mwamba	7.6	17,879,092.00
	Musoli- Shiamusinjiri	7.5	16,686,073.36
	Harambee- Jnc.UG93734	4.5	10,504,538.57
Siaya	Busia Bdr – Urembo Disp.	4.9	8,712,757.68
	Urembo Disp- Ganga Sch	7.4	11,879,996.39
	Ganga Sch - Boro	6.2	11,168,100.00
	Sidundo- Nyadorera	3.2	6,544,924.28
	Uranga- Jn UG61947	6.5	15,600,000.00
	Rabar- Jn UG61947	8.0	13,125,318.80
	Segere - Ndere	4.7	8,641,608.00
	Rabar- Jn C90 Nzoia	5.8	13,282,573.04
	Jn C29 – Jn E1165	3.4	8,519,880.00
Bungoma	Jn A1 Mfupi- Jn UG91353	5.1	11,602,393.66
Vihiga	Luanda - Wemilabi	5.5	12,240,248.00
Busia	Mukhobola- Siaya Bdr	3.2	12,800,000.00
Total		83.5	179,187,503.78

c) Batch 3 Road works

Implementation of a further Twelve (12) number Batch 3 Lot 1 & 2 road works Contracts targeting to improve 72.5 Km to gravel standards in the Counties of Bungoma, Kakamega and Vihiga is complete.

iii) The project absorption rate over the years

FY 2014/15	FY 2015/16	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
77%	51%	59%	210%	126%	52%

iv) The implementation challenges faced in the execution of the project were:

- a) Delayed disbursements by the National Treasury
- b) Delays in processing tax exemptions by the National Treasury and the Kenya Revenue Authority.

1.8 Summary of Project Compliance:

The Program has ensured that all the activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed. In cases of inconsistency between the GOK Regulations and those of the donors, the latter have been applied.

The project has therefore fully complied with both the financing agreement and other statutory requirements.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED 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's agreement/* plan are to:

- a) Improvement of a continuous 281kms of rural road network in the counties of Bungoma, Vihiga, Kakamega, Busia and Siaya to maintainable gravel standards.
- b) Improvement of the capacity of local contractors by providing training on labour-based technology and contract management.

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:

*Improvement of Rural Roads and Market Infrastructure in Western Kenya
Reports and Financial Statements
For the financial year ended June 30, 2021*

Project	Objective	Outcome	Indicator	Performance
Public Works, Roads & Transport	Rehabilitation of rural roads to maintainable gravel standards using Labour Based Technology and improvement of markets in Bungoma, Vihiga, Kakamega, Busia and Siaya counties.	Increased efficient transportation of people, goods and services	Number of Kms of roads upgraded to maintainable gravel standards.	The project has managed to upgrade a total of 281Kms of roads in the counties of Kakamega, Vihiga, Bungoma, Busia and Siaya to gravel standards.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Improvement of Rural Roads and market Infrastructure in Western Kenya Project had no provision for Corporate Social Responsibility activities.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The **Director General** Kenya Rural Roads Authority and the **Project Coordinator** for Improvement of Rural Roads and Market Infrastructure in Western Kenya project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2021.

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 (v) Making accounting estimates that are reasonable in the circumstances.

The **Director General** Kenya Rural Roads Authority and the **Project Coordinator** for Improvement of Rural Roads and Market Infrastructure in Western Kenya project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The **Director General** Kenya Rural Roads Authority and the **Project Coordinator** for Improvement of Rural Roads and Market Infrastructure in Western Kenya project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2021, and of the Project's financial position as at that date. The Director General Kenya Rural Roads Authority..... and the Project Coordinator for Improvement of Rural Roads and Market Infrastructure in Western Kenya project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The **Director General** Kenya Rural Roads Authority and the **Project Coordinator** for Improvement of Rural Roads and Market Infrastructure in Western Kenya project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/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 Director General Kenya Rural Roads Authority and the Project Coordinator for Improvement of Rural Roads and Market Infrastructure in Western Kenya project on **28th September, 2021** and signed by them.



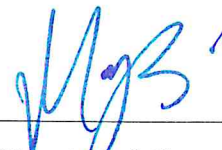
Ag. Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Argwings Oyoti

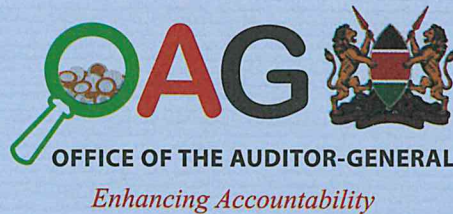


Director of Corporate Services

CPA Dan Manyasi
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Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON IMPROVEMENT OF RURAL ROADS AND MARKET INFRASTRUCTURE IN WESTERN KENYA PROJECT CREDIT NO. BMZ 2007-65 123 (KFW) FOR THE YEAR ENDED 30 JUNE, 2021 - KENYA RURAL ROADS 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, gazetted 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 control, 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 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Improvement of Rural Roads and Market Infrastructure in Western Kenya Project set out on pages 1 to 24, which

comprise the statement of financial assets as at 30 June, 2021, and the statement of receipts and payments, statement of cash flow and the statement of comparative budget and actual amounts for the year then ended, special account statement and a summary of significant accounting policies and other explanatory information in accordance with provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Improvement of Rural Roads and Market Infrastructure in Western Kenya Project as at 30 June, 2021, 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 amended Financing Agreement for Credit No. BMZ 2007-65 123 (KFW) signed on 14 December, 2009 between Kreditanstalt Fur Wiederaufbau (KFW) and the Republic of Kenya, and the Public Finance Management Act, 2012.

In addition, the special account statement presents fairly, the special account transactions and the closing balances have been reconciled with the books of account.

Basis for Opinion

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts of Kshs.25,584,782 against the budget amount of Kshs.300,000,000 resulting to a shortfall in receipts of Kshs.274,415,218 or 91% of the approved budget. Further, actual expenditure for the year amounted to Kshs.13,262,130 against the final expenditure budget of Kshs.300,000,000 resulting to an under expenditure of Kshs.286,737,870 or 96% of the approved budget.

The under expenditure of Kshs.286,737,870 is an indication that some planned programs were not undertaken during the year which could impact negatively on the attainment of the overall Project's goals and 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, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kreditanstalt Fur Wiederaufbau (KFW), I report based on my audit, that:

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

Responsibilities of Management and those Charged with Governance

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and 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 control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

06 December, 2021

*Reports and Financial Statements
For the financial year ended June 30, 2021*

6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021.

	Note	FY 2020/2021		FY 2019/2020		Cumulative to Date Kshs
		Receipts and payments controlled by the entity Kshs	Receipts and payments by third parties	Receipts and payments controlled by the entity Kshs	Receipts and payments Made by third parties	
RECEIPTS						
Receipts from Government of Kenya	1	25,000,000	-	47,637,062	-	567,315,413
Proceeds from Domestic and Foreign Grants		-	-	-	-	-
Loan from external Development partners	2	-	-	-	43,273,636	805,262,832
Interest Income	3	584,782	-	971,433	-	13,650,835
Total Receipts		25,584,782	-	48,608,495	43,273,636	1,386,229,081
PAYMENTS						
Road Works Expenditure	4	2,599,143.09	-	96,234,370.25	-	697,670,606.34
Consultancy	4	-	-	-	43,273,636.26	435,552,698.26
Acquisition of Non-financial Assets	4	10,038,469.43	-	-	-	51,638,469.43
Training Costs		-	-	-	-	56,975,610
Other operating costs	5	624,517.66	-	2,067,519	-	30,929,118.66
Total Payments		13,262,130.18	-	98,301,889.25	43,273,636.26	1,272,766,502.69
Surplus/(Deficit)		12,322,651.99	-	(49,693,393.98)	-	113,462,578

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



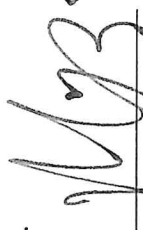
Ag. Director General

Eng. Philemon K. Kandie



Project Coordinator

Eng. Argwings Oyoti



Director Corporate Services

CPA Dan Manyasi


ICPAK Member Number: 6407

(IPSAS 1.3.24 requires an entity to separately disclose third party payments separately on the statement of receipts and payments. These are payments made by development partners directly on behalf of the entity. In recognising these transactions, the receipts must be equal to the payments made and therefore there is no surplus or deficit.)

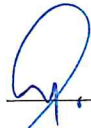
7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021

			Adjusted balances
	Note	2020/21	2019/20
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	6	113,306,274	101,139,924
Total Cash Equivalents		113,306,274	101,139,924
Accounts Receivables	7	302,400	
TOTAL FINANCIAL ASSETS		113,608,674	101,139,924
FINANCIAL LIABILITIES			
Accounts Payable	8	22,419,069	22,272,971
NET ASSETS		91,189,605	78,866,953
REPRESENTED BY:			
Fund balance brought forward	9	78,866,953	211,052,547
Amount reclaimed by KfW			(82,492,200)
Surplus/Deficit for the year		12,322,652	(49,693,394)
Net Financial Position		91,189,605	78,866,953

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on **28th September, 2021** and signed by:



Ag. Director General
Eng. Philemon K. Kandie



Project Coordinator
Eng. Argwings Oyoti



Director Corporate Services
CPA Dan Manyasi
ICPAK Member Number: 6407

(FY 19/20 balances have been adjusted to accommodate accrual of accounts receivables and accounts payable in line with the change of reporting standard from Cash accounting to Modified cash accounting.)

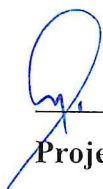
8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2021

		2020/2021	2019/2020
	Note	Kshs	Kshs
Receipts for operating activities			
Receipts from Government of Kenya	1	25,000,000	47,637,062
Payments for operating expenses			
Roadworks expenditure	4	(2,599,143)	(141,575,526)
Other Operating Costs	5	(624,518)	
Payments from operating activities		21,776,339	(93,938,464)
Adjustments During the year			
Prior year adjustments(Refund to development partner)	9	-	(82,492,200)
Increase in Accounts payable	8	146,098	
Increase in Receivable	7	(302,400)	
Net Cash flow used in operating activities		21,620,037	
Cash flow from borrowing activities			
Proceeds from foreign borrowings	2	-	43,273,636
Net Cash flow from borrowing activities		-	43,273,636
Cash flow from Investing activities			
Acquisition of Non-financial Assets	4	(10,038,469)	-
Interest Income	3	584,782	971,433
Net Cash flow from investing activities		(9,453,687)	971,433
Net increase in cash and cash equivalents		12,166,350	(132,185,594)
Cash and cash equivalents at the beginning of the year		101,139,924	233,325,519
Cash and cash equivalents at the end of the year		113,306,274	101,139,924

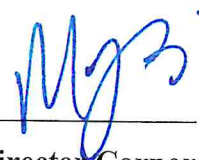
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28th September, 2021 and signed by:



Ag. Director General
Eng. Philemon K. Kandie



Project Coordinator
Eng. Argwings Oyoti



Director Corporate services
CPA Dan Manyasi
ICPAK Member Number: 6407

*Reports and Financial Statements
For the financial year ended June 30, 2021*

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Consolidated Receipts/Payment Item	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget Utilisation Variance	% of Utilisation
	A	B	C=a+b	D	E=c-d	F=d/c%
RECEIPTS						
Receipts from Government of Kenya	50,000,000	-	50,000,000	25,000,000	25,000,000	50%
Loan from External Development Partners	250,000,000		250,000,000	-	250,000,000	0%
Interest Income	-	-	-	584,782	(584,782)	0%
Total receipts	300,000,000	-	300,000,000	25,584,782	274,415,218	
PAYMENTS						
Consultancy services	80,000,000	-	80,000,000	-	80,000,000	0%
Road works	198,000,000	-	198,000,000	2,599,143	195,400,857	1%
Acquisition of Non-financial Assets	20,000,000	-	20,000,000	10,038,469	9,961,531	50%
Training costs	-	-	-	-	-	0%
Operating costs	2,000,000	-	2,000,000	624,518	1,375,482	31%
Total Payments	300,000,000	-	300,000,000	13,262,130	286,737,870	

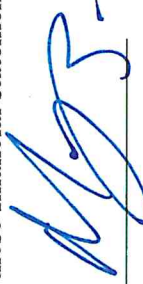
Note: The significant budget utilisation/performance differences in the last column are explained in Annex 1 to these financial statements.



Ag. Director General
Eng. Philemon K. Kandie



Project Coordinator
Eng. Argwings Oyoti



Director Corporate Services
CPA Dan Manyasi
ICPAK Member Number: 6407

10. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Basis of Preparation

10.2 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. 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.

10.3 Reporting entity

The financial statements are for the **Improvement of Rural Roads and Market Infrastructure in Western Kenya Project** under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.3.1 Reporting currency

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

10.4 Significant Accounting Policies

a) Recognition of receipts

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

i) Transfers from the Exchequer

Transfer from Exchequer is 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.

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.

b) 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.

Significant Accounting Policies (Continued)

c) 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.

d) 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

e) 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 KeRRA and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

f) 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.

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank

account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

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

h) Accounts receivable

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

Significant Accounting Policies (Continued)

i)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

j) Contingent Assets

The Entity 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 Entity 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.

Significant Accounting Policies (Continued)

k) 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.

l) 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.

m) 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.

Significant Accounting Policies (Continued)

n) 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.

o) 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.

p) 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, 2021.

q) Errors

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

11. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2020/21	2019/20	
	KShs	KShs	Cumulative to-date (from inception)
<i>Counterpart funding through Ministry of Transport and Infrastructure</i>			
Counterpart funds Quarter 1		-	
Counterpart funds Quarter 2	25,000,000	47,637,062	567,315,413
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	-	-
Total (See Annex 2)	25,000,000	47,637,062	567,315,413

2. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2021 the Authority did not receive any funding from development partners in form of loans negotiated by the National Treasury.

3. MISCELLANEOUS RECEIPTS

	2020/21			2019/2020	Cumulative to-date (from inception)
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts	Total Receipts	
	KShs	KShs	KShs	KShs	KShs
Interest	584,782.17	-	-	971,433	13,650,835.44
Total	584,782.17	-	-	971,433.27	13,650,835.44

4. ACQUISITION OF NON-FINANCIAL ASSETS

	2020/21			2019/20	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	KShs
Construction of roads	2,599,143	-	2,599,143	96,234,370	697,670,606
Purchase of office furniture & general equipment	10,038,469	-	10,038,469	-	10,038,469
Design & supervision consultancy	-	-	-	43,273,636	435,552,698
Total	12,637,613	-	12,637,613	139,508,007	1,143,261,774

*Improvement of Rural Roads and Market Infrastructure in Western Kenya
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For the financial year ended June 30, 2021*

5. OTHER OPERATING COSTS

<i>Description</i>	2020-2021	2019-2020
	Kshs	Kshs
Meetings & traffic Census Facilitation costs	519,718.00	63,000.00
Advertisement expenses	-	569,531.00
Travelling and subsistence allowance	70,000.00	1,396,100.00
Bank charges	34,799.66	38,888.00
Total	624,517.66	2,067,519.00

6. CASH AND CASH EQUIVALENTS

	2020/21	2019/20
	KShs	KShs
Bank accounts	113,415,125	101,139,924
Cash in hand	-	-
Total	<u>113,415,125</u>	<u>101,139,924</u>

*Improvement of Rural Roads and Market Infrastructure in Western Kenya
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The project has 9 number of project accounts spread within the project implementation area and 1 number of foreign currency designated accounts managed by the National Treasury as listed below:

6. A Bank Accounts

Project Bank Accounts

	2020/21	2019/20
	KShs	KShs
Local Currency Accounts		
GoK Counterpart Account Number 1179736249	35,042,216.67	39,209,350.15
Kenya Commercial Fixed Deposit 1 (Funds from Main A/c)	20,000,000.00	-
KeRRA KfW Account Number 1001255416	13,507.35	4,387,601.14
NCBA KfW Retention Account Number 1001965006	14,051,852.69	13,335,359.06
NCBA Bank Fixed Deposit 2 (Funds From Retention A/c)	11,199,015.84	10,881,017.89
Cooperative Bungoma- KfW Account Number 011415365435	210,620.09	214,219.50
Co-operative KfW Kakamega- Account Number 01141545929700	264,359.97	192,005.97
Kakamega 10% RMLF Counterpart A/C 1113921692	29,360,609.65	29,360,609.65
Cooperative Vihiga- KfW Account Number 01141472733300	1,322,534.61	1,334,654.61
Busia GoK Counterpart A/c No. 1119722349	212,308.00	212,308.00
Siaya GoK Counterpart A/c No. 1119721962	1,629,249.50	2,012,798.00
Local Currency Accounts		
Total local currency balances	113,306,274.37	101,139,923.97
Total bank account balances	113,306,274.37	101,139,923.97

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2021 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.

Special Deposit Accounts Movement Schedule

	2020/21	2019/2020
	KShs	KShs
(i) A/C Name [A/c No1000214295]		
Opening balance	-	-
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	-	-
Closing balance	<u>0</u>	<u>0</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 B Cash In Hand

	2020/21	2019/20
	KShs	KShs
Cash	-	-
Total cash balances	<u>0</u>	<u>0</u>

6 C Cash equivalents (short-term deposits)

	2020/21	2019/20
	KShs	KShs
Kenya Commercial Bank [A/C No.1179736249]	20,000,000.00	-
NCBA Retention Account Number 1001965006	11,199,015.84	10,881,017.89
Others (<i>Specify</i>)	-	-
Total	31,199,015.84	10,881,017.89

7. ACCOUNTS RECEIVABLES

<i>Description</i>	2020-2021	2019-2020
	Kshs	Kshs
Government Imprests	302,400.00	-
Salary advances	-	-
Total	302,400.00	0

8. ACCOUNTS PAYABLE

Description	2020-2021	2019-2020
	Kshs	Kshs
Cumulative Retention	22,419,069	22,272,971
Total	22,419,069	22,272,971

9. FUND BALANCE BROUGHT FORWARD

	2019/20	2018/19
	KShs	KShs
Bank accounts	90,258,906	172,990,176
Cash equivalents (short-term deposits)	10,881,018	60,335,342
Adjustment for accumulated retention	(22,272,971)	-
Total	78,866,953	233,325,518

The fund balance for financial year 2019/20 has been adjusted for cumulative retentions for prior periods, which have now been separately accounted for as payable. This is in line with the modified cash reporting standard.

10. PRIOR YEAR ADJUSTMENT

	Balance b/f FY 2019/2020 as per Financial	Adjustments	Adjusted Balance b/f FY 2019/2020
Description of the error	Kshs	Kshs	Kshs
Cumulative balance Loan from external Development partners	887,755,032.26	-82,492,200.02	805,262,832.24
Acquisition of other Non-Financial Assets	0	41,600,000.00	41,600,000.00

These prior years adjustment relates to errors noted in the treatment of the Kshs. 82,492,200.02 refund to KfW. The amount had not been deducted from the cumulative loan receipts thus the cumulative receipts had been overstated by the same amount.

An expenditure amount of Kshs. 41,600,000 for acquisition of non-financial assets had been omitted from FY 2019/20 cumulative opening balances hence understating the project cumulative expenditure.

*Improvement of Rural Roads and Market Infrastructure in Western Kenya
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For the financial year ended June 30, 2021*

12. OTHER IMPORTANT DISCLOSURES

1. PENDING ACCOUNTS PAYABLE (See Annex 3A)

	Balance b/f FY 2019/2020	Additions for the period	Paid during the year	Balance c/f FY 2020/2021
Description	Euros	Euros	Euros	Euros
Construction of roads	-	-	-	-
Supervision consultancy	54,015,984	12,272,326	-	66,288,310
Total	54015984.1	12,272,326	-	66,288,310

2. EXTERNAL ASSISTANCE

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
External assistance received as loans	-	-
External assistance received in kind- as payment by third parties	-	-
Total	0	0

c) classes of providers of external assistance

	FY 2020/2021	FY 2019/2020
Description	Kshs	Kshs
Multilateral donors	-	-
Total	0	0

d). 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 2020/2021	FY 2019/2020
Description	Kshs	Kshs
Multilateral donors	-	43,273,636
Bilateral donors	0	0
Total	0	43,273,636

13. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Inaccuracies in financial statements.	Reconciliation has been performed to the cumulative closing balances in the prior years and our opening balances have been re-casted to reflect the correct position. The discrepancy between the cumulative receipts in the Statement of Receipts and Payments and the funding summary has been addressed and prior year adjustment made in the FY 2020/21 to reconcile the figures.	Resolved	N/A
2	Accounting for Refund to donor of Eur 720,000	Amendments have been made to correct the treatment of this refund by adjusting the cumulative loan receipts, to reflect the return of funds received. Further, an adjustment has been made to the fund balance brought forward in respect to this refund. We have also made a separate line item in the Statement of Cashflow to	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		separate the refund from roadworks expenditures.		
3	Loss of funds due to low absorption	It is true that KfW recalled EUR 720,000 as stated above. This refund was in compliance with Clause 8 of Annex 6 of the Separate Agreement of Attachment B (Annex 3). The main cause of this was disbursement challenges related to movement of Loan funds from the Special EURO Account at Central Bank to the Disposition Fund Account operated by the Project Executing Agency. After disbursement of the Loan Funds by KfW, it took considerable time and processes to move them from National Treasury Account, to Ministry Account and eventually Disposition Fund Account operated by KeRRA and (NIC Bank). The management has engaged both our parent ministry and the National Treasury to discuss and resolve the matter of disbursement delays.	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4	Training of Contractors on labour-based contracts	<p>Kisii Training Centre under KIHBT was the official Training agency indicated in the Separate Agreement. KeRRA signed Training Agreement with Kisii Training Centre.</p> <p>Identification of Contractors for Training was done through a competitive process following an advert was placed in the local dailies and report on the recruitment process was forwarded to KfW.</p> <p>As part of the Training Module, the Trainee Contractors were assigned sections of roads measuring between 1.5-2km within the focal area (Kakamega, Bungoma & Kakamega) to implement as Trial Contracts. These are the thirty-Three (33) Trial Contracts. KeRRA paid Kshs 166,534,650.00 to KTC towards implementation of the same.</p> <p>Project files are in custody of Kisii Training Centre the Trainers who also</p>	Not resolved	Auditor to give guidance as to when he would wish to review the documents so that arrangements can be made to have Kisii Training Centre avail them.

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
		<p>managed the payments for works implemented under Trial Contracts.</p> <p>The objective of the Training under the Programme was capacity Building which was achieved.</p> <p>All records of payment for works implemented under Trial Contracts are at Kisii Training Centre where funds were managed after disbursement from KeRRA.</p> <p>The Authority has made arrangements with KIHBIT (Kisii Training Centre) to have the documents ready and available for review by the Auditor should he wish to verify nature and mode by which the training and payment was done.</p>		

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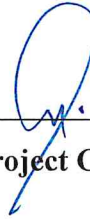
Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.



Ag. Director General

Date



Project Coordinator

Date

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14. ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget Kshs c=a+b	Actual on comparable basis Kshs d	Utilisation Variance Kshs e=c-d	% of Utilisation f=d/c%	Comments on variance
RECEIPTS					
Receipts from Government of Kenya	50,000,000	25,000,000	25,000,000	50%	
Loan from External Development Partners	250,000,000	-	250,000,000	0%	Roadworks are complete. Consultant did not comply with the payment of withholding income tax therefore fee notes could not be forwarded to KfW for payment.
Interest Income	-	584,782	(584,782)	0%	Could not be reliably estimated since it depends on the bank balances hence zero budget
Total receipts	300,000,000	25,584,782	274,415,218		
PAYMENTS					
Consultancy services	80,000,000	-	80,000,000	0%	Non-compliance by the consultant with National Treasury Circular on payment of withholding Tax for direct payments
Road works	198,000,000	2,599,143	195,400,857	1%	Roadworks are complete.
Acquisition of Non-financial Assets	20,000,000	10,038,469	9,961,531	50%	Procurement was based on open competitive bidding therefore we the budget was based on a prudent estimate.
Training costs	-	-	-	0%	N/A
Operating costs	2,000,000	624,518	1,375,482	31%	Operating costs vary as per the project activity levels. Since the project is technically complete, it did not have many activities during the financial year.
Total Payments	300,000,000	13,262,130	286,737,870		

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ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

PROJECT NAME:		Improvement of Rural Roads and Market Infrastructure in Western Kenya	
Break down of Transfers from the State Department of Infrastructure			
a. Government Counterpart Funding			
	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	05/10/2020	25,000,000	FY 2020/21
	Total	25,000,000	
b. Direct Payments			
	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		0	
	Total	0	
	TOTAL(a+b+c)	25,000,000	

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ANNEX 3A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Amount Paid To Date	Outstanding Balance		Comments
			2021	2020	
	a	c	d=a-c		
Supervision Consultancy Services	Euros		Euros	Euros	
Grontmij A/S Fee Note 26	12,907,490.70		12,907,490.70	12,907,490.70	Consultant's non-compliance with National Treasury Guidelines on withholding Income tax
Grontmij A/S Fee Note 27	14,096,046.90	-	14,096,046.90	14,096,046.90	Consultant's non-compliance with National Treasury Guidelines on withholding Income tax
Grontmij A/S Fee Note 28	13,611,863.20	-	13,611,863.20	13,611,863.20	Consultant's non-compliance with National Treasury Guidelines on withholding Income tax
Grontmij A/S Fee Note 29	13,400,583.30	-	13,400,583.30	13,400,583.30	Consultant's non-compliance with National Treasury Guidelines on withholding Income tax
Grontmij A/S Fee Note 30	12,272,326.30	-	12,272,326.30	-	Consultant's non-compliance with National Treasury Guidelines on withholding Income tax
Sub-Total			66,288,310.40	54,015,984.10	
Grand Total			66,288,310.40	54,015,984.10	

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ANNEX 4 – SUMMARY OF FIXED ASSETS REGISTER

Asset class	Opening Cost (KShs) 2020/21	Donations in form of assets (KShs) 2020/21	*Purchases/ Additions in the Year (KShs) 2020/21	**Disposals in the Year (KShs) 2020/21	Transfers in/(out) Kshs 2020/21	Closing Cost (KShs) 2021
	(a)	(b)	(c)	(d)	(d)	(e)= (a)+ (b)+c)-(d)+(-)d
Transport equipment	41,600,000		0	0	0	41,600,000
Office equipment, furniture and fittings	0	0	3,833,972	0	0	3,833,972
ICT Equipment,	0		6,204,500	0	0	6,204,500
Total	41,600,000	0	10,038,472	0	0	51,638,472

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APPENDICES

- i. Bank Reconciliations statement as at 30th June 2021