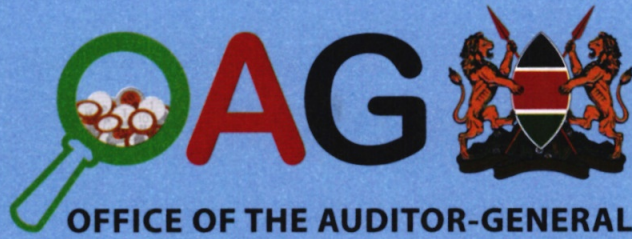


REPUBLIC OF KENYA



*Enhancing Accountability*



**REPORT**

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 03 DEC 2024	DAY: Tuesday
TABLED BY:	Hon. Kimani Ichung'wah (Leader of the Majority Party)
OF CHIEF OF THE TABLE:	Anastacia

**THE AUDITOR-GENERAL**

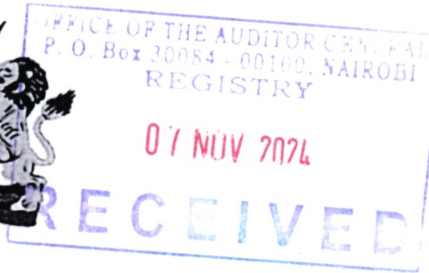
**ON**

**MOMBASA SPECIAL ECONOMIC ZONE  
DEVELOPMENT PROJECT (I)**

**FOR THE YEAR ENDED  
30 JUNE, 2024**

**KENYA NATIONAL HIGHWAYS  
AUTHORITY**





**MINISTRY OF ROADS AND TRANSPORT**



**PROJECT NAME: MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT  
PROJECT (I)**

**IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY**

**PROJECT LOAN NUMBER: KE – P35**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2024**

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



*Mombasa Special Economic Zone Development Project (I)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2024*

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**1. Acronyms and Definition of Terms**

AIE	Authority to Incur Expenditure
CBK	Central Bank of Kenya
CPA	Certified Public Accountant
Comparative FY	Financial year preceding the current financial year.
EIA	Environmental Impact Assessment
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
KeNHA	Kenya National Highways Authority
Kshs.	Kenya Shillings
TNT	National Treasury
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
SMART	Specific, Measurable, Achievable, Realistic and Time-bound

## 2. Project Information and Overall Performance

### 2.1 Name and registered office

**Name:** Mombasa Special Economic Zone Development Project

**Objective:** The objective of the Project is to enhance transportation capacity and to stabilize power supply condition, by constructing a berth, main road and electric facilities for Mombasa Special Economic Zone which is located in Dongo Kundu. This will thereby contribute to improvement of an investment environment within the area.

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

**Contacts:** Director General  
Kenya National Highways Authority  
P.O. Box 49712-00100  
Nairobi  
Telephone: +254-20-495000  
E-mail: [dg@kenha.co.ke](mailto:dg@kenha.co.ke) & Website: [www.kenha.co.ke](http://www.kenha.co.ke)

### 2.2 Project Information

Project Start Date:	27 <sup>th</sup> February 2020
Project End Date:	31 <sup>st</sup> December 2024
Project Coordinators:	Eng. H. Gakuru – Director Development
	Eng. Samuel O. Ogege – Deputy Director Special Projects
Project Sponsor:	Japan International Cooperation Agency (JICA) and Government of Kenya (GK)



**Project information and overall performance (continued)**

**2.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of the State Department of Roads under the Ministry of Roads and Transport
Project number	KE-P35
Strategic goals of the project	The strategic goals of the project are as follows: (i) To enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance social economic development of the people at Dongo Kundu area
Summary of Project Strategies for achievement of strategic goals	The project management aims at implementation of the project in timely, efficient and effective manner.
Other important background information of the project	There are two components under this project that are being implemented by Kenya National Highways Authority (KeNHA). 1. Civil Engineering works for the construction of a main road to Dongo Kundu Special Economic Zone 2. Consultancy services for the civil engineering works
Current situation that the project was formed to intervene	The project was formed to intervene in the following area; (i) Enhance transportation capacity & power supply stability at Dongo Kundu area (ii) Enhance socio-economic development of the people living around Dongo Kundu area.
Project duration	The Project is for duration of 4 years from 27 <sup>th</sup> February 2020 to 31 <sup>st</sup> December 2024

**2.4 Bankers**

Co-operative Bank Of Kenya Ltd  
 Upper Hill Branch, Nairobi  
 Account Number: '01141160979900

**2.5 Independent Auditor**

The Auditor General  
 Office of the Auditor General  
 P.O. Box 30084 - 00100 GPO  
 Nairobi

*Mombasa Special Economic Zone Development Project (I)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2024*

**2.6 Roles and Responsibilities**

No	Names	Title designation	Key qualification	Responsibilities
1.	Eng. Henry Gakuru	Director-Development	Registered Civil Engineer	Project Implementation Team Leader
2.	Eng. Samuel Ogege	Deputy Director-Special Projects	Registered Civil Engineer	Project Engineer
3.	Ms Levina Wanyoyi	Deputy Director-Supply Chain Management	Registered Member KISM	Project Procurement Specialist
4.	Mr. Walter Nyatwanga	Deputy Director-Environment & Social Interest	NEMA Lead Expert	Project Safeguards Specialist
5.	Mr Chanje Kera	Deputy Director-Finance & Accounts	Certified Public Accountant of Kenya	Project Financial Specialist

**2.7 Funding summary**

The Project is for duration of 4 years from 27th February 2020 to 31st December 2024 with an approved budget of Japanese Yen 37,090,000,000 equivalent to Kshs. 33,887,278,500 as highlighted in the table:



*Mombasa Special Economic Zone Development Project (I)*  
*Annual Report and Financial Statements for the financial year ended June 30, 2024*

**Project information and overall performance (continued)**

Below is the funding summary:

**A. Source of Funds**

Source of funds	Donor Commitment		Amount received to date – (30th June 2024)		Undrawn balance to date	
	Donor Currency	Kshs	Donor Currency	Kshs	Donor Currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
<b>(i) Loan</b>	<b>JPY</b>	<b>Kshs</b>	<b>JPY</b>	<b>Kshs</b>	<b>JPY</b>	<b>Kshs</b>
Japan International Cooperation (JICA)	37,090,000,000	33,887,278,500	731,675	73,973,910	37,089,268,325	33,813,304,590
<b>(ii) Counterpart funds</b>						
Government of Kenya	-	2,500,000	-	2,500,000	-	-
<b>Total</b>	<b>37,090,000,000</b>	<b>33,889,778,500</b>	<b>731,675</b>	<b>76,473,910</b>	<b>37,089,268,325</b>	<b>33,813,304,590</b>

**Project information and overall performance (continued)**

**B. Application of Funds**

Application of funds	Amount received to date (30th June 2024)		Cumulative amount paid to date (30th June 2024)		Unutilised balance to date (30th June 2024)	
	Donor Currency	Kshs	Donor Currency	Kshs	Donor Currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan	JPY	Kshs	JPY	Kshs	JPY	Kshs
Japan International Cooperation	80,965,260	73,973,910	80,965,260	73,973,910	-	-
(ii) Counterpart funds						
Government of Kenya	-	2,500,000	-	2,469,255	-	30,745
<b>Total</b>	<b>80,965,260</b>	<b>76,473,910</b>	<b>80,965,260</b>	<b>76,443,165</b>	<b>-</b>	<b>30,745</b>

**2.8 Summary of Overall Project Performance:**

**i) Budget performance against actual amounts for the current year and for cumulative to-date**

	2023/2024			Cumulative		
	Budget	Actual	%	Budget	Actual	%
Counterpart Funds - GK	5,028,770	-	0%	7,528,770	2,469,255	33%
Loan from Development Partners						
Japan International Cooperation (JICA)	-	-	-	250,000,000	73,973,910	30%
<b>TOTAL</b>	<b>5,028,770</b>	<b>-</b>	<b>0%</b>	<b>257,528,770</b>	<b>76,443,165</b>	<b>30%</b>

**ii) Physical progress based on outputs and outcomes since project commencement.**

There was no physical progress as at 30th June 2024

**i) Comment on value for money achievements.**

- The project procurement process is conducted through International Competitive Bidding (ICB) which results in excellent value for money.
- The authority (KeNHA) has put in place adequate checks & balances on appointment of the works supervision consultant who will oversee the project implementation on daily basis in consultation and subsequent approvals from the employer and the bank.



**Project information and overall performance (continued)**

- In addition to works supervision, the consultant will undertake design review before commencement of roads construction works to reduce uncertainties.
- Regular auditing of the project by Internal Auditors, External Auditors and Quality Assurance Departments.
- Project site review meetings by the Development Partners through supervision missions
- Monthly site meetings that involve the employer, the consultant and the contractor.

**iii) Absorption rate for each year since the commencement of the project.**

<b>Financial Year</b>	<b>Budget</b>	<b>Actual</b>	<b>Percentage (%)</b>
FY 2023/24	5,028,770	0	0%
FY 2022/23	102,500,000	2,469,255	2%
FY 2021/22	150,000,000	73,973,910	49%
<b>Total</b>	<b>257,528,770</b>	<b>76,443,165</b>	<b>30%</b>

**iv) Project Implementation challenges and recommendations.**

The project commenced during the Covid 19 pandemic which caused delays and therefore the civil works are yet to begin. There were GoK budgetary allocations which were significantly reduced in the second supplementary budget.

It is recommended that the Government provides timely and adequate budgetary provisions for this project to ensure seamless project payments and operations.

**2.9 Summary of Project Compliance:**

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

**3. Statement of Performance against Project's Predetermined Objectives**

**Introduction**

The key development objectives of the project are:

- i) To enhance transportation capacity & power supply stability at Dongo Kundu area
- ii) To enhance social economic development of the people at Dongo Kundu area.

**Progress on attainment of Strategic development objectives**

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

<b>Project</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Mombasa Special Economic Zone Development Project (I)	To enhance transportation capacity & power supply stability at Dongo Kundu area	Improved accessibility to Dongo Kundu Special Economic Zone	Reduced travel time between SEZ and other parts of the country	Project at its initial preparation stage.
Enhance social economic development of the people at Dongo Kundu area	Enhanced population access to social services.	Improved living standards of people living in Dongo Kundu.	Project at its initial preparation stage	Enhance social economic development of the people at Dongo Kundu area.



#### **4. Environmental and Sustainability Reporting**

The Mombasa Special Economic Zone Development Project (I) main focus is improving transportation infrastructure to enhance connectivity and efficiency. In terms of environmental and sustainability reporting, the strategy involves rigorous assessment and mitigation of environmental impacts throughout the project lifecycle.

##### **i. Sustainability strategy and profile**

Sustainable Development Goals (SDGs) 2015-2030 provides a plan of action for the people and their 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

##### **ii. 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.

**Environmental and Sustainability Reporting (Continued)**

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

**iii. 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.

**iv. Marketplace practices-**

**a) Responsible Supply chain and supplier relations-**

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.

**b) Responsible ethical practices**

The Authority equally sensitizes staff on corruption and integrity.

**c) Regulatory impact assessment**

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.

**v. 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.

**Environmental and Sustainability Reporting (Continued)**

The aim is not just to build roads that foster development but to ensure collaboration with the local communities to achieve sustainable development. The project staff is also encouraged to give back to society by participating in the Authority's corporate social responsibility projects.

During the project execution, the Contractor is encouraged to offer employment opportunities to the locals as casuals, carry out awareness and education on HIV and protection against the disease and other sexually transmitted diseases.

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



## 5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementation Team Leader 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 the financial year ended on June 30, 2024.

This responsibility includes (i) Maintaining adequate financial management arrangements 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.

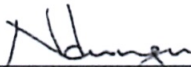
The Director General, KeNHA and the Project Implementation Team Leader accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting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

The Director General, KeNHA and the Project Implementation Team Leader for are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2024, and of the Project's financial position as at that date. The Director General, KeNHA and the Project Implementation Team Leader 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 and the adequacy of the systems of internal financial control.


The Director General, KeNHA and the Project Implementation Team Leader confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

### Approval of the Project Financial Statements

The Project financial statements were approved by the Director General, KeNHA and the Project Implementation Team Leader on 19 JUL 2024 and signed by:

  
Eng. Kungu Ndungu, MBS  
Director General

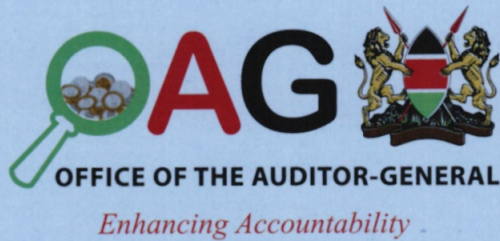
  
Eng. Henry Gakuru  
Director Development

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



# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
Email: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## REPORT OF THE AUDITOR-GENERAL ON MOMBASA SPECIAL ECONOMIC ZONE DEVELOPMENT PROJECT I LOAN NO.KE-P35 FOR THE YEAR ENDED 30 JUNE, 2024 - KENYA NATIONAL HIGHWAYS AUTHORITY

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### 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on the 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, risk management environment and 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 aim to address the Auditor-General's statutory roles and responsibilities 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

#### Opinion

I have audited the accompanying financial statements of Mombasa Special Economic Zone Development Project I set out on pages 1 to 18, which comprise of the statement of financial assets and liabilities as at 30 June, 2024 and the statement of receipts and

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*Report of the Auditor-General on Mombasa Special Economic Zone Development Project I Loan No. KE-P35 for the year ended 30 June, 2024 - Kenya National Highways Authority*



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

In my opinion, the financial statements present fairly, in all material respects, the financial position of Access Mombasa Special Economic Zone Development Project I as at 30 June, 2024 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 Public Finance Management Act, 2012 and the Loan Agreement No.KE-P35 dated 27 February, 2020 between Japan International Corporation Agency and the Government of the Republic of Kenya.

### **Basis for Opinion**

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Mombasa Special Economic Zone Development Project (I) Management in accordance with ISSAI 130 on the 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**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although Management had indicated the issues as resolved as at 30 June, 2024, no evidence was provided to support the position.

### **Other Information**

### **Conclusion**

The Management is responsible for the other information set out on page iii to xiv which comprise of Project Information and Overall Performance, Statement of Performance Against Predetermined Objectives. Environmental and Sustainability Reporting, and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.



## **Basis for Conclusion**

In connection with my audit on the Project's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution and based on the audit procedures performed, except for the matter described in 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**

#### **Delayed Project Implementation**

Review of financial records provided for audit revealed that the Government of Kenya (GoK) entered into financing agreement with Japan International Cooperation Agency (JICA) for the implementation of Mombasa Special Economic Zone Development Project at a donor commitment of ¥37,090,000,000 equivalent to Kshs.33,887,278,500 and GoK counterpart fund of Kshs.2,500,000 totalling to Kshs.33,889,778,500. According to the agreements signed on 27 February, 2020, the projects was to commence in October, 2020 with a contract duration of four (4) years and expected completion date of 31 December, 2024.

The statement of receipts and payments indicates that an accumulated amount of Kshs.76,443,165 had been incurred on the projects, which amounts to 0.2% of the total funding. However, out of the project timelines of fifty (50) months, forty seven (47) months or 94% of the Project time had lapsed. According to the Project brief for the month of September, 2024, the Project is in the procurement process for the main contractor with the only procurement for the consultancy services concluded.

In the circumstances, value for money of the amount spent could not be confirmed.

The audit was conducted in accordance with the ISSAIs 3000 and 4000. The standards 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 comply 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015 and 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 the ISSAIs 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and those Charged with Governance**

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 controls, 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**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I also I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.

  
FCPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**12 November, 2024**

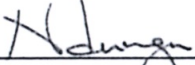


*Mombasa Special Economic Zone Development Project (I)*  
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**7. Statement of Receipts and Payments for the Year Ended 30th June 2024**

	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	Cumulative to-date (From inception)
		2023/2024			2022/2023			
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
<b>Receipts</b>								
Transfer from Government entities	1	-	-	-	2,500,000	-	2,500,000	2,500,000
Loan from external development partners	2	-	-	-	-	-	-	73,973,910
<b>Total receipts</b>		-	-	-	<b>2,500,000</b>	-	<b>2,500,000</b>	<b>76,473,910</b>
<b>Payments</b>								
Purchase of goods and services	3	-	-	-	2,469,255	-	2,469,255	2,469,255
Acquisition of non-financial assets	4	-	-	-	-	-	-	73,973,910
<b>Total payments</b>		-	-	-	<b>2,469,255</b>	-	<b>2,469,255</b>	<b>76,443,165</b>
<b>Surplus/ (deficit)</b>		-	-	-	<b>30,745</b>	-	<b>30,745</b>	<b>30,745</b>

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

  
 Eng. Kungu Ndungu, MBS  
 Director General

  
 Eng. Henry Gakuru  
 Director Development

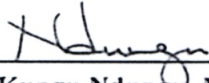
  
 CPA Chanje Kera  
 Deputy Director (F&A)  
 ICPAK Member No. 8279

*Mombasa Special Economic Zone Development Project (I)*  
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**8. Statement of Financial Assets and Liabilities as at 30th June 2024**

Description	Note	2023/2024	2022/2023
		Kshs	Kshs
<b>Financial Assets</b>			
Cash and Cash equivalents	5	30,745	30,745
Imprests and Advances			
<b>Total Financial Assets (A)</b>		<b>30,745</b>	<b>30,745</b>
<b>Financial Liabilities</b>			
Third party Deposits and Retention		-	-
<b>Total Financial Liabilities (B)</b>			
<b>Net Financial Assets (A-B)</b>		<b>30,745</b>	<b>30,745</b>
<b>Represented By</b>			
Fund Balance B/fwd.	6	30,745	-
Prior Year adjustments		-	-
Surplus/(Deficit) for the Year		-	30,745
<b>Net Financial Assets</b>		<b>30,745</b>	<b>30,745</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 19 JUL 2024 and signed by:

  
 Eng. Kungu Ndungu, MBS  
 Director General

  
 Eng. Henry Gakuru  
 Director Development

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

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9. Statement of Cash flows for the year ended 30th June 2024

Description	Note	2023/2024	2022/2023
<b>Cashflow from operating activities</b>		<b>Kshs</b>	<b>Kshs</b>
<b>Receipts</b>			
Transfer from government entities	1	-	2,500,000
Proceeds from domestic and foreign grants		-	-
Miscellaneous receipts		-	-
<b>Total receipts</b>		<b>-</b>	<b>2,500,000</b>
<b>Payments</b>			
Compensation of employees		-	-
Purchase of goods and services	3	-	(2,469,255)
Social security benefits		-	-
Transfers to other government entities		-	-
Other grants and transfers		-	-
<b>Total Payments</b>		<b>-</b>	<b>(2,469,255)</b>
<b>Net receipts/(payments)</b>		<b>-</b>	<b>30,745</b>
<b>Adjustments during the year</b>			
Prior year adjustments		-	-
Decrease/(increase) in accounts receivable		-	-
Increase/(decrease) in accounts payable:		-	-
<b>Net cash flow from operating activities</b>		<b>-</b>	<b>30,745</b>
<b>Cashflow from investing activities</b>			
Acquisition of non-financial assets		-	-
<b>Net cash flows from investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flow from financing activities</b>			
Proceeds from foreign borrowings		-	-
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>-</b>	<b>30,745</b>
<b>Cash &amp; cash equivalent at beginning of the year</b>	5	<b>30,745</b>	<b>-</b>
<b>Cash and cash equivalent at end of the year</b>	5	<b>30,745</b>	<b>30,745</b>



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10. Statement of Comparison of Budget and Actual Amounts for the Year ended 30<sup>th</sup> June 2024

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Receipts</b>						
Transfer from Government entities	105,028,770	(100,000,000)	5,028,770	-	5,028,770	0%
Proceeds from domestic and foreign grants	-	-	-	-	-	
Proceeds from borrowings	-	-	-	-	-	
Miscellaneous receipts	-	-	-	-	-	
<b>Total Receipts</b>	<b>105,028,770</b>	<b>(100,000,000)</b>	<b>5,028,770</b>	<b>-</b>	<b>5,028,770</b>	<b>0%</b>
<b>Payments</b>						
Purchase of goods and services				-		
Acquisition of non-financial assets	105,028,770	(100,000,000)	5,028,770	-	5,028,770	0%
<b>Total Payments</b>	<b>105,028,770</b>	<b>(100,000,000)</b>	<b>5,028,770</b>	<b>-</b>	<b>5,028,770</b>	<b>0%</b>
<b>Surplus or Deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

Note: The significant budget utilization/performance differences in the last column are explained in Annex 2 to these financial statements.

**11. Significant Accounting Policies**

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

**a) 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.

**b) Reporting entity**

The financial statements are for Mombasa Special Economic Zone Development Project (I) under Kenya National Highways Authority. The financial statements are for the reporting entity's Mombasa Special Economic Zone Development Project (I) as required by Section 81 of the PFM Act, 2012.

**c) Reporting currency**

The financial statements are presented in Kenya Shillings (Kshs), the project's functional and reporting currency. All values are rounded to the nearest Kenya Shilling.

**d) Recognition of receipts**

Mombasa Special Economic Zone Development Project (I) recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

**i) Transfers from the Exchequer**

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

**Significant Accounting Policies (continued)**

**ii) External Assistance**

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

**iii) Other receipts**

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

**iv) Donations and grants**

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

**v) Proceeds from borrowing.**

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

**vi) Undrawn external assistance**

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

**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.



**Significant Accounting Policies (continued)**

**i) Compensation to 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.

**iii) Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are 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 the Authority 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

**Significant Accounting Policies (continued)**

receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

**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.

**h) 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

**i) Imprests and Advances**

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

**j) 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

**Significant Accounting Policies (continued)**

- 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.

**k) Contingent Assets**

Mombasa Special Economic Zone Development Project (I) 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 Mombasa Special Economic Zone Development Project (I) 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

**l) Pending bills**

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



**Significant Accounting Policies (Continued)**

**m) 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.

**n) 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 nil disbursements were received in form of direct payments from third parties.

**o) 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.

**Significant Accounting Policies (Continued)**

**p) Comparative figures**

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

**q) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30<sup>th</sup> June 2024.

**r) Prior period adjustments**

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments on the financial statements for the year ended 30<sup>th</sup> June 2024.



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12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	2023/2024	2022/2023	Cumulative to-date (from inception)
	Kshs	Kshs	Kshs
<i>Counterpart funding through Ministry of Roads and Transport</i>			
Counterpart funds Quarter 1	-	2,500,000	2,500,000
Counterpart funds Quarter 2	-	-	-
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	-	-
<b>Total (See Annex 3)</b>	-	<b>2,500,000</b>	<b>2,500,000</b>
<b>Total</b>	-	<b>2,500,000</b>	<b>2,500,000</b>

2. Loan from External Development Partners

During the financial period to 30 June 2024, no funding was received from development partners in the form of loans negotiated by the National Treasury.

Description	2023/2024					2022/2023	Cumulative to date
	Name of Donor	Date received	Amount in loan currency	Loans received in actual amount	Loans received as direct payment	Total amount in Kshs	
			(Insert currency)	Kshs	Kshs	Kshs	Kshs
Loans received from Multilateral Donors (International Organizations)							
Japan International Cooperation	-	-	-	-	-	-	73,973,910
<b>Total</b>	-	-	-	-	-	-	<b>73,973,910</b>

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Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Description	2023/2024			2022/2023	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic travel and subsistence	-	-	-	2,469,255	2,469,255
<b>Total</b>	-	-	-	<b>2,469,255</b>	<b>2,469,255</b>

4. Acquisition of Non-Financial Assets

Description	2023/2024			2022/2023	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	Kshs
Research, studies, project preparation, design & supervision	-	-	-	-	73,973,910
<b>Total</b>	-	-	-	-	<b><u>73,973,910</u></b>

5. Cash And Cash equivalents

Description	2023/2024	2022/2023
	Kshs	Kshs
Bank accounts (Note 5A)	30,745	30,745
<b>Total</b>	<b><u>30,745</u></b>	<b><u>30,745</u></b>



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Notes to the Financial Statements (Continued)

5. A Bank Accounts

Project Bank Accounts

Details	2023/2024	2022/2023
	Kshs	Kshs
<u>Local Currency Accounts</u>		
Co-operative Bank of Kenya [A/c No. 01141160979900]	30,745	30,745
Total bank account balances	30,745	30,745

The Co-operative Bank Account -Exchequer Account is the Main KeNHA bank account where all GoK funds are transacted from.

6. Fund Balance Brought Forward

Description	2023/2024	2022/2023
	Kshs	Kshs
Deposits and retention	30,745	30,745
<b>Total</b>	<b>30,745</b>	<b>30,745</b>

Other Important Disclosures

7. Pending Accounts Payable (See Annex 3)

	Balance b/f FY 2023/24	Additions for the year	Paid during the year	Balance c/f 2023/2024
Description	Kshs	Kshs	Kshs	Kshs
Construction of buildings	-	-	-	-
Construction of civil works	-	-	-	-
Supply of goods	-	-	-	-
Supply of services	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

8. External Assistance

a). External assistance relating to loans and grants

	2023/2024	2022/2023
Description	Kshs	Kshs
External assistance received as loans	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

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Notes to the Financial Statements (Continued)

**b) Undrawn external assistance**

	Purpose for which the undrawn external assistance may be used	2023/2024	2022/2023
Description		Kshs	Kshs
Undrawn external assistance - loans	Civil works & consultancy services	33,813,304,590	33,813,304,590
<b>Total</b>		<b>33,813,304,590</b>	<b>33,813,304,590</b>

**c) Classes of providers of external assistance**

	2023/2024	2022/2023
Description	Kshs	Kshs
Multilateral donors	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**d.) Non-monetary external assistance**

	2023/2024	2022/2023
Description	Kshs	Kshs
Goods	-	-
Services	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**e) Purpose and use of external assistance**

	2023/2024	2022/2023
Description	Kshs	Kshs
Acquisition of assets	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**f). External Assistance paid by third parties on behalf of the Entity by Source**

	2023/2024	2022/2023
Description	Kshs	Kshs
Multilateral donors	-	-
National Assistance Organization	-	-
<b>Total</b>	<b>-</b>	<b>-</b>



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**13. Annexes**

**Annex 1: Prior Year Auditor-General's Recommendations**

Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
1	<p><b>Basis for Qualified Opinion</b></p> <p><b>Inaccuracy in Cash and Cash Equivalents</b></p> <p>The statement of financial Assets and explanatory note 5 to the financial statement reflects bank balance of Kshs 30,745 as at 30 June 2023.</p> <p>However, the bank reconciliation statements and cash book provided in support of the bank balance reflects a balance of Kshs 3,613,156,401 resulting into an unreconciled and unexplained variance of Kshs 3,613,125,656</p> <p>In the circumstances, the validity and accuracy of the cash and cash equivalent balance of Kshs 30,745 could not be confirmed.</p>	<p>We agree with the observation and as confirmed during the review, to qualify for opening and operation of a Designated Project Bank Account, the project must have part of the loan/grant proceeds made available by the development partner to the Authority through the National Treasury for onward payment of project eligible expenses directly to project executors, additionally this condition must be specified in the duly signed Financing Agreement.</p> <p>The Co-operative Bank Account Balance as at the close of business on 30<sup>th</sup> June 2023 was Kshs 3,613,156,401 of which the Mombasa Special Economic Zone Project closing balance was Kshs 30,745 and a summary of the individual project balances totalling to Kshs 3,613,156,401 was availed.</p> <p>The Authority operates a dynamic accounting electronic system that transacts and maintains accurate financial records, with the ability to show the opening balance at the beginning of the Financial Year, the transactions during the year and the closing balance that tallies with the balance as indicated.</p> <p>The development partner will administer the entire loan proceed through direct payment to project contractors and consultants. On the other hand, the Authority will pay the GoK counterpart funds from the Exchequer through the main Exchequer Bank Account held at the Co-operative Bank of Kenya Ltd.</p>	Not Resolved	Ongoing

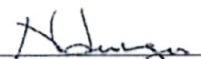
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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
2	<p><b>Other Matter</b></p> <p><b>Budgetary Control and Performance</b></p> <p>The statement of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs 102,500,000 and Kshs 2,500,000 respectively, resulting to an underfunding of Kshs 100,000,000 or 98%, mainly in respect of proceeds from borrowings – direct payments budget amount of the 100,000,000 out of which Nil was received. Similarly, Kshs 2,469,255 was spent by Project against an approved budget of Kshs 102,500,000 resulting to an under expenditure of Kshs 100,030,745 or 98% meaning that no physical progress has been registered on the project.</p> <p>The underfunding and under-performance affected the implementation of planned activities and it was not possible to confirm that the Project implementation was on course and whether its strategic goals would be realized.</p>	<p>We agree with the audit observation that there was underfunding of Kshs. 100 million or 98% of approved annual budget that was to be funded by the Development Partner in FY 2022/2023.</p> <p>The Authority had anticipated commencement of works for the project in FY 2022/23. However, this did not materialize as the Development Partner did not grant the required No Objection for the works tender evaluation process within the Financial Year thus nil absorption of the Development Partner budget since the Kshs. 100 million was to be paid to the works contractor/ supervision consultant through direct payment. Non-commencement of the project led to nil eligible expenditure payable by the development partner hence nil absorption of the budgeted development partner credit.</p> <p>A No Objection has since been granted by the Development Partner to proceed with contract negotiations, the contract has been drafted and the documents are currently being reviewed at the Attorney General Office. We expect works to commence in FY 2024/25.</p>	Not Resolved	Ongoing
3	<p><b>Basis for Conclusion</b></p> <p><b>Failure to Open and Maintain a Project Bank Account</b></p> <p>The statement of financial assets reflects cash and cash equivalents balance of Kshs.30,745 in respect of the bank balance held in a commercial bank. However, the project funds were comingled in the Kenya National Highways Authority's operational bank account instead of handling them in a separate bank account. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations,2015 that provides that for the purpose of disbursement of project funds, there shall</p>	<p>We agree with the audit observation that the Authority did not open and maintain a Designated Project Bank Account.</p> <p>This was due to the fact that the Project did not meet the 2No. minimum conditions necessary for the opening and operating of a designated project bank account as detailed in our response above.</p> <p>The financing agreement for the project does not provide for revenue method of payment that would have necessitated opening of a project designated bank account.</p> <p>The development partner will administer the entire loan proceed through direct payment to project contractors and consultants.</p>	Not Resolved	Ongoing

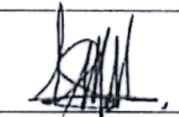


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Ref No.	Issue / Observations from Auditor	Management comments	Status:	Time frame
	<p>be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>On the other hand, the Authority will pay the GoK counterpart funds from the Exchequer through the main Exchequer Bank Account held at the Co-operative Bank of Kenya Ltd.</p> <p>The Authority has done letters requesting exemption by the Cabinet Secretary, the National Treasury &amp; Economic Planning to open and operate a project designated account.</p>		

  
 Eng. Kungu Ndungu, MBS  
 Director General

19 JUL 2024  
 Date

  
 Eng. Henry Gakuru  
 Director Development

19 JUL 2024  
 Date

**Annex 2: Variance explanations - Comparative Budget and Actual Amounts for Current FY**

	<b>Final Budget</b>	<b>Actual on Comparable Basis</b>	<b>Budget Utilisation Difference</b>	<b>% of Utilisation</b>	<b>Comments on Variance</b>
	a	b	c=a-b	d=b/a %	
<b>Receipts</b>					
Government of Kenya	5,028,770	-	5,028,770	0%	Funds were not received from the Exchequer
External financing	-	-	-	-	
<b>Total Receipts</b>	<b>5,028,770</b>	<b>-</b>	<b>5,028,770</b>	<b>0%</b>	
<b>Payments</b>					
Purchase of goods and services	5,028,770	-	5,028,770	0%	
Acquisition of non-financial assets		-			
<b>Total Payments</b>	<b>5,028,770</b>	<b>-</b>	<b>5,028,770</b>	<b>0%</b>	

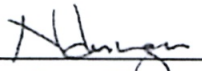



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**Annex 3: Reconciliation of inter-entity transfers**

<b>Project Name: Mombasa Special Economic Zone Development Project (I)</b>		
<b>Break down of Transfers from the State Department for Roads</b>		
<b>a. Government Counterpart Funding</b>		
<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
	-	-
<b>Total</b>	-	

  
Eng. Kungu Ndungu  
Director General

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

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**Annex 4: Analysis of Pending Bills**

Supplier of Goods/Services	Date Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2024	2023	
		a	b	c=a-b		
<b>Sub-Total</b>						
Consultancy Services						
	-		-	-	-	
Civil Works						
	-		-	-	-	
Sub-total	-		-	-	-	
Land Compensation	-		-	-	-	
<b>Grand-Total</b>	-		-	-	-	

**Annex 5: Summary of Fixed Assets Register**

Asset class	Opening Cost	Purchases/Additions in the Year	Disposals in the Year	Closing Cost
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
	FY 2023/24	FY 2023/24	FY 2023/24	FY 2024
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	73,973,910	-	-	73,973,910
<b>Total</b>	<b>73,973,910</b>	<b>-</b>	<b>-</b>	<b>73,973,910</b>