

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

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WED

OF

Hon Owen Baya, mp
Deputy Leader, majority party
Mimam media

THE AUDITOR-GENERAL

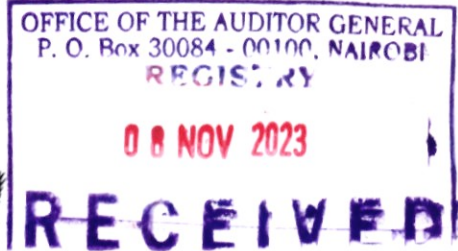
ON

**NATIONAL URBAN TRANSPORT
IMPROVEMENT PROJECT-IDA CREDIT
NO.5140-KE**

**FOR THE YEAR ENDED
30 JUNE, 2023**

KENYA NATIONAL HIGHWAYS AUTHORITY





MINISTRY OF ROADS AND TRANSPORT



Kenya National Highways Authority

Quality Highways, Better Connections

PROJECT NAME: NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

**PROJECT CREDIT NUMBER: LOAN ID 5140-KE
PROJECT NO P-126321**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023**

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

National Urban Transport Improvement Project.

Annual Report and Financial Statements for the financial year ended June 30, 2023

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National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2023

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1. Acronyms and Glossary of Terms

| | |
|--------|--|
| CBK | Central Bank of Kenya |
| CPA | Certified Public Accountant |
| EIK | Environment Institute of Kenya |
| EXIM | Export – Import |
| FY | Financial Year |
| GK | Government of Kenya |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| IDA | International Development Association |
| IPC | Interim Payment Certificate |
| IPSAS | International Public Sector Accounting Standards |
| KeNHA | Kenya National Highways Authority |
| Kshs. | Kenya Shillings |
| MoRT | Ministry of Roads and Transport |
| NUTRIP | National Urban Transport Improvement Project. |
| PAPs | Project Affected Persons |
| PFM | Public Finance Management. |
| PSASB | Public Sector Accounting Standards Board |
| RMB | Renminbi |
| SDG | Sustainable Development Goals |
| SDR | Special Drawing Right |
| TNT | National Treasury |
| UA | Unit of Account |
| XDR | Special Drawing Rights |

2. Project Information and Overall Performance

2.1 Name and registered office

Name: National Urban Transport Improvement Project

Objective:

- a) Improve the efficiency of road transport along the Northern Corridor
- b) Improve the institutional capacity and arrangements in the urban transport Subsector
- c) Promote private sector participation in operation, Financing and Management of transport sector

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

Contacts: Director General
Kenya National Highways Authority
Po Box 49712-00100
Nairobi
Telephone: (254) 020 495000
E-mail: dg@Kenha.co.ke
Website: www.kenha.co.ke

2.2 Project Information

| | |
|---------------------|---|
| Project Start Date: | 24 th December 2012 |
| Project End Date: | 27 th August 2023 |
| Project Engineer | Eng Mutii Kivoto |
| Project Sponsor: | 1. International Development Agency (IDA) 2. Government of Kenya |

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 on behalf of the Ministry of Roads and Transport. |
| Project number | P-126321 |
| Strategic goals of the project | The strategic goals of the project are as follows: <ol style="list-style-type: none"> 1. To Connect Kenya and other Part of East & Central Africa 2. Facilitate Trade and movement of people in East and Central Africa by improving the transit time |
| Achievement strategic goals of | The project management aims to achieve the goals through the following means: <ol style="list-style-type: none"> 1. The Implementation of policy and Institutional reforms in transport Particularly urban Public Transport 2. Financing infrastructure improvements to decongest major towns necessary to support Kenya's long-term Development strategy. 3. Creation of Institutional capacity to provide oversight and regulatory functions to support the delivery of urban Public the delivery of urban Public Transport Services 4. The Preparation of appropriate investment interventions that would promote urban public mass transit systems |
| Other important background information of the project | Upgrade the Urban Road Transport Infrastructure (total cost US\$311.15 million, of which IDA US\$223.26 million). Infrastructure (total cost US\$311.15 million, of which IDA US\$223.26 million). This component will involve: <ol style="list-style-type: none"> 3. Expanding and upgrading the Northern Corridor Road section through Nairobi from JKIA turnoff to Rironi. 4. Constructing and rehabilitating non-motorized transport facilities including foot paths, cycle tracks, pedestrian bridges, and underpasses. |
| Current situation that the project was formed to intervene | <ol style="list-style-type: none"> 1. Kenya's economic development strategy. 2. Address the mounting pressures on the major urban centres, mainly Nairobi, road and related transport infrastructure and laying the foundation for developing an efficient urban public transport system. |

| | |
|------------------|--|
| | <ol style="list-style-type: none">3. prepare a model mass transport system aimed at providing affordable and efficient public transport services in urban areas particularly for serving the low-income populations, especially in the CBD of Nairobi and along the developed high-density corridors.4. Build the operational and managerial capacity and efficiency of urban transport agencies in dealing with urbanization and transportation. |
| Project duration | The project started on 24 th December 2012 and is expected to run until 31 st December 2018 with a revised completion date of 27 th August 2023. |

2.4 Bankers

Kenya Commercial Bank
Moi Avenue Branch
Po Box 30081-00100, Nairobi
Account number 138238945

National Bank of Kenya Ltd
Hill Branch, Nairobi
Account number 01001032733200

Cooperative Bank of Kenya
Upper Hill Branch, Nairobi
Account number 01141160979900

2.5 Independent Auditor

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

Project Information and Overall Performance (continued)

2.6 Roles and Responsibilities

| Names | Title designation | Key qualification | Responsibilities |
|----------------------|--------------------------|--|--|
| Eng. Henry Gakuru | Director-Development | Registered Civil Engineer | Team Leader |
| Eng. Mutii Kivoto | Deputy Director | Registered Civil Engineer | Team Coordinator & Construction Specialist |
| Mr. Walter Nyatwanga | Deputy Director | Registered NEMA Lead expert. Member EIK | Environment Social Safeguards Specialist |
| Mr. James Bowen | Director | Certified Public Accountant | Financial Specialist |
| Ms. Levina Wanyonyi | Deputy Director | Certified Supply Chain Management Professional | Supply Chain Management Specialist |

2.7 Funding summary

The Project was for duration of 6 years from 24th December 2012 to 31st December 2018. Revised completion date is on 27th August 2023 with an approved budget of XDR 143,990,000 equivalent to Kshs 19,140,160,545 at exchange rate of 153.47 and Kshs.18,359,359,542. The Development Partner was financing 80% of the total sum as highlighted in the table below:

A. Source of Funds

| Source of funds | Donor Commitment- | | Amount received to date (30.06. 2023) | | Undrawn balance to date (30 06 2023) | |
|--|--------------------------|-----------------------|--|-----------------------|---|-----------------------|
| | <i>XDR</i> | <i>Kshs</i> | <i>XDR</i> | <i>Kshs</i> | <i>XDR</i> | <i>Kshs</i> |
| | <i>(A)</i> | <i>(A')</i> | <i>(B)</i> | <i>(B')</i> | <i>(A)-(B)</i> | <i>(A')-(B')</i> |
| (i)Loan | | | | | | |
| International Development Association- IDA | 143,990,000 | 19,140,160,545 | 20,380,780 | 3,127,882,038 | 123,609,220 | 16,012,278,507 |
| (ii)Counterpart funds | | | | | | |
| Government of Kenya (GOK) | - | 21,317,277,857 | - | 21,317,277,857 | - | - |
| Total | 143,990,000 | 40,457,438,402 | 20,380,780 | 24,445,159,895 | 123,609,220 | 16,012,278,507 |

Project Information and Overall Performance (continued)

However, in FY 2018/19 this Financial Agreement was cancelled at the request of the National Treasury and as such all costs relating to the project reverted to GOK hence the project is no longer a Development Partner co-funded project.

B. Application of Funds

| Application of funds | Amount received to date – (30 th June 2022) | | Cumulative Amount paid to date – (30 th June 2022) | | Unutilised balance to date (30 th June 2022) | |
|---|--|-----------------------|---|-----------------------|---|-------------------|
| | <i>XDR</i> | <i>Kshs</i> | <i>XDR</i> | <i>Kshs</i> | <i>XDR</i> | <i>Kshs</i> |
| | (A) | (A') | | (B') | (A)-(B) | (A')-(B') |
| (i) Loan | | | | | | |
| International Development Association - IDA | 20,380,780 | 3,127,882,038 | 20,380,780 | 3,127,882,038 | - | - |
| (ii) Counterpart funds | | | | | | |
| Government of Kenya | - | 21,317,277,857 | - | 21,317,277,857 | - | 33,860,361 |
| Total | 20,380,780 | 24,445,159,895 | 20,380,780 | 24,411,299,535 | - | 33,860,361 |

2.8 Summary of Overall Project Performance:

i) Budget performance against actual amounts for current year.

| | 2022/2023 | | | cumulative | | |
|---|--------------------|--------------------|------------|-----------------------|-----------------------|------------|
| | Budget | Actual | % | Budget 2022/23 | Actual 2022/23 | % |
| Counterpart Funds-GOK | 599,706,956 | 576,897,818 | 96% | 26,671,200,541 | 21,283,417,497 | 80% |
| Loan from external Development Partners | - | - | | 3,127,882,038 | 3,127,882,038 | 100% |
| Total | 599,706,956 | 576,897,818 | 96% | 29,799,082,579 | 24,411,299,535 | 82% |

Project Information and Overall Performance (continued)

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

The project is successfully complete and handed over to the employer.

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

| Financial Year | Budget | Actual | Percentage (%) |
|-----------------------|-----------------------|-----------------------|-----------------------|
| FY 2022/23 | 599,706,956 | 576,897,818 | 96% |
| FY 2021/22 | 3,179,312,384 | 3,115,107,452 | 98% |
| FY 2020/21 | 3,469,500,000 | 3,290,598,147 | 95% |
| FY 2019/20 | 12,869,214,643 | 12,679,726,657 | 99% |
| FY 2018/19 | 1,031,120,517 | 714,410,188 | 69% |
| FY 2017/18 | 1,421,979,229 | 885,169,341 | 62% |
| FY 2016/17 | 3,575,190,845 | 1,971,795,668 | 55% |
| FY 2015/16 | 2,135,020,000 | 82,923,780 | 4% |
| FY 2014/15 | 178,000,000 | 170,688,400 | 96% |
| FY 2013/14 | 964,038,005 | 841,779,285 | 87% |
| FY 2012/13 | 376,000,000 | 82,202,799 | 22% |
| Total | 29,799,082,579 | 24,411,299,535 | 82% |

iv) The project faced the following challenges.

- i) Lack of right of way due to inadequate budget
- ii) Delayed funding of GOK Component due to inadequate budget

Project Information and Overall Performance (continued)

2.9 Summary of Project Compliance:

There were no significant cases reported of non-compliance with applicable laws and regulations.

The status report is as follows.

| PROJECT DESCRIPTION | | PROGRESS REPORTED TO DATE |
|--|-----------------------------|--|
| 1. Project Name: Likoni Road Junction - James Gichuru Road Junction | ITP Consultancy | Terms of Reference are under review by the Bank. |
| | Design review & Supervision | Procurement Plan approved by the Bank. Terms of Reference submitted to the Bank for clearance. |
| 2. Project Name: Capacity Enhancement of James Gichuru – Rironi Contract type: Works Contractor: China Wu Yi Company Ltd Contract Signed: 2 nd August 2016 Commencement Date: 4 th August 2017 Completion Date: 27th August 2023 Contract amount: Ksh. 16,366,586,563.19 Revised Contract Amount: Ksh 20,414,794,997.52 Consultant: Intercontinental Consultant & Technocrats Pvt Ltd in J.V with Integrated Transport Planning Ltd. Korea Eng. Consultant Corporation in assoc. with Geodev Kenya Ltd Contract Amount: USD. 4,937,907.00 and Ksh. 345,085,355.00 | Physical progress, | Progress at 72 % |
| | Amount certified | Ksh. 14,512,629,155 |
| | Amount paid | Ksh. 11,342,236,293 |
| | Time lapsed | 71 Months <i>Contract terminated 4th February 2022 after the Contract Ceiling was attained.</i> KeNHA In-House Supervision from 4 th February 2022 |
| 3. RAP updating for James Gichuru - Rironi | Progress | RAP for Sublot 3A&B approved in April 2018 and 3C approved in August 2018. |

National Urban Transport Improvement Project.

Annual Report and Financial Statements for the financial year ended June 30, 2023

| PROJECT DESCRIPTION | | PROGRESS REPORTED TO DATE |
|---------------------------|----------|---|
| | | |
| 4. Kisumu Northern Bypass | Progress | <p>Credit which was cancelled on December 21st, 2018. In October 2018 the consultancy contract for design review and construction supervision was signed and the services commenced on 7th November 2018. The Contract ceiling is USD 828,786.72 and Ksh. 223,065,100.65.</p> <p>Consultancy Contract is financed by GOK 100% after December 2021.</p> <p>The Consultant provided the design review and submitted their reports and draft tender documentation for the works. This was accepted in March 2019.</p> <p>Works are yet to be procured but are estimate at about 5.8 billion.</p> |

3. Statement of Performance against Project’s Predetermined Objectives

The Project Development Objectives (PDOs) are to (a) improve the efficiency of road transport along the Northern Corridor; (b) improve the institutional capacity and arrangements in the urban transport sub sector; and (c) promote the private sector participation in the operation, financing, and management of transport systems.

Key Expected Outcomes and Outcome Indicators are as follows.

| Objective | Outcome | Indicator | Performance |
|--|---|---|--|
| Improved efficiency of road transport along the Northern Corridor | <ul style="list-style-type: none"> Reduction in average travel time from Junction Jomo Kenyatta International Airport (JKIA)-Rironi road. Reduction in vehicle operating costs on Junction JKIA-Rironi road. Number of road accidents reduced along Junction JKIA-Rironi Road; | <p>Time taken to travel from JKIA – Rironi</p> <p>Average vehicle operating costs</p> <p>Number of accidents reported</p> | <p>The Project is at 72% progress.</p> <p>Average operating cost US\$1.5/km</p> <p>30 % reduction in 2016 22 % reduction in 2017</p> |
| Improved institutional capacity and arrangements in the urban transport sub sector | <ul style="list-style-type: none"> Nairobi Metropolitan Transport Authority established and functional. National Road Transport and Safety Authority established and functional. Urban public transport rules and regulations development and in use | Adherence to traffic regulations and issuance of licences | Established and functional |
| Enhanced private sector participation in the operation, financing, and management of transport systems | <ul style="list-style-type: none"> Offer one Bus Rapid Transit (BRT) corridor for Public Private Partnerships (PPP). Offer one commuter rail line for PPP. Institutional setup within KeNHA (Kenya National Highways Authority) for the promotion of PPP in financing and management of road infrastructure and services developed and adopted | PPP department in KeNHA has been established and functioning | <p>Not yet</p> <p>Not yet</p> <p>Promotion of PPP has already been set up</p> |

4. Environmental and Sustainability reporting

National Urban Transport Improvement Project exists to transform lives. This is the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

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

2. Environmental performance

The Authority is working towards ensuring environmental sustainability in projects by undertaking tree planting exercises, implementation of road beautification programs, enforce reinstatement of quarries and borrow pits after construction works, undertakes regular Environmental Impact Assessment (EIA) Audits, carries out M&E on Environment and Social Management Plan (ESMPs) as well as Environmental Social Impact Assessment (ESIA) on projects.

3. Employee welfare

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

Environmental and Sustainability reporting (Continued)

4. Market place practices

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

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

5. Community Engagements

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

The Contractor is committed to address issues raised by the community which includes: (a) health and safety concerns; (b) dust emissions; (c) access to homes and businesses; and (d) restoration of community water connections. 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.

In accordance with the Resettlement Action Plan prepared at Project preparation two markets have been improved in conjunction with the County Governments of Kiambu and Nairobi. These markets are Kangemi Market and Kinoo Market.

5. Statement of Project Management responsibilities

The Director General and the Project Implementation Team Leader for National Urban Transport Improvement Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

The Director General and the Project Implementation Team Leader for National Urban Transport Improvement 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, 2023, and of the Project's financial position as at that date. The Director General and the Project Implementation Team Leader for National Urban Transport Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Director General and the Project Implementation Team Leader for National Urban Transport Improvement 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.

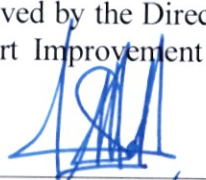
Approval of the Project financial statements

The Project financial statements were approved by the Director General and the Project Implementation Team Leader for National Urban Transport Improvement Project on 23 SEP 2023 and signed by them.



Eng. Kungu Ndungu
Director General

Date 23 SEP 2023



Eng. Henry Gakuru
Ag. Director - Development

Date 23 SEP 2023



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

Date 23 SEP 2023

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT-IDA CREDIT NO.5140-KE FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.
- 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 are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Urban Transport Improvement Project set out on pages 1 to 30, which comprise of the statement of

Report of the Auditor-General on National Urban Transport Improvement Project-IDA Credit No.5140 KE for the year ended 30 June, 2023 - Kenya National Highways Authority

financial assets as at 30 June, 2023 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Urban Transport Improvement Project - IDA Credit No.5140-Kenya National Highway Authority as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement IDA Credit No.5140-KE dated 26 September, 2012 between Republic of Kenya and International Development Association and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The financial statements prepared and presented for audit had the following anomalies:

- i. The statement of receipts and payments reflects an amount of Kshs.30,825,500 which is at variance with the surplus balance of Kshs.28,860,722 reported under the statement of financial assets.
- ii. The statement of financial assets reflects third party deposits and retention balance of Kshs.33,741,084 as referenced to Note 10 to the financial statements. However, of review of Notes to the financial statements revealed that Note 10 relates to fund balances brought forward of Kshs.70,714,022 and Note 9 relates to third party deposits and retention monies.

In the circumstances, the financial statements for the year ended 30 June, 2023 were not fairly stated.

2.0 Pending Bills

Review of other important disclosures Note1 to the financial statements reflects pending accounts payables totalling to Kshs.6,251,148,679 which comprises of Kshs.3,732,297,146 for construction of civil works, Kshs.2,513,169,775 for land compensation and Kshs.5.681,757 for supply of services which was at variance with the total outstanding pending bills payables at Annex 4 to the financial statements h of Kshs.5,801,554,707 resulting to unexplained and unreconciled variance of Kshs.449,593,972.

Further review of annex 4 to the financial statements reflects outstanding balance of Kshs.5,681,757 in respect of supply of services in favor of one(1) firm , comparative outstanding balance of Kshs.72,481,239 and payment to date of Kshs.673,970 in respect of the firm. However, review of the previous audited financial statements and Note 5 to the financial statements reflects payment to date of an amount of Kshs.26,283,934 and Kshs.66,256,843 totalling to recalculated payments to date of Kshs.92,540,777 which is at variance with reported amount of Kshs.673,970 resulting to unexplained and unreconciled variance of Kshs.91,866,807. In addition, the outstanding pending accounts payable of Kshs.3,732,297,146 for construction of civil works and Kshs.5.681,757 for supply of services were not supported with Interim payment certificates, invoices and fee notes. The unpaid Kshs.2,513,169,775 for land compensation was not supported with approved list from the National Land Commission and compensation control ledger.

In the circumstances, the, accuracy and completeness of Kshs.6,251,148,679 in respect of outstanding pending bills could not be confirmed.

3.0 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects receipt final budget and actual on comparable basis of similar amounts of Kshs.607,601,030 in respect of transfer from government entities. However, review of the documents provided for audit including the letter from the Ministry of Roads and Transport State Department of Roads 'Ref:MOR&T/R/A114.21/C/VOL.16(87) dated 29 June, 2023 forwarding the 2nd revised supplementary budget of the approved list of projects included the budget for National Urban Transport Improvement Project (Nutrip)-James Gichuru Junction-Rironi (Uhuru Highway-26kms) with an approved gross budget amount of Kshs.599,706,956 resulting to unexplained and unreconciled variance of Kshs.7,894,074.

In the circumstances, the accuracy and completeness of the amounts in the statement of comparison of budget and actual amounts could not be confirmed.

4.0 Unsupported Acquisition of Non-Financial Assets

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.568,663,315 which includes an amount of Kshs.397,803,639 in respect of rehabilitation of roads and as disclosed in Note 5 to the financial statements. However, review of the payment vouchers availed revealed total payments of Kshs.458,151,036 resulting to unexplained and unreconciled variance of Kshs.60,347,397.

In the circumstances, the accuracy and completeness of Kshs.568,663,315 in respect of acquisition of non-financial assets could not be confirmed.

5.0 Consultancy Services for Design and Supervision

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.568,663,315 which includes an amount of Kshs.66,256,843 in respect of research, studies project preparation design and supervision as disclosed in Note 5 to the financial statements. Review of the supporting documents including payment vouchers

and fee notes revealed that the payments were in respect of consultancy services for designs, review and construction supervision of section of A-104 Highway from James Gichuru road junction to Rironi-Kenya. The contract was awarded to International Consultant and Technocrats PVT Ltd. However, review and tabulations of the fee notes and payment vouchers provided revealed total payments of Kshs.68,869,883 resulting to unexplained and unreconciled variance of Kshs.2,613,040. Further review of the fee notes revealed that, multiples of payments were made above the approved fee totalling to Kshs.68,869,883 which were at variance with the total certified single fee notes of Kshs.35,705,092 resulting to unexplained and unreconciled variance of Kshs.33,164,791.

In the circumstances, the regularity, accuracy and completeness of the payments of Kshs.66,256,843 in respect of research, studies project preparation design and supervision could not be confirmed.

6.0 Unsupported Acquisition of Lands

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.568,663,315 which includes an amount of Kshs.104,602,833 in respect of acquisition of land and compensation to Project Affected Persons (PAPs) of James Gichuru Road Projects as disclosed in Note 5 to the financial statements. However, review of the supporting documents including payment vouchers and correspondences to National Lands Commission and payments to Nairobi School in respect of compensation was totalling to Kshs.74,000,000 resulting to unexplained and unreconciled balance of Kshs.30,602,833. Further, Annex 4 to the annual financial report reflects Nil payments in respect of land compensation during the year under review.

In the circumstances, the, accuracy and completeness of the payments of Kshs.104,602,833 in respect of acquisition of land could not be confirmed.

7.0 Misclassification of Expenditure on Acquisition of Lands

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.568,663,315 which includes an amount of Kshs.104,602,833 in respect of acquisition of land of as disclosed in Note 5 to the financial statements. However, review of supporting documents including payment vouchers and interim payment certificate revealed total payments of Kshs.35,602,833 in respect of the construction of dormitory block at Nairobi school vide contract no. D106/NB/NB/2001.The expenditure was wrongly classified under acquisition of lands instead of construction of buildings as per the approved standard chart of accounts.

In the circumstances, regularity, accuracy and completeness of the expenditure of an amount of Kshs.35,602,833 in respect of acquisition of non-financial assets could not be confirmed.

8.0 Unsupported Cash and Cash Equivalents

Note 8 to the financial statements revealed one bank account (KCB-Account No.1138238945) with comparative balance of Kshs.8,112,215 had Nil bank balances as

at 30 June, 2023. The Management indicated that the account was closed on 18 April, 2023. However, the supporting documents including bank statements and certificate of bank balance at the date when the account was closed were not provided for audit review.

In the circumstances, the regularity, accuracy and completeness of the balance of Kshs.70,714,022 in respect of cash and cash equivalents could not be confirmed.

9.0 Unsupported Third-Party Deposits

As disclosed in Note 10 to the financial statements, the statement financial assets reflects third party deposits and retentions balance of Kshs.33,741,084 in respect of deposit and retention monies. However, the Management did not provide the Interim Payment Certificate (IPC) detailing the approved and outstanding retention during the project life time.

In the circumstances, the regularity, accuracy and completeness of the balance of Kshs.33,741,084 in respect of deposit and retention monies could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the National Urban Transport Improvement Project 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 qualified opinion.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison budget and actual amounts reflects final budget expenditure and actual on comparable basis of Kshs.607,607,030 and Kshs.576,897,818 resulting to under absorption of Kshs.36,975,949 or 6 % of the budget.

The under absorption of funds affected the planned activities and may have impacted negatively on service delivery to the public.

2. Absorption of Project Funds

As disclosed under paragraph 2.2 of the Project information, the Project was earmarked to close on 27 August, 2023. However, paragraph 2.7 of funding summary indicates that the Donor had made commitment amounting of XDR 143,990,000 which is equivalent to

Kshs.19,140,160,545 as at 30 June, 2023. However, actual drawdowns during the project life amounted to XDR 20,380.780 equivalent to Kshs.3,127,882,038 leaving out XDR 123,609,220 equivalent to Kshs.16,012.278,507 undrawn. The credit may lapse without being fully utilized and the Project's planned deliverables earmarked for completion with the funding may not be realized.

3. Unresolved Prior Year Matters

As disclosed under the progress on follow up of auditor's recommendations section of the financial statements, the prior year audit issues remained unresolved as at 30 June, 2023. Management has not provided satisfactory reasons for the delay in resolving the issues.

4. Project Progress Report

The project was co-financed by the World Bank (IDA) 80% and the Government of Kenya (GoK) 20% up to 31st December, 2018. The financing agreement was cancelled in December, 2018 and thus since January, 2019 the project became a government of Kenya funded project, 100%. However, Management did not provide project reports, including progress made on compliance with the Safe guards Instruments under the project in compliance with Section I-D of Schedule 2 to the financing agreement.

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

Basis for Conclusion

1. Additional Pending Bills

The statement of comparison of budget and actual amounts reflects expenditure final budget and actual on comparable basis of amounts of Kshs.607,601,031 and Kshs.576,897,818 resulting to under-absorption of an amount of Kshs.36,853,661. However, review of the Annex4 to the financial statements revealed that the Management incurred additional pending bills of Kshs.436,824,047 and 46,803,922 in respect of construction of roads and land compensation which were not budgeted for contrary to the provisions of Regulation 31(2) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to budget for and obtain approval for all services which can be foreseen. The additional pending bills were not supported with Interim Payment Certificate (IPC) and approval by the National Lands Commission.

2. Unverified cost on Land Compensation Cost

Review of Note 5 to the financial statement reflects non-financial assets cumulative to date of an amount of Kshs.24,200,617,045 which includes Kshs.10,636,560,926 in respect of land acquisition which in turn relates to land compensation for Project Affected Persons (PAPs) of James Gichuru Road Project. However, review of the list of beneficiaries provided in respect of the outstanding compensation reflects total claim of an amount of Kshs.12,568,789,776 with unpaid balance of Kshs.2,513,169,775 resulting total payment of Kshs.10,055,620,001 which is at variance with the accumulated payments of Kshs.10,636,560,926 as reflected in Note 5 to the financial statements resulting to unexplained variance of Kshs.580,940,925. Further review of payment schedules to National Lands Commission vide Ref: KeNHA/F/NLC/6/Vol.5/3438 of 13 June, 2023 includes compensation lists of amounts 5,466,300, Kshs.31,080,400 and Kshs.9,547,940 with part payments were not included in the list of unpaid compensation.

In addition, the schedule referenced above, includes compensations amounts of Kshs.50,864,360 and Kshs.85,584,815 which had part payments of Kshs.12,439,822 and Kshs.2,950,000 respectively resulting to recalculated unpaid amounts of Kshs.38,424,538 and Kshs.82,634,815 which are at variance with the outstanding balance from the list provided of Kshs.2,357,648 and Kshs.80,689,325 resulting to unexplained variance of Kshs.36,066,890 and Kshs.1,945,487 respectively. The list of outstanding compensations was also not also supported with approved and verified list of beneficiaries from National Land Commission detailing the date of acquisition, size of land and beneficiary identities.

In the circumstances, the, accuracy and completeness of the payments of an amount of Kshs.10,636,560,926 in respect of cumulative to date payments on land compensations could not be confirmed.

3. Delay in Project Implementation

Management entered into a contract dated 02 August, 2016 between Kenya National Highways Authority and a contractor for rehabilitation and capacity enhancement of James Gichuru Junction- Rironi (A104) at a contract sum of Kshs.16,366,586,563 (inclusive of taxes) and for a period of thirty-six (36) months plus twelve (12) months defects liability period.

Through addendum No. 3, the contract sum was varied by 24.7% (Kshs.4,048,208,434) to a new contract sum of Kshs.20,414,794,998 due to revised bills of quantities as a result of additional activities such as Gitaru full cloverleaf interchange, reconstruction of major bridges, Rironi bridge from 1 span to 2 span and introduction of retaining walls in line with urban road design philosophy.

Through addendum No. 5 upon approval of extension of time request by the contractor, the contract end date was revised to November, 2023 inclusive of defects liability period.

As at 30/6/2023 the Contractor has to date achieved an overall Physical progress of 72.00% and 70.89% financial Progress against contractor's planned progress up to

June, 2023 was 100%. The project progress is lagging by (29.11) % as at the Month of June, 2023. Overall construction time elapsed is 97.38% equivalent to 2,156 days (71 Months/73 Months) The contract period was extended from 28 November, 2023 to 27 August, 2024 inclusive of 12 months of the defect liability period but the addendum approving the extension was not provided for audit review. This indicates a slow progress of implementation and consequently, inevitable extension of time as indicated.

Further, physical verification conducted in the month of October, 2023 revealed that no works were going on as the contractor had suspended work as from March, 2022 citing lack of payment. As reported in the previous year audit report, the National Urban Transport Improvement Project had accrued a total of Kshs.230,382,944 as interest due to delay in payments of IPC No.42 dated 23 May, 2022.

Delay in completion of the road project will lead to increase in avoidable costs of interest and penalties on delayed payments as well as deny public the benefit that would have accrued from the completion of the project in time.

In the circumstance, value for money could not be established for the expenditure of Kshs.24,374,445,874 spent on the project.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 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 governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by International Development Association (IDA), I report based on my audit that:

- i. I have obtained all, the information and explanation 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 the Management and those Charged with Governance

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as the 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, the 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.

The 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, the Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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


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

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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

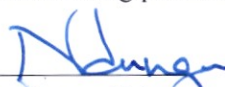
01 December, 2023

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2023

7. Statement of Receipts and Payments for the year ended 30th June 2023

| | NOTES | 2022/23 | | | 2021/22 | | | Cumulative to-date |
|--|-------|--|---|--------------------|--|---|----------------------|-----------------------|
| | | Receipts & Payments Controlled by the Entity | Receipts & Payments made by the Third Party | Total | Receipts & Payments Controlled by the Entity | Receipts & Payments made by the Third Party | Total | |
| | | Kshs | Kshs | Kshs | Ksh | Kshs | Kshs | |
| RECEIPTS | | | | | | | | |
| Transfer from Government entities | 1 | 607,601,030 | - | 607,601,030 | 2,338,177,890 | - | 2,338,177,890 | 21,305,138,462 |
| Proceeds from domestic and foreign Loans | 2 | - | - | - | - | - | - | 3,127,882,038 |
| Miscellaneous Receipts | 3 | 122,288 | - | 122,288 | 160,589 | - | 160,589 | 12,139,395 |
| Total receipts | | 607,723,318 | - | 607,723,318 | 2,338,338,479 | - | 2,338,338,479 | 24,445,159,895 |
| PAYMENTS | | | | | | | | |
| Purchase of goods and services | 4 | - | - | - | - | - | - | 165,357,351 |
| Acquisition of non-financial assets | 5 | 568,663,315 | - | 568,663,315 | 3,115,077,259 | - | 3,115,077,259 | 24,200,617,045 |
| Other grants and transfer/ Payments | 6 | 8,234,503 | - | 8,234,503 | 30,193 | - | 30,193 | 8,471,478 |
| TOTAL PAYMENTS | | 576,897,818 | - | 576,897,818 | 3,115,107,452 | - | 3,115,107,452 | 24,374,445,874 |
| SURPLUS/DEFICIT | | 30,825,500 | - | 30,825,500 | (776,768,973) | - | (776,768,973) | 70,714,022 |

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


Eng. Kungu Ndungu
 Director General

23 SEP 2023

Date


Eng. Henry Gakuru
 Ag. Director - Development

23 SEP 2023

Date


CPA Chanje Kera
 Deputy Director (F&A)

ICPAK No. 8279

23 SEP 2023


Date

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2023

8. Statement of Financial Assets as at 30th June 2023

| | Note | 2022/23 | 2021/22 |
|------------------------------------|------|-------------------|-------------------|
| | | Kshs | Kshs |
| Cash and Cash equivalents | | | |
| Financial Assets | | | |
| Bank Balances | 7 | 70,714,022 | 39,888,522 |
| Cash Balances | | | |
| Total Financial Assets | | 70,714,022 | 39,888,522 |
| Financial Liabilities | | | |
| Third Party Deposits and Retention | 10 | 33,741,084 | 31,776,307 |
| Net Assets | | 36,972,937 | 8,112,215 |
| Represented By: | | | |
| Fund balance B/fwd | | 8,112,215 | 7,981,819 |
| Surplus/(Deficit) for the year | | 28,860,722 | 130,396 |
| Net Financial Position | | 36,972,937 | 8,112,215 |

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 23 SEP 2023 and signed by:

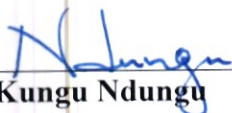

 Eng. Kungu Ndungu
 Director General

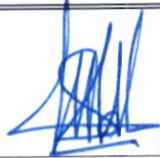

 Eng. Henry Gakuru
 Ag. Director - Development


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

9. Statement of Cashflow for the Period 30th June 2023

| | | 2022/23 | 2021/22 |
|--|---|----------------------|------------------------|
| Receipts | | | |
| Transfer from Government entities | 1 | 607,601,030 | 2,338,177,891 |
| Miscellaneous Receipts | | 122,288 | 160,589 |
| Total Receipts | | 607,723,318 | 2,338,338,480 |
| Payments | | | |
| Purchase of goods and services | | - | - |
| Miscellaneous Payments | 6 | (8,234,503) | (30,193) |
| Total Payments | | (8,234,503) | (30,193) |
| Adjustments during the year | | | |
| Prior year adjustments | | | |
| Decrease/(Increase) in accounts receivable | | | |
| Net cash flow from operating activities | | 599,488,815 | 2,338,308,287 |
| Cashflow from Investing Activities | | | |
| Acquisition of non-Financial Assets | 5 | (568,663,315) | (3,115,077,259) |
| Net cash flows from investing activities | | (568,663,315) | (3,115,077,259) |
| Cashflow from financing activities | | | |
| Proceeds from Foreign Borrowings | | - | - |
| Net cash flow from financing activities | | - | - |
| Net increase in cash and cash equivalent | | 30,825,500 | (776,768,972) |
| Cash and cash equivalent at beginning of the year | | 39,888,522 | 816,657,494 |
| Cash and cash equivalent at end of the year | | 70,714,022 | 39,888,522 |


Eng. Kungu Ndungu
Director General


Eng. Henry Gakuru
Ag. Director - Development

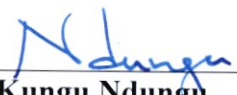

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No.8279

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2023

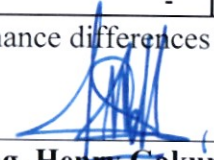
10. Statement of Comparison of Budget and Actual Amounts for the year ended 30th June 2023

| Receipts/Payments Item | Original Budget | Adjustments | Final Budget | Actual on Comparable Basis | Variance | % of Utilisation |
|--|--------------------|--------------------|--------------------|----------------------------|---------------------|------------------|
| | a | b | c=a+b | d | e=d-c | f=d/c % |
| Receipts | | | | | | |
| Transfer from Government entities | 212,286,599 | 395,314,431 | 607,601,030 | 607,601,030 | - | 100% |
| Miscellaneous Income | - | - | - | 122,288 | (122,288) | |
| Total Receipts | 212,286,599 | 395,314,431 | 607,601,030 | 607,723,318 | (122,288) | 100% |
| Payments | | | | | | |
| Purchase of goods and services | 212,286,599 | 395,314,431 | 607,601,030 | 568,663,315 | 36,853,661 | 95% |
| Land Acquisition | | | | | | |
| Research, studies, project preparation, design & supervision | | | | | | |
| Works Construction | | | | | | |
| Miscellaneous Payments | | | | | | |
| Total Payments | 212,286,599 | 395,314,431 | 607,601,030 | 576,897,818 | 36,853,661 | 95% |
| Surplus or Deficit | - | - | - | 30,825,500 | (36,975,949) | |

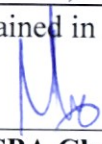
Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 2** to these financial statements.


Eng. Kungu Ndungu
 Director General
 23 SEP 2023

Date


Eng. Henry Gakuru
 Ag. Director - Development
 23 SEP 2023

Date


CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK No. 8279
 23 SEP 2023

Date

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 the National Urban Transport Improvement Project under Kenya National Highways Authority. The financial statements encompass the reporting for National Urban Transport Improvement Project as specified in the relevant legislation PFM Act 2012.

c) Reporting currency

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

d) 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.

Significant Accounting Policies (Continued)

iv) Donations and grants

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

v) Proceeds from borrowing.

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

vi) Undrawn external assistance

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

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.

f) Compensation of employees

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

i) 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)

ii) Interest on borrowing

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

iii) 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.

iv) Acquisition of fixed assets

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

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

g) 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.

h) Cash and cash equivalents

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

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

Significant Accounting Policies (Continued)

i) 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 party deposits.

j) Imprests and Advances

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

k) Contingent Liabilities

A contingent liability is:

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

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

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

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

l) Contingent Assets

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

m) 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.

n) 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.

o) 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 no loan disbursements were received in form of direct payments from third parties.

p) 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)

q) 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.

r) 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, 2023.

s) Prior Period Adjustments

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

2. Notes to The Financial Statements

1. Transfers from Government entities

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

| | 2022/2023 | 2021/2022 | Cumulative |
|---|--------------------|----------------------|-----------------------|
| | Kshs | Kshs | to-date |
| Counterpart funds Quarter 1 | 37,500,000 | 1,466,604,934 | 2,754,146,023 |
| Counterpart funds Quarter 2 | | 409,628,678 | 2,644,656,058 |
| Counterpart funds Quarter 3 | 82,500,000 | 448,821,327 | 1,819,265,238 |
| Counterpart funds Quarter 4 | 479,706,956 | 13,122,951 | 14,079,177,069 |
| Total (See annex 3) | 599,706,956 | 2,338,177,890 | 21,297,244,388 |
| Other transfers from government entities | | | |
| Appropriations-in-Aid | 7,894,074 | - | 7,894,074 |
| Total | 7,894,074 | - | 7,894,074 |
| Grand total | 607,601,030 | 2,338,177,890 | 21,305,138,462 |

2. Proceeds from Domestic and Foreign Loan

During the FY 2022/23 there was no loan received from External Development Partners.

3. Miscellaneous Receipts

| | 2022/23 | 2021/22 | Cumulative to date |
|---------------|----------------|----------------|--------------------|
| | Kshs | Kshs | |
| Bank Interest | 122,288 | 160,589 | 12,139,395 |
| Total | 122,288 | 160,589 | 12,139,395 |

Notes to the Financial Statements (Continued)

4. Purchase of Goods and Services

| | 2022/23 | | 2021/22 | | Cumulative to date Kshs |
|---------------------------------|--|---|----------------|----------------|--------------------------------|
| | Receipts & Payments Controlled by the Entity | Receipts & Payments made by the Third Party | Total Payments | Total Payments | |
| | Kshs | Kshs | Kshs | Kshs | |
| Domestic travel and subsistence | - | - | - | - | 165,357,351 |
| Total | - | - | - | - | 165,357,351 |

5. Acquisition of Non-Financial Assets

| Description | 2022/23 | | | 2021/22 | | Cumulative to date Kshs |
|--|-----------------------------|------------------------------|--------------------|----------------------|--|--------------------------------|
| | Payments made by the Entity | Payments Made by Third Party | Total payments | Total payments | | |
| | Kshs | Kshs | Kshs | Kshs | | |
| Research, studies, project preparation, design & supervision | 66,256,843 | - | 66,256,843 | 83,856,076 | | 1,564,236,065 |
| Rehabilitation of Roads | 397,803,639 | - | 397,803,639 | 2,796,779,159 | | 11,999,820,054 |
| Acquisition of land | 104,602,833 | - | 104,602,833 | 234,442,024 | | 10,636,560,926 |
| Total | 568,663,315 | - | 568,663,315 | 3,115,077,259 | | 24,200,617,045 |

Notes to the Financial Statements (Continued)

6. Other grants, Transfers and Payments

| | 2022/23 | 2021/22 | Cumulative to date |
|--|------------------|---------------|-----------------------|
| | Kshs | Kshs | |
| Bank Charges | 23,763 | 30,193 | 260,738 |
| Other payments (Bank A/c closure, Transfer to Equity account No.0810295139897) | 8,210,740 | | 8,210,740 |
| Total | 8,234,503 | 30,193 | 8,471,478 |

7. Cash and Cash Equivalents

| | | 2022/23 | 2021/22 |
|---------------------------|--|-------------------|-------------------|
| | | Kshs | Kshs |
| Bank accounts (Note 8.8A) | | 70,714,022 | 39,888,522 |
| | | 70,714,022 | 39,888,522 |

8. Bank Accounts

| | 2022/23 | 2021/22 |
|---|-------------------|-------------------|
| | KShs | KShs |
| <u>Local Currency Accounts</u> | | |
| Local Currency Accounts | | |
| Kenya Commercial Bank [A/c No 1138238945] | - | 8,112,215 |
| National Bank of Kenya [A/c No 01001-327332-00] | 33,741,085 | 31,776,307 |
| Cooperative Bank [A/c No 011141160979900] | 36,972,937 | |
| Total bank account balances | 70,714,022 | 39,888,522 |

Notes to the Financial Statements (Continued)

9. Deposits and Retention Monies

| Description | 2022/2023 | | 2021/2022 | |
|-------------------------|-------------------|-----------------------|-----------------------|-----------------------|
| | Kshs | | Kshs | |
| Retention | 33,741,086 | | 33,741,086 | |
| Deposits | - | | - | |
| Total | 33,741,086 | | 33,741,086 | |
| Ageing analysis: | Current FY | % of the Total | Comparative FY | % of the Total |
| Under one year | 1,964,779 | 6% | | |
| 1-2 years | 31,776,307 | 94% | 31,776,307 | 100% |
| 2-3 years | - | | - | |
| Over 3 years | - | | - | |
| Total | 33,741,086 | 100% | 31,776,307 | 100% |

10. Fund balances Brought forward

| Description | 2022-2023 | 2021-2022 |
|------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Bank accounts | 36,972,937 | 8,112,215 |
| Deposits and retention | 33,741,085 | 31,776,307 |
| Total | 70,714,022 | 39,888,522 |

11. Accounts Payable

| Description | 2022-2023 | 2021-2022 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Retention - Payments controlled by the entity | 33,741,085 | 31,776,307 |
| Total | 33,741,085 | 31,776,307 |

12. Changes in Accounts Payable and Retention

| Description | 2022-2023 | 2021-2022 |
|---|------------------|----------------------|
| | KShs | KShs |
| Deposit and Retentions as at 1 st July | 31,776,307 | 808,675,675 |
| Deposit and Retentions as at 30th June | 33,741,085 | 31,776,307 |
| Change in Payables | 1,964,778 | (776,899,368) |

Other important disclosures

1. Pending Accounts Payable

| | Balance b/f FY 2022/2023 | Additions for the year | Paid during the year | Balance c/f FY 2022-2023 |
|-----------------------------|-------------------------------------|-----------------------------------|---------------------------------|-------------------------------------|
| Description | Kshs | Kshs | Kshs | Kshs |
| Construction of Civil Works | 3,295,473,099 | 436,824,047 | - | 3,732,297,146 |
| Land Compensation | 2,466,365,853 | 46,803,922 | | 2,513,169,775 |
| Supply of services | 72,481,239 | | 66,799,482 | 5,681,757 |
| Total | 5,834,320,191 | 483,627,970 | 66,799,482 | 6,251,148,679 |

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
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13. Annexes

Annex 1. Prior Year Auditor-General'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 | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---|--------------------------------------|---|
| 1 | <p>Inaccuracies in the Financial Statements The statement of receipts and payments reflects a deficit for the year of Kshs.776,768,973. However, the statement of financial assets indicates a surplus of Kshs.130,396 resulting in an unexplained and unreconciled variance of Kshs.776,899,369.</p> | <p>We disagree with the auditor's observation that there was an unexplained and unreconciled variance of Kshs.776,899,369. We wish to clarify that the deficit of Ksh.776,768,973 as shown in the Statement of Receipts and Payments represents. The variance of Kshs.776,899,369 is the deficit for the year and is obtained by the summation of the net movement in payables (Retention) and the surplus for the year of Kshs.130,396 which is the net interest income.</p> | Resolved | |

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| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|--------------------------------------|---|
| | Further, the statement of receipts and payments reflects comparative surplus of Kshs.291,744,934 for the period ended 30 June 2021 but the audited financial statements for 2020/2021 reflects a surplus of Kshs.291,742,375 resulting in an unexplained variance of Kshs.2,559. | We agree with the auditor's observation that there was an unexplained variance of Kshs.2,559. The difference of Kshs.2,559 as noted by the auditor was a transposition error of the totals of the net surplus for the year 2020/2021 as Kshs.291,744,934 instead of the correct figure of Kshs.291,742,375. This was corrected in the amended financial statements. | | |
| | ii)Note 11 to the financial statements reflects opening deposits and retentions of Kshs.808,675,675 as at 1 July 2020 and closing deposits and retentions of as at 30 June 2021 instead of 1 July, 2021 and 30 June, 2022 respectively. | iii)We agree with the auditor's observation that there was a mix up of dates on opening and closing balances of retentions. This was a regrettable typing error in Note 11 as noted by the auditor. The amended financial statements on page 14, Note 10 have been corrected to reflect 1st July 2021 and 30 June 2022 as correctly pointed out by the auditor. | Resolved | |
| | iii)The summary of fixed assets at Annex 4 to the financial statements reflects | iii)We agree with the auditor's observation resulting in unexplained | Resolved | |

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| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|--|--------------------------------------|---|
| | closing fixed assets cost balance of Kshs.23,631,953,730. However, re-computation of the balance reflects Kshs.26,747,030,989 resulting in unexplained difference of 3,115,077,259. | difference of 3,115,077,259. The closing fixed assets cost balance of Kshs.23,631,953,730 was an error. The difference of Ksh.3,115,077,259 as noted by the auditor is explained by the additions for the year consisting of Ksh.2,880,635,235 for road asset and Ksh.234,442,024 for land compensation. | | |
| | iv)Note 12.1 on pending accounts payable reflects an opening balance of Kshs.200,095 under supply of services. However, the audited financial statements reflect a nil closing balance for the same item.In the circumstances, the accuracy of the financial statements could not be confirmed. | iv)We agree with the auditor’s observation that the schedule of pending accounts payable reflects a different balance from the audited financial statements. The opening balance of Kshs.200,095 as noted by the auditor under supply of services was a regrettable typing error. The financial statements have been amended on page 14 note 11(Previously note 12.1) to reflect a nil closing balance as correctly pointed by the auditor | Resolved | |
| 2 | Transfer from Government Entities | | | |

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| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|--|--------------------------------------|---|
| | <p>The statement of receipts and payments reflects transfer from Government entities through the parent Ministry of Kshs.2,338,177,890 which was fully expensed in the year review. The receipts could however not be confirmed since the Authority did not maintain separate bank account and cashbook for projects.</p> | <p>We disagree with the auditor's observation. The Authority maintained one exchequer bank account to receive exchequer funds that are remitted in tranches against the Authority's annual Budget from the National Treasury. Although the authority maintains one bank account for the exchequer funds received, the Authority maintains a dynamic accounting system which is able to provide a detailed analysis of various transactions incurred through the bank account on a project-by-project basis. The authority is therefore able to segregate receipts and payments, which ensures accuracy of the balances reported in the project financial statements. Further total receipts from the Parent Ministry are equally confirmed at the end of each financial year</p> | Resolved | |
| 3 | Unsupported Bank Balance | | Resolved | |

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| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|--------------------------------------|---|
| | <p>The statement of financial assets reflects bank balance of Kshs.39,888,522 as at 30 June, 2022. Included in this balance is an amount of Kshs.31,776,307 presumably held at National Bank of Kenya for which no cashbook, bank reconciliation and bank confirmation certificate were provided for audit verification. In addition, the bank balance includes Kshs.8, 1 12,215 for KCB account for which bank confirmation certificate was not provided for verification. In the circumstances, the accuracy and validity of bank balance of Kshs.39,888,522 could not be confirmed.</p> | <p>We disagree with the auditor's observation. The authority maintains one bank account for all the retention money withheld from all the projects. The Kshs. 31,776,307 represents the retention for Nairobi Water and Sewerage Company.</p> | | |
| 4 | <p>Unsupported Retentions</p> <p>The statement of financial assets and Note 10 to the financial statements reflects retention balance of Kshs.31,</p> | <p>We disagree with the auditor's observation that the Retention balance was not supported by a schedule showing the payees and the retention balance due</p> | Resolved | |

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|--|---|--|--------------------------------------|---|
| | <p>776,307 as at 30 June, 2022. However, this balance was not supported by a schedule showing the payees and the retention balance due to each of the payee. Further review of retention movement during the year indicates that retention amount of Kshs.867,686,035 was released to the contractor. It is however not clear why this balance was released to the contractor before completion of the works.</p> <p>In the circumstances, the accuracy and validity of the retention balance of Kshs. 31, 776,307 as at 30 June, 2022.</p> | <p>to each of the payee. The retention balance of Kshs.31, 776,307 is the total amount of retention for Nairobi Water and Sewerage Company. The Retention balance of Kshs.867,686,035 was released to the contractor with a retention money guarantee as a substitute as provided for in the contract.</p> | | |
| 5 | <p>Key Audit Matters</p> <p>Budgetary Control and Performance</p> <p>The statement of comparison of budget and actual amounts</p> | <p>We disagree with the auditor's observation that the management did not provide an itemized budget showing the detailed budget items for</p> | Resolved | |

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| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|--|--------------------------------------|---|
| | <p>reflects a final expenditure budget of Kshs.2,629,312,384. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended. In addition, the statement reflects a final expenditure budget of Kshs.2,629,312,384 against actual expenditure of 3,115,107,452 resulting to an over-expenditure of Kshs.485,795,068 for which no authority was provided for audit purposes.</p> | <p>which the expenditure was intended. we wish to clarify that by nature and practice, appropriation by the national assembly to the project is on a specific line by line individual project. this is the form in which the project budgets are uploaded into IFMIS and availed for expenditure. there is no over-expenditure of Kshs.485,795,068 as reported by the auditor. this is because of the expenditure which includes partial retention released in the current financial year for China Wu Yi.</p> | | |
| | <p>Other Matter</p> <p>Pending Bills Note 12.1 and Annex 3 to the financial statements reflects pending accounts payables totalling Kshs.5,834,320,191 which comprises of Kshs.3,295,473,099 for construction of civil works,</p> | <p>We agree with the auditor's observation that the Management has committed to liaise with the line Ministry and the National Treasury for timely provision of sufficient budgetary allocations to pay the debts in the subsequent financial year and that the</p> | <p>Not Resolved</p> | <p>Continuous</p> |

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| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|--------------------------------------|---|
| | <p>Kshs.2,466,365,853 for land compensation and Kshs.72,481 ,239 for supply of services that remained unpaid as at 30 June, 2022. Although Management has committed to liaise with the line Ministry and the National Treasury for timely provision of sufficient budgetary allocations to pay the debts in the subsequent financial year, the Project is at risk of incurring significant unquantified interest costs and penalties due to failure to pay invoiced bills when they fall due</p> | <p>pending bill for the Project is at risk of incurring significant unquantified interest costs and penalties due to failure to pay invoiced bills. The accumulated pending bill amounting to Kshs. 5,834,320,191 was as a result of budget constraints in the current and prior financial years. The Authority is continuously liaising with the parent ministry and the National Treasury to ensure adequate GoK budgetary allocations to facilitate settlement of the entire pending bill.</p> | | |
| 1 | <p>Basis for Conclusion</p> <p>Cancellation of Financing Agreement.</p> <p>The project was co-financed by the World Bank (IDA) 80% and the Government of Kenya</p> | <p>We agree with the auditor's observation that the financing agreement was cancelled in December 2018 and thus since</p> | | |

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|--|---|---|--------------------------------------|---|
| | <p>(GoK) 20% up to 31st December 2018. The financing agreement was however cancelled in December 2018 and thus since January, 2019 the project became a government of Kenya funded project, 100%. The funding summary at Note 1.7 of the financial statements indicate that as at the time of cancellation, an amount of Kshs.23,837,436,577 had been drawn.</p> <p>It is not clear the circumstances under which the Bank withdrew from the project and how the financing agreement was terminated.</p> | <p>January 2019 the project became a government of Kenya funded project, 100%.</p> <p>However, we do not agree with the observation that It is not clear the circumstances under which the Bank withdrew from the project and how the financing agreement was terminated. We wish to clarify that the agreement was cancelled on 31st December 2018 at the request of the National Treasury hence the Project reverted to the Government of Kenya. This was due to additional and substantial land compensation amounts as the project runs through high value area of Nairobi metropolis. Consequently, the funding for the project remained solely the responsibility of the government.</p> | | |
| | <p>2. Delay in Project Completion</p> | | Not Resolved | Continuous |

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|--|--|---|--------------------------------------|---|
| | <p>Rehabilitation and Capacity Enhancement of James Gichuru Junction- Rironi (A104) Road Contract No. KeNHA/RD/SP/1957/2016 for Rehabilitation and Capacity Enhancement of James Gichuru Junction- Rironi (A104) Road was entered into through a contract agreement dated 02 August, 2016 between Kenya National Highways Authority and a Contractor for the rehabilitation and capacity enhancement of James Gichuru Junction Rironi (A104) for a contract sum of Kshs.16,366,586,563 (inclusive of taxes) and for a period of thirty-six (36) months plus twelve (12) months defects liability period.</p> <p>Through addendum No. 3, the contract sum was varied by 24.7%</p> | <p>We agree with the auditor's observation that there was a delay in Project completion. The delay in Project completion is attributed to the increase in the project sum due to redesigning and reconstruction of major bridges, delay in land acquisition and cancellation of the financing agreement prior to conclusion of all the project components hence inadequate resources from the government of Kenya now the sole financier of the project. In addition, delays have been caused by inadequate budgets over the years and increase in scope.</p> | | |

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|---|---|--------------------------------------|--|
| | <p>(Kshs.4,048,208,434) to a new contract sum of Kshs.20,414,794,998 due to revised bills of quantities as a result of additional activities (Gitaru full cloverleaf interchange, reconstruction of major bridges instead of widening, Rironi bridge changed from 1 span to 2 span and introduction of retaining walls in line with urban road design philosophy. In addition, through addendum No. 5 upon approval of extension of time request by the contractor, the contract end date was revised to November 2023 inclusive of the defect liability period. As at 30 June, 2022, the overall project progress was at 72% against a planned progress of 82.71% indicating that the project was behind schedule.</p> | | |

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|--|---|--|--------------------------------------|---|
| | <p>Overall construction time No.5140-KE for elapsed was at 92.22% against an overall project progress of 72% indicating slow progress of implementation that may call for further extension of time.</p> <p>Further, physical verification conducted in September 2022, revealed that no works were ongoing as the contractor had suspended work from March, 2022 citing lack of payments. The funding challenge was further evident by addendum No. 4, clause 14.9 of the contract that was effected to facilitate release of retention money to the contractor against a bank guarantee in a bid to release funds to the project.</p> <p>The delay in completion of the road project will lead to</p> | | | |

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|--|---|--|--------------------------------------|---|
| | increase in avoidable costs of interest and penalties on delayed payments as well as deny the public the benefits that would have accrued from the completion of the project. | | | |
| 3 | <p>Accrued Interest on Delayed Payments</p> <p>Review of records revealed that as at 30 June, 2022, the National Urban Transport Improvement Project had accrued a total of Kshs.230,382,944 as interest due to delayed payment of interim payment certificate No.42 dated 23 May, 2022. In the circumstances, the Project continues to attract avoidable costs of interest and penalties due to delay in making payments to the contractors</p> | <p>We agree with the auditor’s observation that they had accrued a total of Kshs.230,382,944 as interest due to delayed payment of interim payment certificate No.42 dated 23 May 2022. We wish to note that the accrued Interest on delayed payments was occasioned by factors which were beyond the authority’ control i.e., Inadequate budgetary allocation, delay in release of exchequer funds and cash crunch occasioned from withdrawal of World Bank credit facility to the project. However, the authority will endeavor to make budgetary allocation in subsequent</p> | | |


*National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2023*

| Reference No. on the external audit Report | | | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|--------------------------------------|---|
| | | financial years to settle the pending bills in full | | |


 Eng. Kungu Ndungu
 Director General

23 SEP 2023

Date


 Eng. Henry Gakuru
 Director Development

23 SEP 2023

Date

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
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Annex 2- Variance explanations - Comparative Budget and Actual amounts for 2022/2023

| | Final Budget | Actual on Comparable Basis | Budget Utilisation Variance | % of Utilisation Variance to Final Budget | Comments on Variance |
|--|---------------------|-----------------------------------|------------------------------------|--|---------------------------------|
| | a | b | c=a-b | d=b/a % | |
| RECEIPTS DURING THE YEAR/PERIOD | | | | | |
| Government of Kenya | 607,601,030 | 607,601,030 | - | 100% | |
| Miscellaneous receipts | - | 122,288 | (122,288) | | Interest earned during the year |
| Total receipts | 607,601,030 | 607,723,318 | (122,288) | 100% | |
| PAYMENTS DURING THE YEAR/PERIOD | | | | | |
| Miscellaneous Payments (Transfer to equity Bank) | | 8,234,503 | | | |
| Acquisition of non-financial assets | 607,601,030 | 568,663,315 | 30,703,212 | 95% | |
| Purchase of Goods and Services | | - | | | |
| Total payments | 607,601,030 | 576,897,818 | 30,703,212 | 95% | |

Annex 3: Reconciliation of inter-entity transfers


| Project Name: National Urban Transport Improvement Project | | | |
|--|----------------------------|----------------------|-----------|
| Break Down of transfers from the Ministry of Roads and Transport. | | | |
| Government Counterpart Funding | Bank Statement Date | Amount (KShs) | FY |
| Counterpart funds Quarter 1 | 22 Jul 2022 | 37,500,000 | 2022/23 |
| Counterpart funds Quarter 2 | | | |
| Counterpart funds Quarter 3 | 16 Jan 2023 | 82,500,000 | 2022/23 |
| Counterpart funds Quarter 4 | 16 May 2023 | 479,706,956 | 2022/23 |
| Others | 27-Jun-23 | 7,894,074 | 2022/23 |
| | Total | 607,601,030 | |

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


Eng. Kungu Ndungu
Director General

23 SEP 2023

Date


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

23 SEP 2023

Date

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
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Annex 4: Analysis of Pending Bills

| | Supplier of Goods or Services | Date Contracted | Amount Paid To-Date | Original Amount | Outstanding Balance | Outstanding Balance | Comments |
|----------|--|-----------------|----------------------|----------------------|----------------------|----------------------|------------------|
| | | | | | 2022/23 | 2021/22 | |
| A | Construction of civil works | | | | | | IPC/Fee note No. |
| | China Wu Yi Ltd | 13-May-19 | 264,162,944 | 274,970,290 | 10,807,346.00 | | 13 |
| | China Wu Yi Ltd | 10-Mar-20 | 214,219,764 | 246,877,905 | 32,658,141.00 | | 21 |
| | China Wu Yi Ltd | 10-Feb-20 | 165,304,281 | 220,048,438 | 54,744,157.00 | | 22 |
| | China Wu Yi Ltd | 14-Aug-20 | 385,664,153 | 458,625,512 | 72,961,359.00 | | 23 |
| | China Wu Yi Ltd | 08-Jul-21 | 420,855,286 | 451,458,119 | 30,602,833.00 | | 33 |
| | China Wu Yi Ltd | 03-Aug-21 | 231,748,051 | 343,272,743 | 111,524,692.00 | | 34 |
| | China Wu Yi Ltd | 09-Sep-21 | 64,222,878 | 377,781,631 | 313,558,753.00 | | 35 |
| | China Wu Yi Ltd | 14-Oct-21 | 67,594,826 | 397,616,622 | 330,021,796.00 | | 36 |
| | China Wu Yi Ltd | 30-Oct-21 | 55,418,041 | 377,068,167 | 321,650,126.00 | | 37 |
| | China Wu Yi Ltd | 07-Dec-21 | 49,909,096 | 293,582,918 | 243,673,822.00 | | 38 |
| | China Wu Yi Ltd | 29-Jan-22 | 105,866,915 | 622,746,556 | 516,879,641.00 | | 40 |
| | China Wu Yi Ltd | 21-Apr-22 | 70,081,193 | 412,242,311 | 342,161,118.00 | | 41 |
| | China Wu Yi Ltd | 23-May-22 | 85,368,383 | 550,003,726 | 464,635,343.00 | | 42 |
| | China Wu Yi Ltd | 30-Sep-22 | - | 231,990,443 | 231,990,443.04 | | 43 |
| | China Wu Yi Ltd | 19-Jan-23 | - | 113,686,749 | 113,686,749.33 | | 44 |
| | China Wu Yi Ltd | 19-Jan-23 | - | 91,146,855 | 91,146,854.87 | | 45 |
| | Sub Total | | 2,180,415,810 | 5,463,118,985 | 3,282,703,174 | 3,295,473,099 | |
| B | Supply of services | | | | | | |
| | Intercontinental Consultants & Technocrats Pvt | 30-Mar-22 | - | 3,729,362 | 3,729,362.00 | | 72 |
| | Intercontinental Consultants & Technocrats Pvt | 04-Mar-22 | 673,970 | 2,626,365 | 1,952,395.00 | | 75 |
| | Sub Total | | 673,970 | 6,355,727 | 5,681,757 | 72,481,239 | |
| C | Land Compensation | | | | | | |
| | Total | | 2,181,089,780 | 5,469,474,712 | 5,801,554,707 | 2,466,365,853 | |
| | | | | | | 5,834,320,191 | |

Annex 5. Summary of Fixed Assets Register

| Asset class | Opening Cost (KShs) 2022/2023 | Donations in form of assets (KShs) 2022/2023 | *Purchases/ Additions in the Year (KShs) 2022/2023 | **Disposals in the Year (KShs) 2022/2023 | Transfers in/(out) 2022/2023 | Closing Cost (KShs) 20xx |
|--|-------------------------------------|---|---|---|------------------------------------|-----------------------------|
| | (a) | (b) | (c) | (d) | (d) | (e)= (a)+ (b)+c)-(d)+(-)d |
| Land | 10,531,958,093 | - | 104,602,833 | - | - | 10,636,560,926 |
| Infrastructure assets roads | 11,602,016,415 | - | 464,060,482 | - | - | 12,066,076,897 |
| Research, studies, project preparation, design & supervision | 1,497,979,222 | - | - | - | - | 1,497,979,222 |
| Total | 23,631,953,730 | - | 568,663,315 | - | - | 24,200,617,045 |