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**REPORT
OF**

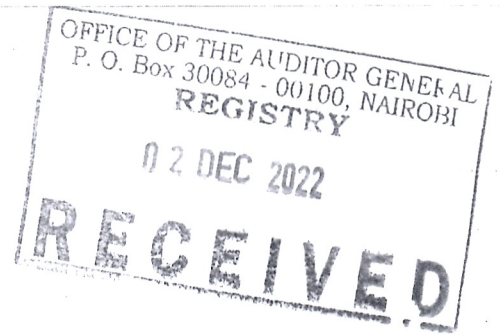
THE AUDITOR-GENERAL

ON

**KENYA TRANSPORT SECTOR
SUPPORT PROJECT
(CREDIT NO.4926 KE AND
NO.5410 KE)**

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

**KENYA NATIONAL HIGHWAYS
AUTHORITY**



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



Project Name – KENYA TRANSPORT SECTOR SUPPORT PROJECT

Implementing Entity – KENYA NATIONAL HIGHWAYS AUTHORITY

LOAN NO: 4926-KE / 5410-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Project Name:	Kenya Transport Sector Support Project
Objective:	<ol style="list-style-type: none"> (1) The objective of the project is to increase the efficiency of road transport along the Northern Corridor and the Tanzania – Kenya – Sudan Road Corridor (2) Enhance aviation safety and security to meet international standards; and improve the institutional arrangements and capacity in the transport sector. (3) Improve institutional Arrangements and capacity in the Transport Sector
Address:	The project headquarters offices are at Barabara Plaza, Jomo Kenyatta International Airport, Nairobi, Off Mazao Road (Opposite KCAA Headquarters)
Contacts	Telephone 020-8013842 Email dg@kenha.co.ke , info@kenha.co.ke Website www.kenha.co.ke

1.2 Project Information

Project Start Date:	23 rd May, 2011
Project End Date:	31 st December, 2019
Project Manager:	Eng. Charles Obuon – Director, Development Eng. Clarence O. Karot – Project Engineer
Project Sponsor:	World Bank – International Development Association

1.3 Project Overview

Line Ministry/State Department of the Project	The project is under the supervision of the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works.
Project Number	P-124109
Strategic goals of the project	The project management aims to achieve the goals through the following means:- <ol style="list-style-type: none"> (i) Increase efficiency of road transport along the Northern Corridor and the Tanzania – Kenya – Sudan Road Corridor by (60%) to facilitate trade and regional integration. (ii) Promote private sector participation in the management, financing and maintenance of roads assets. (iii) Increase the efficiency of road transport along the Northern Corridor and the Tanzania-Kenya-Sudan road corridor: (b) enhance aviation safety and security to

	meet international
Achievement of strategic goals	(i) Implementation of the project in timely, efficient and effective manner

1.4 Bankers NIC Bank Limited
 NIC House Branch
 P.O Box 44599
 Nairobi
 Account No. 1625990333

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

1.6 Roles and Responsibilities

NAMES	Title Designation	Key qualification	Responsibilities
Eng. Charles Obuon	Director, Development	Qualified	Project Technical Team Leader
Eng. Clarence O. Karot	D.D, Special Projects	Qualified	Team Co-ordinator and Construction Specialist.
Eng. P. Omondi	D.D, Special Projects	Qualified	Design Engineer Specialist.
Mr. W. Nyatwanga	D. Director, (Environmental & Social)	Qualified	Project Environmentalist
Mr. Richard Kilel	A.D, Supply Chain Services	Qualified	Project Procurement Specialist
Mr. Chanje Kera	D.D, Finance & Accounts	Qualified	Project Financial specialist

1.7 Funding Summary

The project is for duration of Six years from 23rd May, 2011 with approved budget of XDR 234,225,000 equivalent to USD 325,621,937 equivalent to Kshs. 29,495,071,705 highlighted in the table below: -

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to 30th June 2022		Undrawn balance to 30th June 2022	
	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
	USD	KSHS	USD	KSHS	USD	KSHS
(i) Loan						
International Development Association - IDA	325,621,937	29,495,071,705	325,621,937	29,495,071,705	-	-
(ii) Counterpart funds						
Government of Kenya		15,665,619,871	-	15,665,619,871	-	-
Total	325,621,937	45,160,691,576		45,160,691,576	-	-

Credit agreement lapsed on 31 Dec 2019.

B. Application of Funds

Application of funds	Amount received to date – (30th June 2022)		Cumulative Amount paid to date – (30th June 2022)		Unutilised balance to 30th June 2022	
	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
	USD	KSHS	USD	KSHS	USD	KSHS
(i) Loan						
International Development Association - IDA	325,621,937	29,495,071,705	325,621,937	29,495,071,705	-	-
(ii) Counterpart funds						
Government of Kenya		15,665,619,871	-	14,895,938,266	-	769,681,605
Total	325,621,937	45,160,691,576	325,621,937	44,391,009,971	-	769,681,605

1.8 Summary of Overall Project Performance

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

Payments Item	FY 2021/2022		
	Budget	Actual	%
Acquisition of non-financial assets	3,312,559,529	2,726,488,456	83%
Purchase Of Goods & Services		16,989,450	
Total	3,312,559,529	2,743,477,906	83%

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

Kisumu – Kakamega Road Project

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
5/01/2013	7,961,527,361	7,955,291,811	100%	100%

Kakamega – Webuye Road Project

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
29/11/2016	5,210,857,261	5,210,857,261	92%	99.9%

Webuye - Kitale Road Project

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
10/01/2013	5,734,959,347	5,715,281,315	100%	100%

Construction of Three (3) Interchanges (Nyahururu Town Off, Njoro Turn Off and Mau Summit)

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
27/10/2014	3,194,933,604	3,194,906,848	100%	100%

Bachuma Gate - Maji Ya Chumvi Road Project

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
27/10/2014	4,986,218,101	4,985,613,246	100%	100%

Dualling of Athi River – Machakos Turn-Off Road Project

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
08/3/2016	5,288,549,208	4,602,026,347	85.1%	100%

Dualling of Kisumu Boys – Mamboleo Junction

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
04/11/2020	2,837,949,930	1,972,451,789		Contract terminated

Completion of Kisumu Boys – Mamboleo Junction

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
09/09/2020	1,314,945,369	560,268,922.70	68.9%	63.61%

Construction of Ahero Interchange

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
5/11/2020	655,908,412	555,432,699		Contract terminated

Construction of Kericho Interchange

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
5/11/2020	679,950,376	517,849,770		Contract terminated

Completion of Kericho & Ahero Interchange

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
18/09/2020	1,388,321,424	789,398,730	81.9% & 90.4%	100%

Construction of Office Complex for the Road Sector Institutions

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
13/03/2017	3,545,946,038	3,410,481,933	100%	100%

Access Road to EASA

Date	Outputs-Outcome			Impacts
	Contract Sum Amount	Amount Certified to date	% of Physical Works Completed	% of Time Elapsed
15th May 2017	351,473,428	350,995,847	100%	100%

STATUS OF PROJECTS UNDER DESIGNS PROCESS: -

- (i) Nakuru – Nyahururu –Nyeri - Marua Road Project
Designs for the Feasibility Study, Environmental and Social Impact Assessment, Preparation of Resettlement Action Plan and the Design and Tender Documentation for Rehabilitation of the Nakuru-Nyahururu-Nyeri-Marua Road report has been completed and subsequently handed over to the Authority.
- (ii) Lake Victoria Ring Road.
Designs for the Feasibility Study, Environmental and Social Impact Assessment, Preparation of Resettlement Action Plan and the Design and Tender Documentation for Rehabilitation of the Lake Victoria Ring Road - report has been completed and subsequently handed over to the Authority.
- (iii) Garsen-Hola-Madogo Sections
Designs for the Feasibility Study, Environmental and Social Impact Assessment, Preparation of Resettlement Action Plan and the Design and Tender Documentation for Rehabilitation of the Garsen-Hola-Madogo Sections- report has been completed and subsequently handed over to the Authority.
- (iv) Mombasa Northern Bypass
Designs for the Feasibility Study, Environmental and Social Impact Assessment, Preparation of Resettlement Action Plan and the Design and Tender Documentation for Rehabilitation of the Mombasa Northern Bypass - report has been completed and subsequently handed over to the Authority.

Comment on value-for-money achievements.

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

1.8 Summary of Project compliance: -

There were no cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES
Below is a summary of the Project's performance against the predetermined objectives:

Objective	Outcome	Indicator	Performance
Increase the efficiency of road transport along the Northern Corridor and the Tanzania - Kenya-Sudan road corridor.	Increased efficient transportation of people, goods and services	Increase efficiency of road transport along the Northern Corridor and the Tanzania - Kenya - Sudan Road Corridor by (60%) to facilitate trade and regional integration.	Completion of the majority of projects as noted in note 1.8 (b) has led to significant increase in efficiency and trade facilitation
Improve institutional Arrangements and capacity in the Transport Sector	Construction of an Office Complex for the Road Sector Entities	Completion and Occupation of office Complex	Project Completed and opened for use by the road entities and the public at large
	Marking boundaries for the right of way to secure KeNHA's road assets	Marking of Bounderies along target roads	Project completed hence securing the road boundaries

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

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

1. Sustainability strategy and profile

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

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

2. Environmental performance

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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

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.

4. Market place practices

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

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

5. Community Engagements

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

The Contractor has been involved in various CSR activities geared towards providing the local residents through construction of water kiosks along the project road, improvement of access roads and enhancing learning and playing environment in schools along the project road. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues.

Some of the CSR activities implemented through the Project are tabulated below..

No.	Road Project	CSR Activity	Status of CSR activity
1	Various	Youth empowerment	The Authority provides internship, industrial attachment and apprenticeship opportunities to young people.
2	Kisumu – Kakamega Road Project	Centres along project road	Gambogi market, Chavakali shoe shine sheds, Sigalagala street lights, Kiboswa, Majengo and Khayega loop roads
		Mwoki School	The Authority constructed 10 new classrooms and administration block. (The leveled pupils' playground, kitchen and a dining hall, toilet for staff and pupils, fencing of school compound was done by the Contractor since they leased school land for quarrying)
		Magongo water supply	Installation of a borehole and an elevated water tower with one 10,000 litre tank to be used by the community.
3	Kakamega – Webuye Road Project	Lubao Market	The amenities include construction of an ablution block and market stalls - ongoing
		Kakoi Dispensary	Dispensary Block and Toilet Block - ongoing
		Bukhuywa Secondary school	Construction of two classrooms at Bukhuywa Secondary School - ongoing
		Matete Centre	A modern maternity wing was successfully completed at Matete and awaiting handing over to handed over to the Kakamega County. (The County to furnish the maternity with equipment)
4	Webuye - Kitale Road Project	Webuye Interchange	Constructed an ablution block, septic tank, a borehole, elevated water tank for the community and overhead flood light
		Kamukuywa, Misikhu, Sikhendu and Kiminini centres	The amenities include market stalls at Misikhu, Sikhendu and Kiminini with loop roads. At Kamukuywa a bus park, loop road, toilet, septic tank, borehole and shoe shine shed were constructed
5	Bachuma Gate – Maji ya Chumvi	Samburu and Taru	The amenities include two markets at Samburu and Meli Kubwa. and, three water kiosks erected along the project route. The same have been handed over to County Government for management.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General, KeNHA and the Project Management of Kenya Transport Sector Support 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, 2022. This responsibility includes (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Director General, KeNHA and the Project Management of Kenya Transport Sector Support 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 the International Public Sector Accounting Standards.

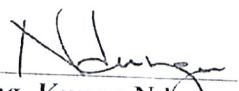
The Director General, KeNHA and Project Management of Kenya Transport Sector Support Project, are of the opinion that the Project financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June, 30, 2022 and the Project's financial position as at that date.


The Director General, KeNHA and the Project Management of Kenya Transport Sector Support 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 on the adequacy of the systems of internal financial control.


The Director General, KeNHA and the Project Management of Kenya Transport Sector Support 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 under audit are used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The project financial statements were approved by the Director General, KeNHA and Project Management for Kenya Transport Sector Support Project on 30. AUG. 2022 and signed by them.

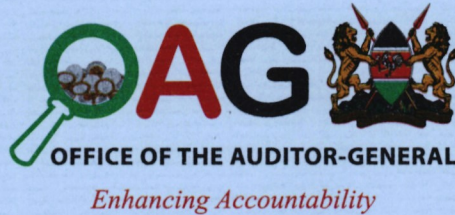

Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development


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

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KENYA TRANSPORT SECTOR SUPPORT PROJECT (CREDIT NO.4926 KE AND NO.5410 KE) FOR THE YEAR ENDED 30 JUNE, 2022- KENYA NATIONAL HIGHWAYS AUTHORITY

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Transport Sector Support Project, set out on pages 1 to 20, which comprise of the statement of financial assets as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows

Report of the Auditor-General on Kenya Transport Sector Support Project (Credit No.4926-KE and No.5410-KE) for the year ended 30 June, 2022 - Kenya National Highways Authority

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

In my opinion, except for the 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 the Kenya Transport Sector Support Project as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and complies with the Financing Agreement No.4926-KE dated 23 May, 2011 and as amended through Financing Agreement No.5410-KE dated 31 March, 2014 between International Development Association and the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects a deficit of Kshs.184,934,985. However, the statement of financial assets reflects a surplus for the year of Kshs.325,548 resulting in unexplained variance of Kshs.185,260,533.

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

2. Comingling of Project Account

The statement of financial assets and Note 7 to the financial statements reflects cash and cash equivalents balance of Kshs.769,681,605. However, two (2) bank confirmation certificates (2) attached in support of the cash and cash equivalents balance relate to the Authority's bank accounts holding balances totalling to Kshs.1,071,589,264. The relationship and the balances in these bank accounts with the project has not been explained. This amount to comingling of projects funds.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.769,681,605 could not be confirmed.

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

Key Audit Matters

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

Other Matter

1. Delay in Project Implementation

As previously reported, the financing agreement indicates that the Project lifespan was from 23 May, 2011 to 31 December, 2018. Paragraph 1.7 of the financial statements on funding summary reflects an approved budget of donor funds of Kshs.29,495,071,705, all of which had been received. In addition, paragraph 1.8 of the financial statements on summary of overall project performance revealed that, as at 30 June, 2022, actual payments totaled to Kshs.2,743,477,906 out of a budget of Kshs.3,312,559,529 or 83% performance. Further, four (4) road projects were not complete while three (3) projects had their contracts terminated.

In the circumstances, the delayed contract execution impacts negatively on the project costs and the attainment of the objectives of the Project.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,312,559,529 and Kshs.2,558,542,921 respectively resulting to an under-funding of Kshs.754,016,608 or 23% of the budget. Similarly, the Project spent Kshs.2,743,477,906 against an approved budget of Kshs.3,312,559,529 resulting to an under-expenditure of Kshs.569,081,623 or 17% of the budget. Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

It was therefore not clear how the budget figures in the statement of comparison of budget and actual amounts were arrived at.

The underfunding and under expenditure affected the planned activities of the Project and impacted negatively on service delivery to the public.

3. Pending Bills

Note 12 and Annex 3 to the financial statements reflects pending bills amounting to Kshs.5,621,824,796 as at 30 June, 2022. Review of records revealed several issues as indicated below:

3.1 Unsupported Accounts Payable

Included in the pending bills balance are pending payments in respect of supervision services amounting to Kshs.293,026,448 which include unexplained and unsupported negative movements of Kshs.29,227,892. Annex 3 to the financial statements reflects opening balance for supervision services of Kshs.282,934,200 while supporting documents reflect a balance of Kshs.293,026,448 upon taking into account the payments to date. The recomputed amount of the opening balance should have been Kshs.332,633,449 resulting to an unexplained variance of Kshs.49,699,249.

Further, included in the pending bills balance are pending payments of Kshs.876,649,634 due to a contractor arising from the determination of High Court ruling on a case of 2018. Annex 3 to the financial statements reflects an original amount of the pending bill as Kshs.1,276,649,634. However, the accounting records provided for audit indicated that the original balance payable for this bill was Kshs.1,291,376,941 resulting to an unexplained variance of Kshs.14,727,307.

In addition, Annex 3 to the financial statements reflects total original pending bills amount of Kshs.11,042,079,990 which includes an amount of Kshs.3,372,323,314 being the original amount payable to a contractor in respect to awards granted by the Dispute Resolution Board. However, review of records maintained by the legal department of the Authority revealed that the original amount payable to the contractor was Kshs.3,804,526,291 resulting in an un-explained difference of Kshs.432,202,977.

3.2 Unexplained Land Compensation Valuation Differences

Included in the pending bills is a balance of Kshs.823,379,197 in relation to land compensation which reduced by Kshs.345,387,044 from Kshs.1,168,766,241 in the 2020/2021 financial. Review of records provided revealed that the National Land Commission revalued an initial land compensation award to a brokerage firm from Kshs.596,221,387 to Kshs.148,217,710, vide a letter dated 5 January, 2022, thereby reducing the valuation by Kshs.448,003,677. However, this reduction differs with the year-to-year movement reported in the financial statements of Kshs.345,387,044 by Kshs.102,616,633. Management did not provide an explanation for the difference. The project runs the risk of incurring significant and unquantified interest costs and penalties.

In the circumstances, the accuracy of the pending bills balance of Kshs.5,621,824,796 could not be confirmed.

3.3 Nugatory Expenditure

Included in the pending bills balance of Kshs.5,621,824,796 as disclosed under Annex 3 to the financial statements is Kshs.419,930,283 relating to interest charged, which arose from delayed payments.

The payment of interest on defrayment of delayed payments is a loss of public funds which could have been avoided.

4. Project Closure Report

Review of the financing agreement for the Project revealed that the Project was to end on 31 December, 2018. However, as previously reported, the Project closure report was not provided for audit review, being more than three and a half (3½) years since the Project closing date.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing 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

Irregular Purchase of Goods and Services

The statement of receipts and payments and Note 4 to the financial statements reflects purchase of goods and services balance of Kshs.16,989,450 relating to domestic travel and subsistence. However, a detailed work plan to confirm that the activities paid for related to the project was not provided for audit purposes.

In the circumstances, the validity of the expenditure could not be confirmed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were

operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 December, 2022


KENYA TRANSPORT SECTOR SUPPORT PROJECT

Annual Report and Financial Statements for the financial year ended June 30, 2022


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

	Note	FY 2021/22			FY 2020/21			Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payments controlled by the entity	Payments made by third parties	Total	
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
RECEIPTS								
Transfer from Government entities	1	2,558,217,373	-	2,558,217,373	1,775,335,840	-	1,775,335,840	15,317,292,444
Loan from external development partners	2	-	-	-	-	-	-	29,495,071,705
Miscellaneous receipts	3	325,548	-	325,548	311,968	-	311,968	348,327,427
TOTAL RECEIPTS		2,558,542,921	-	2,558,542,921	1,775,647,808	-	1,775,647,808	45,160,691,576
PAYMENTS								
Purchase of goods and services	4	16,989,450	-	16,989,450	11,275,477	-	11,275,477	422,693,994
Acquisition of non-financial assets	5	2,726,488,456	-	2,726,488,456	1,851,160,393	-	1,851,160,393	43,802,819,844
Miscellaneous Payments	6	-	-	-	-	-	-	165,496,133
TOTAL PAYMENTS		2,743,477,906	-	2,743,477,906	1,862,435,870	-	1,862,435,870	44,391,009,971
SURPLUS/DEFICIT FOR THE YEAR		(184,934,985)	-	(184,934,985)	(86,788,062)	-	(86,788,062)	769,681,605


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


Eng. Kungu Ndungu
 Director-General

30 AUG 2022
 Date


Eng. Charles/Obuon
 Director-Development

30 AUG 2022
 Date

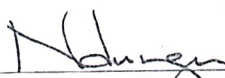

CPA Chanje Kera
 Deputy Director (F&A)
 ICPAK Member No. 8279

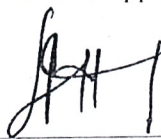
30 AUG 2022
 Date


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

	Note	2021/22 Kshs	2020/21 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	7	769,681,605	954,616,591
TOTAL FINANCIAL ASSETS		769,681,605	954,616,591
FINANCIAL LIABILITIES			
Payables - Retentions	8	759,034,258	944,294,792
NET ASSETS		10,647,347	10,321,799
REPRESENTED BY:			
Cash and cash equivalents b/fwd	10	10,321,799	10,009,831
Surplus/Deficit for the year		325,548	311,968
NET FINANCIAL POSITION		10,647,347	10,321,799

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


Eng. Kungu Ndungu
Director General

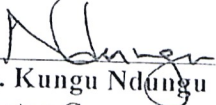

Eng. Charles Obuon
Director-Development

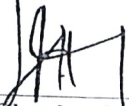

CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No. 8279

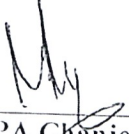
8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2022

	Note	2021/22 Kshs	2020/21 Kshs
Receipts			
Transfer from Government entities	1	2,558,217,373	1,775,335,840
Miscellaneous receipts	3	325,548	311,968
Payments			
Purchase of goods and services	4	(16,989,450)	(11,275,477)
Net cash flow from operating activities		2,541,553,471	1,764,372,331
Cashflow From Investing Activities			
Acquisition of Non-Financial Assets	5	(2,726,488,456)	(1,851,160,393)
Net cash flows from Investing Activities		(2,726,488,456)	(1,851,160,393)
Cashflow From Borrowing Activities			
Proceeds from Foreign Borrowings	2	-	-
Net cash flow from financing activities		-	-
Net Increase In Cash And Cash Equivalent		(184,934,985)	(86,788,062)
Cash and cash equivalent at beginning of the year		954,616,591	1,041,404,653
Cash and cash equivalent at end of the year		769,681,605	954,616,591

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


Eng. Kungu Ndungu
Director General


Eng. Charles Obuon
Director-Development


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

30 AUG 2022
Date

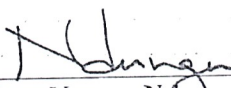
30 AUG 2022
Date


30 AUG 2022
Date


9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2022

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Var
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	1,010,000,000	2,302,559,529	3,312,559,529	2,558,217,373	754,342,156	77%
Miscellaneous receipts	-	-	-	325,548	-	100%
Total Receipts	1,010,000,000	2,302,559,529	3,312,559,529	2,558,542,921	754,016,608	77%
Payments						
Purchase of goods and services	1,010,000,000	2,302,559,529	3,312,559,529	16,989,450	569,081,623	83%
Acquisition of non-financial assets:				2,726,488,456		
Total Payments	1,010,000,000	2,302,559,529	3,312,559,529	2,743,477,906	569,081,623	83%

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


 Eng. Kungu Ndungu
 Director General


 Eng. Charles Obuon
 Director-Development


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

30 AUG 2022
 Date

30 AUG 2022
 Date

30 AUG 2022
 Date

10. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Statement of compliance and basis of preparation

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

The accounting policies adopted have been consistently applied to all the years presented.

10.2 Reporting entity

The financial statements are for the Kenya Transport Sector Support Project, under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.3 Reporting currency

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

Significant Accounting Policies (Continued)

10.4 Recognition of receipts

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

i) Transfers from the Exchequer

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

ii) External Assistance

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

iii) Other receipts

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

iv) Donations and grants

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

Significant Accounting Policies (Continued)

v) Proceeds from borrowing

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

a) Undrawn external assistance

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

10.5 Recognition of payments

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

i) Compensation of employees

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

ii) Use of goods and services

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

Significant Accounting Policies (Continued)

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

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

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

10.6 In-kind donations

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

Significant Accounting Policies (Continued)

10.7 Cash and cash equivalents

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

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

10.8 Restriction on cash

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

10.9 Imprests and Advances

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

Significant Accounting Policies (Continued)

10.10 Contingent Liabilities

A contingent liability is:

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

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

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. There were no contingent liabilities in the year.

10.11 Contingent Assets

The Kenya Transport Support 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 Kenya Transport Support 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.

10.12 Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve

Significant Accounting Policies (Continued)

the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

10.13 Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

10.14 Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs NIL being loan disbursements were received in form of direct payments from third parties.

Significant Accounting Policies (Continued)

10.15 Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign

currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

10.16 Comparative figures

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

10.17 Subsequent events

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

10.18 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no Prior year adjustments in the current financial year.

KENYA TRANSPORT SECTOR SUPPORT PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2022

11. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

	2021/22	2020/21	Cumulative
	Kshs	Kshs	to-date
Counterpart funds Quarter 1	546,745,017	246,294,781	2,526,184,400
Counterpart funds Quarter 2	354,260,567	679,592,124	2,530,895,142
Counterpart funds Quarter 3	686,582,168	190,897,189	2,410,844,728
Counterpart funds Quarter 4	970,629,621	658,551,746	7,849,368,174
Total	2,558,217,373	1,775,335,840	15,317,292,444

2. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

The Project's financing agreement lapsed on 31 December 2019 hence no funding from Development Partners was received in form of loans negotiated by the National Treasury in the current FY (FY 2020/21 Kshs Nil). An accumulative amount of Kshs 29.5 billion was however utilised in the project.

3. MISCELLANEOUS RECEIPTS

	FY 2021/22			FY 2020/21	Cumulative
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	to-date
	Kshs	Kshs	Kshs	Kshs	Kshs
Bank Interest	325,548	-	325,548	311,968	139,438,618
Advance Payment Guarantee Recall - Vil Ltd	-	-	-	-	208,888,809
Total	325,548	-	325,548	311,968	348,327,427

KENYA TRANSPORT SECTOR SUPPORT PROJECT
Annual Report and Financial Statements for the financial year ended June 30, 2022

4. PURCHASE OF GOODS AND SERVICES

	FY 2021/22			FY 2020/21	Cumulative to-date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Communication, supplies and services	-	-	-	-	15,922,489
Domestic travel and subsistence	16,989,450	-	16,989,450	11,275,477	272,100,585
Training expenses	-	-	-	-	134,670,920
Total	16,989,450	-	16,989,450	11,275,477	422,693,994

5. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2021/22			FY 2020/21	Cumulative to-date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Construction of roads	2,726,488,456	-	2,726,488,456	1,851,160,393	39,500,411,374
Purchase of office furniture & general equipment	-	-	-	-	35,285,439
Research, studies, project preparation, design & supervision	-	-	-	-	4,197,339,836
Acquisition of other intangible assets	-	-	-	-	69,783,195
Total	2,726,488,456	-	2,726,488,456	1,851,160,393	43,802,819,844

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6. MISCELLANEOUS EXPENDITURE

	FY 2021/22			FY 2020/21	Cumulative to-date
	Receipts and payments controlled by the entity	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Interest Overcharge	-	-	-	-	11,015,603
Refunds to IDA in relation to Encashment of VIL Ltd Advance Payment Guarantee	-	-	-	-	154,480,530
	-	-	-	-	165,496,133

7. (i) CASH AND CASH EQUIVALENTS C/FWD

	2021/22	2020/21
	Kshs	Kshs
Bank accounts - NIC A/C No. 1-110-001524	7,732,592	7,407,043
- NIC A/C No. 1-001-936677	2,914,755	2,914,755
- NBK Retention A/C 0100132733200	759,034,258	944,294,792
	769,681,605	954,616,591

(ii) SPECIAL DEPOSIT ACCOUNT MOVEMENT SCHEDULE

	2021/22	2020/21
	Kshs	Kshs
Opening Balance	-	-
Total amount deposited in the account	-	-
Total Amount withdrawn (as per Statement of Receipts & Payments)	-	-
Closing Balances (as per SDA Bank Account Reconciliation attached)	-	-

Prior year special deposit balance has been adjusted no Nil as per the Special Deposit Account reconciliation statement has been attached as *Appendix 01* to support these closing balances.

8. ACCOUNTS PAYABLES - RETENTIONS

Description	2021-2022	2020-2021
	Kshs	Kshs
Retention	759,034,258	944,294,792
Total	759,034,258	944,294,792

9. CHANGES IN ACCOUNTS PAYABLE –RETENTIONS

Description	2021 - 2022	2020-2021
	Kshs	Kshs
Retentions as at 1 st July	944,294,792	1,031,394,822
Closing accounts payables as at 30 th June	759,034,258	944,294,792
Change in payables	(185,260,533)	(87,100,030)

10. FUND BALANCE BROUGHT FORWARD

	FY 2021/22	FY 2020/21
	KShs	KShs
Bank accounts	10,321,799	10,009,831
Total	10,321,799	10,009,831

11. PRIOR YEAR ADJUSTMENT

	Balance b/f FY 2020/2021 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2020/2021
Description	Kshs	Kshs	Kshs
Pending Accounts Payable	2,301,615,924	3,357,596,007	5,659,211,931
Total	2,301,615,924	3,357,596,007	5,659,211,931

The Prior Year adjustment relates to additional Dispute Adjudication Board Awards to SBI International Holdings in regard to disputed claims by the Contractor

12. OTHER IMPORTANT DISCLOSURES

12.1 PENDING ACCOUNTS PAYABLE (Annex 3)

	Balance b/f FY 2021/2022 (Restated)	Additions for the period	Paid during the year	Balance c/f FY 2021/2022
Description	Kshs	Kshs	Kshs	Kshs
Construction of Roads	5,336,957,591	2,667,993,773	2,373,566,777	5,631,384,587
Supervision Services	322,254,340	323,693,787	352,921,679	293,026,448
Supply of Goods and Services	-	16,989,450	16,989,450	-
Total	5,659,211,931	3,008,677,010	2,743,477,906	5,924,411,035

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13. PRIOR YEAR AUDITOR-GENERAL'S RECOMMENDATIONS


Ref. No.	OBSERVATION	RESPONSE	Status: (Resolved / Not Resolved)	Time Frame
1	<p align="center">EMPHASIS OF MATTER</p> <p>Delays in Project Implementation</p> <p>The project lifespan was of six (6) years from 23 May, 2011 with an approved budget of Kshs 35,118,325,932 with actual amounts received of Kshs 29,495,071,705. As at 30 June, 2021 the physical progress based on outputs, outcome and impact indicate that some components were not complete and the project completion seems to be behind schedule. Delayed contract can lead to increased costs and objectives of the project may not be achieved.</p>	<p>We agree with the audit observation. The projects are behind schedule due to;</p> <ol style="list-style-type: none"> 1. Exhaustion of development partner financing prior to completion of the projects 2. Insufficient budgetary allocations in the current as well as previous financial years. This has led to cash flow challenges on the part of the contractors hence challenges in completion of the projects. <p>The Authority shall continue liaising with Parent ministry and the National Treasury for adequate budgetary allocation and timely release of exchequer.</p>	Continuous	Continuous

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1	<p>OTHER MATTER</p> <p>Pending Bills</p> <p>Note 12 to the financial statements reflects pending bills amounting to Kshs 2,301,615,924 as at 30 June, 2021. Although Management has committed to liaise with the line ministry and the National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.</p>	<p>We agree with the observation that the project had outstanding bills amounting to Kshs 2,301,615,924 on 30 June 2021. The KTSSP project was co-financed by GoK and the International Development Association (IDA) whose credit and financing ended on 30 December 2018 prior to completion of all the project components. Following the exhaustion and lapse of the credit from the Development Partner, the Government took up the responsibility of ensuring the projects are financed in order to facilitate their completion for use by the public. In FY 2021/22, the Authority has earmarked funds amounting to Kshs 760,000,000 towards settlement of the above outstanding bills as well as bills to be generated in current Financial Year. The balance of the bills are planned for settlement in FY 2022/23.</p> <p>The Authority to continue liaising with the parent Ministry and the National Treasury to facilitate budgetary allocations to the project.</p>	Continuous
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<p align="center">2</p>	<p align="center">Project Closure Report</p> <p>The project information in the financial statements provided for audit revealed that the Project was to end on the 31 December, 2019. However, the project closure report was not availed for audit review, being more than 2 years end period.</p>	<p>We agree with the auditor's observation that the project's closure report was not availed. The exhaustion of Development partner funding prior to completion of the project has led to delays in completion of some project components as a result of insufficient exchequer financing. During the year under review, the following project components were still ongoing;</p> <ol style="list-style-type: none"> 1. Dualling of Athi River Machakos Turn-Off Road 2. Dualling of Kisumu Boys-Mamboleo Junction 3. Construction of Ahero Interchange 4. Construction of Kericho Interchange <p>The above projects are planned for completion in the current financial year, which will facilitate preparation of the project's closure report.</p>	<p align="center">Continuous</p>
			<p align="center">Continuous</p>


 Eng. Kungu Ndung'u
 Director General
 30 AUG 2022

Date


 Eng. Charles Obuon
 Director-Development
 30 AUG 2022

Date

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14. ANNEXES

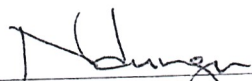
ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR FY 2021-2022

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance	Comments on Variance
Receipts	a	b	c=a-b	d=b/a %	
Transfer from Government entities	3,312,559,529	2,558,217,373	754,342,156	77%	Unrealized cash receipts under the Petroleum Development Fund (PDL)
Miscellaneous receipts	-	325,548	(325,548)	-	Budget Component
Total Receipts	3,312,559,529	2,558,542,921	754,016,608	77%	
Payments					
Purchase of goods and services	3,312,559,529	16,989,450			
Acquisition of non-financial assets:		2,726,488,456	569,081,623	83%	Unrealized cash receipts under the Petroleum Development Fund (PDL)
Total Payments	3,312,559,529	2,743,477,906	569,081,623	83%	Budget Component

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ANNEX 2 - RECONCILIATION OF INTER-ENTITY TRANSFERS

Kenya Transport Sector Support Project			
Break down of Transfers from the State Department of Infrastructure			
Government Counterpart Funding			
	Bank Statement Date	Amount (KShs)	Financial Year which the amounts relate
Quarter 1	30-Aug-21	546,745,017	FY 2021/22
Quarter 2	30-Dec-21	354,260,567	FY 2021/22
Quarter 3	17-Jan-22	686,582,168	FY 2021/22
Quarter 4	10-May-22	970,629,621	FY 2021/22
Total		2,558,217,373	


 Eng. Kungu Ndungu
 Director General

30 AUG 2022

Date



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

30 AUG 2022

Date

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ANNEX 3 - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	IPC No	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	
					2022	2021 (Restated)
		a	b	c	d=a-c	
Construction of Roads Works						
Jiangxi Zhongmei Eng	22	37,073,029	2017-12-20	-	-	-
Jiangxi Zhongmei Eng	31	58,351,538	2018-11-22	-	37,073,029	37,073,029
Jiangxi Zhongmei Eng	38	80,800,872	2020-01-10	-	58,351,538	58,351,538
Jiangxi Zhongmei Eng	40	52,271,643	2021-11-20	64,512,796	16,288,076	16,288,076
Jiangxi Zhongmei Eng	10	447,685,104	2018-11-22	-	52,271,643	52,271,643
Jiangxi Zhongmei Eng	12	406,562,790	2019-04-02	424,085,462	23,599,642	23,599,642
Jiangxi Zhongmei Eng	16	193,421,581	2021-11-03	403,060,849	3,501,941	3,501,941
Jiangxi Zhongmei Eng	16C	160,755,692	2021-09-30	177,492,561	15,929,020	15,929,020
China Dalian	19A	11,993,013	2017-09-19	-	160,755,692	160,755,692
China Dalian	27A	30,033,716	2019-10-22	7,000,000	4,993,013	4,993,013
China Railway No.10	5	79,629,677	2021-09-21	-	30,033,716	30,033,716
China Railway No.10	6	69,205,849	2021-11-09	72,636,748	6,992,929	6,992,929
China Railway No.10	7	74,010,969	2021-02-22	-	69,205,849	69,205,849
Sbi International	14	93,236,312	2018-11-12	-	74,010,969	74,010,969
Sbi International	16	120,989,547	2019-03-05	84,451,636	8,784,675	8,784,675
Sbi International	20	122,729,643	2019-07-10	120,922,016	67,531	67,531
Sbi International	21	126,087,384	2020-08-27	122,335,514	394,129	394,129
Sbi International	HCC075	1,261,922,327	2021-07-14	-	126,087,384	126,087,384
Sbi International	E228	531,143,067	2020-02-14	400,000,000	861,922,327	861,922,327
Sbi International	E377	774,730,308	2020-07-10	-	531,143,067	531,143,067
Sbi International	DAB	289,393,544	2021-10-07	-	774,730,308	774,730,308
China railway 21st	38	109,367,645	2022-05-17	-	289,393,544	289,393,544
Sbi International	11	59,831,662	2019-02-12	22,464,535	86,903,111	86,903,111
Sbi International	10	130,367,335	2018-12-27	58,687,297	1,144,365	1,144,365
Sbi International	17	22,495,859	2020-08-31	118,221,305	12,146,030	12,146,030
Sbi International	E229	149,719,262	2019-08-28	-	22,495,859	22,495,859
Sbi International	E229	166,361,520	2020-02-27	-	149,719,262	149,719,262
Sbi International	E375	206,892,032	2020-07-10	-	166,361,520	166,361,520
Sbi International	DAB	94,560,355	2022-02-07	-	206,892,032	206,892,032
Zhongmei Engineering	4B	78,092,281	2021-09-23	-	94,560,355	94,560,355
Zhongmei Engineering	5	75,889,511	2021-11-09	56,226,568	21,865,713	21,865,713
Zhongmei Engineering	6	90,993,536	2021-12-20	-	75,889,511	75,889,511
Zhongmei Engineering	7	73,728,612	2022-01-31	-	90,993,536	90,993,536
Zhongmei Engineering	8	128,030,515	2022-03-30	-	73,728,612	73,728,612
Sbi International	12	27,055,033	2019-02-21	24,457,941	128,030,515	128,030,515
Sbi International	E374	266,827,491	2020-07-10	-	2,597,092	2,597,092
Sbi International	BAB	35,976,280	2022-02-17	-	266,827,491	266,827,491
China National Aero-T.	13A	29,933,070	2019-06-26	-	35,976,280	35,976,280
China National Aero-T.	18A	34,115,928	2021-04-13	-	29,933,070	29,933,070
China National Aero-T.	17C	316,764,775	2020-09-12	-	34,115,928	34,115,928
Land Compensation				51,853,055	264,911,720	264,911,720
Land Compensation		522,358,595	Various	368,435,006	153,923,589	153,923,589
Land Compensation		2,645,660,090	Various	2,252,668,332	392,991,758	392,991,758
Land Compensation		60,903,555	Various	49,846,380	11,057,175	11,057,175

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Land Compensation		361,493,995	Various	198,703,953	162,790,042	
Total Construction of Roads		10,709,446,542		5,078,061,955	5,631,384,587	5,336,957,591
Supervision Services						
Egis International	57	5,526,493	2021-10-19	527,453	4,999,040	
Intercontinental Cons.	50	5,069,032	2020-11-04	-	5,069,032	
Intercontinental Cons.	51	7,946,239	2020-11-04	-	7,946,239	
Intercontinental Cons.	52	7,946,239	2020-11-04	-	7,946,239	
Intercontinental Cons.	53(Tax)	3,719,063	2020-11-04	-	3,719,063	
Intercontinental Cons.	54	7,183,982	2020-11-04	-	7,183,982	
Intercontinental Cons.	55(Tax)	95,189	2020-11-04	-	95,189	
Cas Consultants & Itec	11	10,145,360	2021-12-22	6,340,628	3,804,732	
Cas Consultants & Itec	12	9,609,440	2021-12-23	4,737,440	4,872,000	
Cas Consultants & Itec	13	6,781,849	2022-05-27	-	6,781,849	
Cas Consultants & Itec	14	9,712,680	2022-05-27	-	9,712,680	
Cas Consultants & Itec	15	8,950,560	2022-03-22	-	8,950,560	
Cas Consultants & Itec	16	9,131,520	2022-03-22	-	9,131,520	
Cas Consultants & Itec	17	8,331,816	2022-05-27	-	8,331,816	
Cas Consultants & Itec	18	6,976,472	2022-05-27	-	6,976,472	
Intercontinental Cons.	42	10,708,114	2020-11-05	10,258,786	449,328	
Intercontinental Cons.	43	10,179,017	2020-11-05	-	10,179,017	
Intercontinental Cons.	44	8,757,183	2020-11-05	-	8,757,183	
Intercontinental Cons.	45	9,332,563	2020-11-05	-	9,332,563	
Intercontinental Cons.	46	10,050,697	2020-11-05	-	10,050,697	
Intercontinental Cons.	47	11,336,405	2020-11-05	-	11,336,405	
Intercontinental Cons.	48	11,204,725	2020-11-05	-	11,204,725	
Intercontinental Cons.	49	10,223,275	2020-11-05	-	10,223,275	
Egis International	57	10,863,649	2021-11-12	6,406,239	4,457,410	
Egis International	58	10,906,842	2021-12-23	-	10,906,842	
Egis International	59	9,578,667	2022-02-24	-	9,578,667	
Egis International	60	10,875,975	2022-03-16	-	10,875,975	
Egis International	61	10,294,934	2022-03-21	-	10,294,934	
Egis International	62	11,577,054	2022-05-06	-	11,577,054	
Egis International	63	10,701,086	2022-05-16	-	10,701,086	
Egis International	64	10,666,588	2022-06-15	-	10,666,588	
Edon Consultants Ltd	29	1,886,080	2021-06-29	-	1,886,080	
Edon Consultants Ltd	30	3,424,332	2021-06-29	-	3,424,332	
Edon Consultants Ltd	31	3,241,081	2021-06-29	-	3,241,081	
Edon Consultants Ltd	32	1,633,496	2021-06-29	-	1,633,496	
Edon Consultants Ltd	33	3,215,169	2021-06-29	-	3,215,169	
Nema	21132	31,700,295	2016-11-18	-	31,700,295	
Attain Enterprise	1	13,150,288	2018-01-22	11,336,455	1,813,833	
Total Supervision Services		332,633,449		39,607,001	293,026,448	322,254,340
Grand Total		11,042,079,990		5,117,668,955	5,924,411,035	5,659,211,931

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ANNEX 4 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost (KShs) 2021/22	Purchases/Additions in the Year (KShs) 2021/22	Disposals in the Year (KShs) 2021/22	Closing Cost (KShs) 2021/22
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Construction of Roads	36,773,922,917	2,726,488,456	-	39,500,411,374
Purchase of office furniture & general equipment	35,285,439	-	-	35,285,439
Research, studies, project preparation, design & supervision	4,197,339,836	-	-	4,197,339,836
Intangible assets	69,783,195	-	-	69,783,195
Total	41,076,331,387	2,726,488,456	-	43,802,819,844