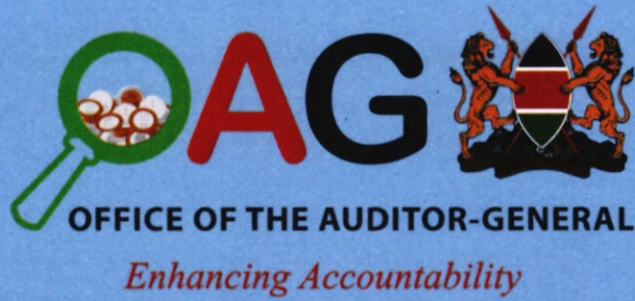


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

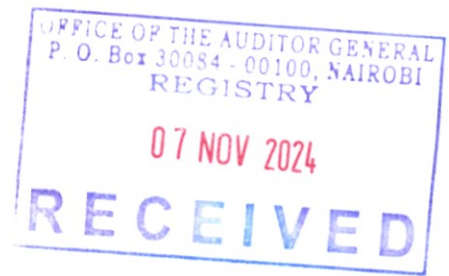
**NORTHERN CORRIDOR REHABILITATION
PROGRAMME-PHASE III
(ELDORET-TURBO-WEBUYE-MALABA ROAD
IMPROVEMENT PROJECT)**

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

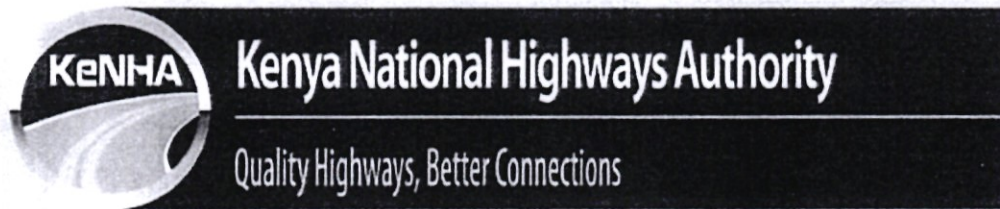
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MINISTRY OF ROADS AND TRANSPORT



**PROJECT NAME: NORTHERN CORRIDOR REHABILITATION PROGRAMME –
PHASE III (ELDORET-TURBO-WEBUYE-MALABA ROAD IMPROVEMENT PROJECT)**

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

GRANT FINANCING AGREEMENT NO. 9774KE

PROJECT IDENTIFICATION NO. KE/004/07

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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



Table Contents

	Page
1. Acronyms and Definition of Terms.....	ii
2. Project Information and Overall Performance	iii
3. Statement of Performance against Project’s Predetermined Objectives	viii
4. Environmental and Sustainability reporting.....	ix
5. Statement of Project Management Responsibilities.....	xi
6. Report of the Independent Auditors on Financial Statements for the Northern Corridor Rehabilitation Programme – Phase III	xii
7. Statement of Receipts and Payments for the Year Ended 30th June 2024.....	1
8. Statement of Financial Assets and Liabilities as at 30th June 2024	2
9. Statement of Cash flows for the year ended 30 th June 2024	3
10. Statement of Comparison of Budget and Actual Amounts for the Year ended 30 th June 2024	4
11. Significant Accounting Policies	5
12. Notes to the Financial Statements	12
13. Annexes	14

1. Acronyms and Definition of Terms

CBK	Central Bank of Kenya
CPA	Certified Public Accountant
EU	European Union
FY	Financial Year
GK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KeNHA	Kenya National Highways Authority
Kshs.	Kenya Shillings
MRT	Ministry of Roads and Transport
PAPs	Project Affected Persons
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
SDG	Sustainable Development Goals
TNT	National Treasury
UA	Unit of Account
USD	United States Dollar

2. Project Information and Overall Performance

2.1 Name and registered office

Project Name	Northern Corridor Rehabilitation Programme – Phase III (Eldoret-Turbo-Webuye-Malaba Road Improvement Project)
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Project Objectives	<p>(a) The Agreement’s objectives are in conformity with GK/EC 2003-2007 CSP, which identifies road infrastructure as one of its main sectors, setting at its principal aim the sustainable contribution by the roads infrastructure sector poverty reduction, and economic and social development in Kenya</p> <p>(b) Consequently, the overall objective of Northern Corridor Rehabilitation Programme Phase III was to contribute to the economic growth, the improvement of living standards and higher regional integration between Kenya and the neighbouring land locked countries through a sustainable and safe national road network of which the Northern Corridor (from the part of Mombasa through to the Uganda Border at Malaba) constitutes its backbone.</p>
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Project Registered Office and Physical Location:	The project headquarters offices were at Barabara Plaza, Jomo Kenyatta International Airport, Nairobi, Off Mazao Road
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Project Address	P.O. Box 49712-00100 Nairobi
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Contacts:	Telephone: 020-8013842; Email dg@kenha.co.ke; Website www.kenha.co.ke
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2.2 Project Information

Project Start Date:	The project start date was:
Eldoret - Webuye - Lot 1	26 November 2010
Webuye - Malaba Lot 2	11 November 2010
Project End Date:	The project end date was:
Eldoret - Webuye - Lot 1	31 October 2015
Webuye - Malaba Lot 2	13 August 2015
Project Management:	Eng. Henry Gakuru - Director, Development Eng. George Amingh - Project Implementing Engineer
Project Sponsor:	The project sponsor was The European Union-EU and the Government of Kenya

2.3 Project Overview

Line Ministry/State Department of the project	The project was under the supervision of the State Department of Roads under the Ministry of Roads and Transport
Project number	Finance Agreement 9774KE & Project Identification No. KE/004/07
Strategic goals of the Project	Traffic conditions on the Northern Corridor between Eldoret and Malaba are improved with better road safety, lower operating and journey costs and substantial time savings. The specific objectives of the project are as follows: i) Reduce travel time and costs ii) Improve road safety along the road corridor
Summary of Project Strategies for achievement of strategic goals	The project management achieved the goals by Implementing the project in timely, efficient and effective manner
Other important background information of the project	The project was being implemented in two stages situated within the Rift Valley Province and Western Province, thus from Eldoret – Turbo – Webuye Road (A 104) approximately about 41 Kms and Webuye – Bungoma approximately about 50 Kms whose activities include construction works and construction of roadside socio-economic infrastructure and services. The sections proposed were as follows:- Lot 1 - Eldoret – Turbo – Webuye Road Project -Length 41 Kms Lot 2 - Webuye – Malaba - Length 50 Kms The project was financed jointly by Government of Kenya at a rate of 22.08 % plus taxes and excluding taxes by European Union at 77.92%.
Areas that the project was formed to intervene	The project was formed to intervene in the following areas: i) Poor transport infrastructure along the project road. ii) Excessive travel time and high vehicle operating costs along the Northern Corridor
Project duration	The project's financing agreement started on 23 rd November 2007 and ended on 31 st December 2018

2.4 Bankers

The following are the bankers of the project:

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

2.5 Independent Auditor

The project is audited by:

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

2.6 Roles and Responsibilities

No	Names	Title designation	Key qualification	Responsibilities
1	Eng. Henry Gakuru	Director, Development	Registered Engineer	Project Implementing Team Leader
2	Eng. George Amingh	Deputy Director, Roads	Registered Engineer	Project Implementing Engineer
3	CPA Chanje Kera	Deputy Director, Finance & Accounts	Registered Public Accountant	Project Financial Management Specialist
4	Mr. Walter Nyatwanga	Deputy Director, (Environmental & Social)	Member EIK, NEMA Lead Expert	Safeguard Specialist
5	Mr. Richard Kilel	Assistant Director, Supply Chain Services	Registered Member KISM	Project Procurement Specialist

2.7 Funding summary

The Project funding was for a duration of eleven years from 2007 to 2018 with an approved grant of EURO 81,000,000 Million equivalent to Kshs 8,373,786,000 from EU and Kshs 5,617,201,287 from GK as highlighted in the table below:

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to 30th June 2024		Undrawn balance to 30th June 2024*	
	Donor Currency	Kshs	Donor Currency	Kshs	Donor Currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant	Euro	Kshs	Euro	Kshs	Euro	Kshs
European Union	81,000,000	8,373,786,000	80,319,598	8,306,652,819	680,402	67,133,181
(ii) Counterpart funds						
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Government of Kenya	5,617,201,287	5,617,201,287	5,617,201,287	5,617,201,287	-	-
Total		13,990,987,287	80,319,598	13,923,854,106		67,133,181

*The undrawn balance from the Development Partner was not utilized since the Project was completed in FY 2018/2019.

B. Application of Funds

Application of funds	Amount received to 30th June 2024		Cumulative Amount paid to 30th June 2024		Unutilised balance to 30th June 2024	
	Donor Currency	Kshs	Donor Currency	Kshs	Donor Currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant	<i>Euro</i>	<i>Kshs</i>	<i>Euro</i>	<i>Kshs</i>	<i>Euro</i>	<i>Kshs</i>
European Union	80,319,598	8,306,652,819	80,319,598	8,306,652,819	-	-
(ii) Loan						
ii) Counterpart funds	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>	<i>Kshs</i>
Government of Kenya	-	5,617,201,287		5,617,201,287	-	-
Total		13,923,854,106		13,923,854,106	-	-

2.8 Summary of Overall Project Performance:

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

	2023/2024			Cumulative to date		
	Actual	Budget	%	Actual	Budget	%
Counterpart Funds – GK	-	-	-	5,617,201,288	6,321,586,831	89%
Loan from External Development Partners						
Direct Payments	-	-	-	8,306,652,819	15,860,000,000	52%
TOTAL	-	-	-	13,923,854,106	22,181,586,831	63%

ii) Physical progress based on outputs, outcomes and impacts since project commencement:
Both Project Lots were completed and handed over to the Employer in FY 2017/18

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

Financial Year	Budget	Actual	Percentage %
FY 2023/24	-	-	-
FY 2022/23	60,000,000	-	-
FY 2021/22	-	-	-
FY 2020/21	5,356,613	5,356,613	100%
FY 2019/20	560,550,968	519,466,731	93%
FY 2018/19	137,000,000	128,645,052	94%
FY 2017/18	988,020,475	784,586,967	79%
FY 2016/17	2,021,195,022	1,431,043,528	71%
FY 2015/16	2,083,479,494	1,502,999,518	72%
FY 2014/15	3,605,237,998	2,710,741,559	75%
FY 2013/14	3,478,296,494	686,548,036	20%
FY 2012/13	4,180,000,000	2,390,242,224	57%
FY 2011/12	3,048,785,902	2,984,045,292	98%
FY 2010/11	2,013,663,865	780,178,587	39%
Total	22,181,586,831	13,923,854,106	63%

iv) Project Implementation Challenges

During the implementation phase of the project, the project experienced inadequate funding arising from low GK counterpart budgetary provisions for timely settlement of the GK counterpart project costs. It is recommended that the Government provides adequate budgetary provisions for all projects in order to facilitate smooth projects implementation.

2.9 Summary of Project Compliance:

There were no reported cases of significant non-compliance with applicable laws and regulations, and essential external financing agreements/covenants during the project implementation period.

3. Statement of Performance against Project’s Predetermined Objectives

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity’s performance against predetermined objectives.

The key development objective of the project’s agreement was to:

- a) Contribute to the economic growth, the improvement of standards of living and higher regional integration between Kenya and the neighbouring land locked countries through a sustainable and safe national road network of which the Northern Corridor (from the part of Mombasa through to the Uganda Border at Malaba) constitutes its backbone.

Progress on attainment of strategic development objectives

To implement and cascade the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement.

Below, we provide the progress on attaining the stated objectives:

Objective	Outcome	Indicator	Performance
Contribute to the economic growth, the improvement of standards of living and higher regional integration between Kenya and the neighbouring land locked countries through a sustainable and safe national road network of which the Northern Corridor (from the part of Mombasa through to the Uganda Border at Malaba) constitutes its backbone.	Traffic conditions on the Northern Corridor between Eldoret and Malaba are improved with better road safety, lower operating and journey costs and substantial time savings.	Improved Road Safety	Project was completed and opened to the public hence improving on road safety
		Operating & journey Costs	Project was completed and opened to the public hence reducing operating & journey costs
		Travel Time	Project was completed and opened to the public hence reducing travel time

4. Environmental and Sustainability reporting

The Northern Corridor Rehabilitation Programme – Phase III 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.

i) Sustainability strategy and profile

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

ii) Environmental performance

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

Environmental and Sustainability reporting (continued)

iii) Employee welfare

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

iv) 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.

v) Community Engagements

During the implementation of the Project, the Authority is committed to remaining a responsible corporate citizen by being accountable for its actions through engaging in Public Participation. The Project's goal in terms of community engagement is to ensure that the projects foster long-term relationships with stakeholders and communities around the project. 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 social amenities to the local residents through drilling of boreholes and 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 Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues.

5. Statement of Project Management Responsibilities

The Director General, KeNHA and the Project Implementing Team Leader are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the project for the financial year ended on June 30, 2024.

This responsibility includes (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the project; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

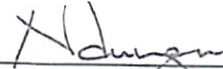
The Director General, KeNHA and the Project Implementing Team Leader accept responsibility for the project's financial Statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with the International Public Sector Accounting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

The Director General, KeNHA and the Project Implementing Team Leader 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, 2024 and the Project's financial position as at that date. The Director General, KeNHA and the Project Implementing Team Leader further confirm that completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial Statements and the adequacy of the systems of internal financial control.


The Director General, KeNHA and the Project Implementing Team Leader confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the financial year under audit 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 the Project Implementing Team Leader on19.11.2024.....and signed by:



Eng. Kungu Ndungu, MBS
Director General

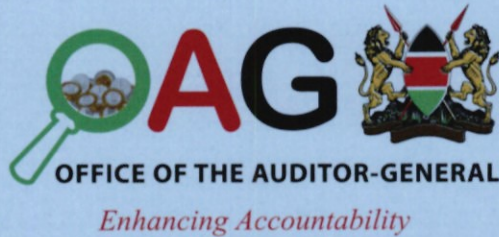


Eng. Henry Gakuru
Director, Development



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

REPUBLIC OF KENYA



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Website: www.oagkenya.go.ke

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

REPORT OF THE AUDITOR-GENERAL ON NORTHERN CORRIDOR REHABILITATION PROGRAMME-PHASE III (ELDOROT-TURBO-WEBUYE-MALABA ROAD IMPROVEMENT PROJECT) GRANT NO.9774KE FOR THE YEAR ENDED 30 JUNE, 2024 - 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; and,
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Northern Corridor Rehabilitation Programme-Phase III (Eldoret-Turbo-Webuye-Malaba Road Improvement Project) set out on pages 1 to 17, which comprise of the statement of financial assets and liabilities as at 30 June, 2024 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, the financial statements present fairly, in all material respects, the financial position of Northern Corridor Rehabilitation Programme-Phase III (Eldoret-Turbo-Webuye-Malaba Road Improvement Project) as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement GRANT No.9774KE dated 23 November, 2007 between the European Commission and the Republic of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Northern Corridor Rehabilitation Programme-Phase III (Eldoret-Turbo-Webuye-Malaba Road 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 opinion.

Emphasis of Matter

1. Long Outstanding Pending Bills

Annex 4 to the financial statements and Note 5 on other important disclosures to the financial statements reflects pending accounts payables balance of Kshs.54,792,931 in respect of the construction of civil works. The pending accounts payables have been brought forward from previous years. However, Management did not provide plans put in place to settle the outstanding debt. The Project is at risk of incurring additional costs in form of interest and penalties for failure to settle Project-related costs as and when they fall due.

2. Lack of Project Closure Report

Paragraph 2.7 on Funding Summary, the Project was for a duration of eleven (11) years starting from 2007 and end on 2018 with an approved budget of EURO 80,319,598

Report of the Auditor-General on Northern Corridor Rehabilitation Programme-Phase III (Eldoret-Turbo-Webuye-Malaba Road Improvement Project) Grant No.9774KE for the year ended 30 June, 2024 - Kenya National Highways Authority

equivalent to Kshs.8,306,652,819 and the Government of Kenya (GoK) counterpart funding of Kshs.5,617,201,287. The Project had received all the Donor commitments and GoK counterpart funding as at 30 June, 2024.

Further, as disclosed in paragraph 2.8(ii) on Summary of Overall Project Performance, the physical progress based on outputs, outcomes and impacts since Project commencement, both Project lots were completed and handed over by the employer in financial year 2017/2018. However, the Project closure report was not provided for audit. Management did not provide an explanation for the failure to close the Project.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues as at 30 June, 2024.

Other Information

Conclusion

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

Basis for Conclusion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAIs 3000 and 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with 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 controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I also I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


13 November, 2024

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024

7. Statement of Receipts and Payments for the Year Ended 30th June 2024

		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	Cumulative to date (From Inception)
		FY 2023/24			FY 2022/23			
	Note	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Receipts								
Transfer from Government entities	1	-	-	-	-	-	-	5,617,201,287
Proceeds from domestic and foreign grants	2	-	-	-	-	-	-	8,306,652,819
Total receipts		-	-	-	-	-	-	13,923,854,106
Payments								
Purchase of goods and services	3	-	-	-	-	-	-	4,912,150
Acquisition of non-financial assets	4	-	-	-	-	-	-	13,918,941,956
Total Payments		-	-	-	-	-	-	13,923,854,106
Surplus / (Deficit)		-	-	-	-	-	-	-


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


Eng. Kungu Ndungu, MBS
Director General
 19 JUL 2024

Date


Eng. Henry Gakuru
Director, Development
 19 JUL 2024

Date



CPA Chanje Kera
Deputy Director (F&A)
ICPAK Member No: 8279
 19 JUL 2024


Date


8. Statement of Financial Assets and Liabilities as at 30th June 2024

	Note	2023/24 Kshs.	2022/23 Kshs.
Financial Assets			
Cash and Cash equivalents		-	-
Total Financial Assets (A)		-	-
Financial Liabilities			
Third Party Payables – Retentions		-	-
Total Financial Liabilities (B)		-	-
Net Financial Assets (A-B)		-	-
Represented By: -			
Fund balance b/fwd		-	-
Surplus / (Deficit) for the year		-	-
Net Financial Assets		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 19 JUL 2024 and signed by:


Eng. Kungu Ndungu, MBS
Director General


Eng. Henry Gakuru
Director, Development


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

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

	Note	2023/24 Kshs	2022/23 Kshs
Cashflow from operating activities			
Receipts			
Transfer from Government entities	1	-	-
Proceeds from domestic and foreign grants	2	-	-
Total Receipts		-	-
Payments			
Purchase of goods and services	3	-	-
Total Payments		-	-
Net cash flow from operating activities		-	-
Cashflow From Investing Activities			
Acquisition of non financial Assets	4	-	-
Net cash flows from Investing Activities		-	-
Cashflow From Borrowing Activities			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalents		-	-
Cash & cash equivalent at beginning of the year		-	-
Cash and cash equivalent at end of the year		-	-

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

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% Var.
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	-	-	-	-	-	-
Proceeds from domestic and foreign grants	-	-	-	-	-	-
Total Receipts	-	-	-	-	-	-
Payments						
Purchase of goods and services	-	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-	-
Total Payments	-	-	-	-	-	-
Surplus or Deficit	-	-	-	-	-	-

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

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 Northern Corridor Rehabilitation Programme – Phase III Project under the Kenya National Highways Authority. The financial statements are for the Northern Corridor Rehabilitation Programme – Phase III Project as required by Section 81 of the PFM Act, 2012.

c) **Reporting currency**

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

d) **Recognition of receipts**

The Northern Corridor Rehabilitation Programme – Phase III Project recognizes all receipts from various sources when an event occurs, and the related cash is received.

i) **Transfers from the Exchequer**

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

ii) **External Assistance**

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

These are loans and grants at the reporting date 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. The funding summary analyzes the Project's undrawn external assistance.

e) Recognition of payments

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

i) Compensation of employees

Salaries, wages, Allowances, and Statutory Contributions for employees are recognized when the compensation is paid.

ii) Use of goods and services

Goods and services are recognized as payments when the goods/services are consumed and paid for. If not paid for when 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 incur and paid for.

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

The payment on the 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 a receipt and as a payment. A fixed asset register is maintained by the Authority and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

f) In-kind donations

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

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

h) Restriction on cash

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

i) Imprests and Advances

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year 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)

j) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- 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.

k) Contingent Assets

The Northern Corridor Rehabilitation Programme – Phase III 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 Northern Corridor Rehabilitation Programme – Phase III 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)

l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance.' 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.

m) Budget

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

n) Third party payments

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

Significant Accounting Policies (Continued)

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into 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 recognized in the statements of receipts and payments.

p) 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.

q) 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, 2024.

r) Prior period adjustments

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

12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	2023/24 Kshs	2022/23 Kshs	Cumulative to-date
Counterpart funds Quarter 1	-	-	1,103,914,490
Counterpart funds Quarter 2	-	-	1,233,492,916
Counterpart funds Quarter 3	-	-	956,643,878
Counterpart funds Quarter 4	-	-	2,323,150,003
Total	-	-	5,617,201,287

2. Proceeds from Domestic and Foreign Grants

The Project's financing agreement lapsed on 31st December 2018 hence no proceeds from development partners was received in form of grants in the current FY (FY 2022/23 Kshs Nil). An accumulative amount of Kshs 8,306,652.819 was however utilised in the project.

3. Purchase of Goods and Services

Description	2023/24			2022/23	Cumulative
	Payments made in Cash	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic travel and subsistence	-	-	-	-	3,912,150
Other operating expenses-NEMA	-	-	-	-	1,000,000
Total	-	-	-	-	4,912,150

4. Acquisition of Non-Financial Assets

Description	2023/24			2022/23	Cumulative
	Payments made in Cash	Payments made by third parties	Total Payments	Total Payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Construction of roads	-	-	-	-	13,842,406,049
Acquisition of land	-	-	-	-	76,535,907
Total	-	-	-	-	13,918,941,956

Other Important Disclosures

5. Pending Accounts Payable (Annex 4)

Description	Balance b/f FY 2023/2024	Additions for the year	Paid during the year	Balance c/f FY 2023/2024
Description	Kshs	Kshs	Kshs	Kshs
Construction of civil works	54,792,931	-	-	54,792,931
Total	54,792,931	-	-	54,792,931

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for financial year ended June 30, 2024

13. Annexes

Annex 1 - Prior Year Auditor-General's Recommendations

Ref No	Issue / Observations from Auditor	Management comments	Status:	Time frame:
	<p>Basis for Qualified Opinion</p> <p>Cash and Cash Equivalents</p> <p>The statement of financial assets of the Project as at 30 June 2023 reflects Nil cash and cash equivalents balance. However, the Management did not provide Project's cash book, Project's bank statements, bank balance certificate to support the balances.</p> <p>In the circumstance it was not possible to confirm the accuracy of the nil cash and cash equivalents balance as at 30 June 2023.</p>	<p>We agree with the audit observation that the Project's financial statements had a nil cash balance as at 30 June, 2023. We also agree with the audit observation that the Project's cash book, bank statement and the Project's bank confirmation certificate were not provided during the audit exercise.</p> <p>We however wish to clarify that the project financing agreement (copy provided during the audit process) did not provide for the opening of a Project bank account because the development partner had adopted the Direct Payment method of disbursing the grant proceeds, hence no cash disbursement to the Authority from the Development Partner. The project therefore utilized the Authority's main exchequer bank account for receiving and disbursing the project's exchequer funds.</p> <p>Further, we wish to note the following:</p> <p>a) As at close of prior financial year 2021/22, the Project's audited financial statements indicated a Nil cash closing balance as at 30 June 2022</p> <p>b) In FY 2022/23, the Project did not receive any cash disbursement from the National Treasury in</p>	Not Resolved	FY 2024/25

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024


		<p>the form of exchequer release.</p> <p>This was supported by the Project’s memorandum cashbook for the FY 2022/23 that was provided to the audit team during the audit process, indicating a closing cash balance of Kshs 0 as at 30 June 2023.</p>		
	<p>Pending Accounts Payable Disclosed under Annex 4 to the financial statements for the year ended 30 June, 2023 are pending accounts payables comprising of construction of civil works amounting to Kshs 50,691,477 and supply of services amounting to Kshs 4,101,454 all totalling to Kshs 54,792,931 which the Authority had not paid at the end of the year.</p> <p>Further, Management did not provide the project closure report to confirm the authenticity of the unpaid bills.</p>	<p>We agree with the audit observation that the project had outstanding bills amounting to Kshs 54,792,931 as at 30 June 2023. This is a result of :</p> <ol style="list-style-type: none"> 1. Lapse of the Development Partner financing agreement prior to completion of the project 2. Insufficient exchequer budgets in the current as well as prior financial years <p>The Authority will however endeavor to provide adequate budgetary provisions in subsequent financial years to facilitate settlement of the entire pending bill.</p> <p>We agree with the audit observation that the Project closure report was not ready during the audit process.</p> <p>We wish to clarify that the closure report is under design.</p>	Not Resolved	Ongoing

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024

	<p>Although as per the details the construction of civil works pending bill of Kshs 50,691,477 was billed in the financial year 2021/2022, the amount was not disclosed as a pending bill then and the origin of the bill was not explained as the project was closed on 31 October, 2015 and handed over.</p> <p>In the circumstances, the authenticity of the pending accounts payables of Kshs 54,792,931 as at 30 June, 2023 could not be confirmed.</p>	<p>We wish to clarify that the civil works pending bill of Kshs 50,691,477 represents the project’s final account for the Rehabilitation of Webuye - Malaba road section that was prepared after completion of all the project components. The payment certificate was prepared in FY 2021/22 but was eventually approved by the employer’s representative in FY 2022/23 hence its inclusion in the project financial statements from FY 2022/23.</p>	<p>Not Resolved</p>	<p>FY 2024/25</p>
<p>1</p>	<p>Other Matters</p> <p>Budgetary Control and Performance</p> <p>The statement of comparison of budget and actual amounts for the year ended 30 June, 2023 revealed that the project budgeted for Kshs 60,000,000 transfers from the Government of Kenya to finance acquisition of non-financial assets. However, the project did</p>	<p>We agree with the audit observation that the project did not receive actual funds which resulted to un-financed budget.</p> <p>Although the Project received a budgetary allocation amounting to Kshs 60,000,000 during the financial year, the Authority did not receive exchequer release for the project in the financial year.</p>	<p>Not Resolved</p>	<p>FY 2024/25</p>


NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024

	<p>not receive any budgetary allocation as no actual funds were received resulting to unfinanced budget.</p> <p>In the circumstances, the acquisition of non-financial assets was not undertaken as envisaged.</p>	<p>The Authority will however endeavor to provide adequate budgetary provisions in subsequent financial years as well as exchequer release to facilitate settlement of the entire pending bill.</p>		
2	<p>Project Closure report</p> <p>As disclosed under Paragraph 1.2 of the project information and overall performance, the project commenced on 26 November 2010 with a closure date of 31 October, 2015. That the Project closure report was not provided. Management did not provide an explanation for the failure to close the project, eight (8) years after the closure date.</p>	<p>We agree with the audit observation that the Project closure report was not ready during the audit process.</p> <p>We wish to clarify that the closure report is under design.</p>	Not Resolved	FY 2024/25


Eng. Kungu Ndungu, MBS
Director General

19 JUL 2024

Date


Eng. Henry Gakuru
Director, Development

19 JUL 2024

Date

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024

Annex 2 - Variance Explanations - Comparative Budget and Actual Amounts for Current FY

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	-	-	-	-	
Proceeds from domestic and foreign grants	-	-	-	-	
Total receipts	-	-	-	-	
Payments					
Acquisition of non-financial assets	-	-	-	-	
Total payments	-	-	-	-	

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024

Annex 3 - Reconciliation of Inter-Entity Transfers

Break down of Transfers from the State Department of Roads			
Government Counterpart Funding			
Quarter	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
Quarter 1	-	-	
Quarter 2	-	-	
Quarter 3	-	-	
Quarter 4	-	-	
	TOTAL	-	



Eng. Kungu Ndungu, MBS
 Director General

19 JUL 2024

Date



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

19 JUL 2024

Date

NORTHERN CORRIDOR REHABILITATION PROGRAMME – PHASE III
Annual Report and Financial Statements for the financial year ended June 30, 2024

Annex 4 - Analysis of Pending Bills

Supplier of Goods or Services	Date Invoiced	Original Amount	Amount Paid To-Date	Outstanding Balance,	Outstanding Balance	Comments
				FY 2023/24	FY 2022/23	
		a	b	c=a-b		
Construction of civil works						
MALTAURO -H. YOUNG JV	12-Oct-21	50,691,477	-	50,691,477	50,691,477	IPC 61
Sub - Total		50,691,477	-	50,691,477	50,691,477	
Supply of Services						
HYDROACH S.R.L	19-May-17	2,695,227	-	2,695,227	2,695,227	Fee Note 55
HYDROACH S.R.L	19-May-17	1,406,228	-	1,406,228	1,406,228	Fee Note 56
Sub - Total		4,101,454	-	4,101,454	4,101,454	
Grand Total		54,792,931	-	54,792,931	54,792,931	

Annex 5 – Summary of Fixed Asset Register

Asset class	Opening Cost	Donations in form of assets	Purchases/Additions in the Year	Disposals in the Year	Transfers in/(out)	Closing Cost
	(KShs) 2023/24 (a)	(KShs) 2023/24 (b)	(KShs) 2023/24 (c)	(KShs) 2023/24 (d)	(KShs) 2023/24 (e)	(KShs) 2023/24 (f)= (a)+ (b)+c)-(d)+(-)e
Construction of Roads	13,842,406,049	-	-	-	-	13,842,406,049
Land	76,535,907	-	-	-	-	76,535,907
Total	13,918,941,956	-	-	-	-	13,918,941,956