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REPORT

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THE AUDITOR-GENERAL

ON

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

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

**KENYA NATIONAL HIGHWAYS
AUTHORITY**



**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN
DEVELOPMENT & PUBLIC WORKS**



PROJECT NAME: NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT

IMPLEMENTING ENTITY: KENYA NATIONAL HIGHWAYS AUTHORITY

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

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

CONTENTS

1. PROJECT INFORMATION AND OVERALL PERFORMANCE	iv
2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES	x
3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING	xi
4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES	xiii
5. REPORT OF THE INDEPENDENT AUDITORS ON THE NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT	xiv
6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2022	1
7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2022	2
8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2022	3
9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 TH JUNE 2022	4
10. SIGNIFICANT ACCOUNTING POLICIES	5
11. NOTES TO THE FINANCIAL STATEMENTS	11
12. OTHER IMPORTANT DISCLOSURES	15
12.1 PENDING ACCOUNTS PAYABLE (SEE ANNEX 3)	15
13. PROGRESSES ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS	16
14. ANNEXES	21

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: National Urban Transport Improvement Project

Objective:

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

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

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

1.2 Project Information

Project Start Date:	24 th December 2012
Project End Date:	31 st December 2018
Project Engineer	Eng Mutii Kivoto
Project Sponsor:	International Development Agency (IDA)/GOK

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Transport, Infrastructure, and Housing, Urban Development & Public Works
Project number	P-126321

Strategic goals of the project	The strategic goals of the project are as follows:
Achievement of strategic goals	The project management aims to achieve the goals through the following means: 1. The Implementation of policy and Institutional reforms in transport Particularly urban Public Transport 2. Financing infrastructure improvements to decongest major towns necessary to support Kenya's long-term Development strategy 3. Creation of Institutional capacity to provide oversight and regulatory functions to support the delivery of urban Public the delivery of urban Public Transport Services 4. The Preparation of appropriate investment interventions that would promote urban public mass transit systems
Other important background information of the project	Upgrade the Urban Road Transport Infrastructure (total cost US\$311.15 million, of which IDA US\$223.26 million). Infrastructure (total cost US\$311.15 million, of which IDA US\$223.26 million). This component will involve: 1. Expanding and upgrading the Northern Corridor Road section through Nairobi from JKIA turnoff to Rironi 2. Constructing the Kisumu Northern Bypass Road 3. Constructing and rehabilitating non-motorized transport facilities including foot paths, cycle tracks, pedestrian bridges and underpasses.
Current situation that the project was formed to intervene	1. Kenya's economic development strategy 2. Address the mounting pressures on the major urban centres, mainly Nairobi, road and related transport infrastructure and laying the foundation for developing an efficient urban public transport system 3. prepare a model mass transport system aimed at providing affordable and efficient public transport services in urban areas particularly for serving the low-income populations, especially in the CBD of Nairobi and along the developed high-density corridors; and 4. build the operational and managerial capacity and efficiency of urban transport agencies in dealing with urbanization and transportation
Project duration	The project started on 24 th December 2012 and is expected to run until 31 st December 2018

1.4 Bankers Kenya Commercial Bank
Moi Avenue Branch
Po Box 30081-00100
Nairobi

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

1.6 Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
Eng. Charles Obuon	Director-Development	Qualified	Team Leader
Eng. Mutii Kivoto	Deputy Director	Qualified	Team Coordinator & Construction Specialist
Mr Walter Nyatwanga	Deputy Director	Qualified	Safeguards Specialist
Mr Chanje Kera	Deputy Director	Qualified	Financial Specialist
Mr R Kilel	Assistant Director	Qualified	Procurement Specialist

1.7 Funding summary

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

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30 th June 2022)		Undrawn balance to date (30 th June 2022)	
	Donor currency (XDR)	Kshs	Donor currency (XDR)	Kshs	Donor currency (XDR)	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i)Loan						
International Development Association - IDA	143,990,000	19,140,160,545	20,380,780	3,127,882,038	123,609,220	16,012,278,507
(ii)Counterpart funds						
Government of Kenya (GOK)	-	20,709,554,539	-	20,709,554,539	-	-
Total	143,990,000	39,849,715,084	20,380,780	23,837,436,577	123,609,220	16,012,278,507

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

B. Application of Funds

Application funds	of	Amount received to date – (30 th June 2022)		Cumulative Amount paid to date – (30 th June 2022)		Unutilised balance to date (30 th June 2022)	
		Donor currency (XDR)	Kshs	Donor currency (XDR)	Kshs	Donor currency (XDR)	Kshs
		(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i)Loan							
International Development Association - IDA		20,380,780	3,127,882,038	20,380,780	3,127,882,038	-	-
(ii) Counterpart funds							
Government of Kenya		-	20,709,554,539	-	20,669,666,018	-	39,888,521
Total		20,380,780	23,837,436,577	20,380,780	23,797,548,056	-	39,888,521

1.8 Summary of Overall Project Performance:

Budget performance against actual amounts for current year.

Current Year		
Budget 2021/22	Actual 2021/22	Performance %
2,629,312,384	3,115,107,452	118%

PROJECT DESCRIPTION		PROGRESS REPORTED TO DATE
1. Project Name: Likoni Road Jn - James Gichuru Rd Jn	ITP Consultancy	Terms of Reference are under review by the Bank
	Design review & Supervision	Procurement Plan approved by the Bank. Terms of Reference submitted to the Bank for clearance.
2. Project Name: Capacity Enhancement of James Gichuru – Rironi Contract type: Works Contractor: China Wu Yi Company Ltd Contract Signed: 2 nd August, 2016 Commencement Date: 4 th August, 2017 Completion Date: 4 th August, 2020 Contract amount: KES. 16,366,586,563.19 Revised Contract Amount: KES 20,414,794,997.52 Consultant: Intercontinental Consultant & Technocrats Pvt Ltd in J.V with Integrated Transport Planning Ltd. Korea Eng. Consultant Corporation in assoc. with Geodev Kenya Ltd Contract Amount: USD. 4,937,907.00 and KES. 345,085,355.00	Physical progress,	Progress at 72 %
	Amount certified	KES. 14,145,604,943.47
	Amount paid	KES. 10,951,024,940.25
	Time lapsed	60 Months
3. Kisumu Northern Bypass	Progress	Draft contract and Combined evaluation report for Design Review and Supervision under review by the World Bank.
4. RAP updating for James Gichuru - Rironi	Progress	RAP for Sublot 3A&B approved in April 2018 and 3C approved in August 2018.

1.9 Summary of Project Compliance:

There is no significant case of non-compliance with applicable laws and regulations and essential external financing agreements /covenants was reported during the year.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

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

Key Expected Outcomes and Outcome Indicators are as follows;

Objective	Outcome	Indicator	Performance
Improved efficiency of road transport along the Northern Corridor	- Reduction in average travel time from Junction Jomo Kenyatta International Airport (JKIA)-Rironi road; - Reduction in vehicle operating costs on Junction JKIA-Rironi road; - Number of road crashes reduced along Junction JKIA-Rironi Road;	Time taken to travel from JKIA – Rironi Average vehicle operating costs Number of accidents reported	The Project is at 72% progress Average operating cost US\$1.5/km 30 % reduction in 2016 22 % reduction in 2017
Improved institutional capacity and arrangements in the urban transport sub sector	- Nairobi Metropolitan Transport Authority established and functional; - National Road Transport and Safety Authority established and functional; - Urban public transport rules and regulations development and in use	Adherence to traffic regulations and issuance of licences	Substantially Yes Established and functional Substantially Yes
Enhanced private sector participation in the operation, financing, and management of transport systems	- Offer one Bus Rapid Transit (BRT) corridor for Public Private Partnerships (PPP); - Offer one commuter rail line for PPP; - Institutional setup within KeNHA (Kenya National Highways Authority) for the promotion of PPP in financing and management of road infrastructure and services developed and adopted	PPP department in KeNHA has been established and functioning	Not yet Not yet Promotion of PPP has already been set up

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

National Urban Transport Improvement 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 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.

Environmental and sustainability reporting (Continued)

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.

Community Engagements

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

The Contractor is committed to address issues raised by the community which includes: (a) health and safety concerns; (b) dust emissions; (c) access to homes and businesses; and (d) restoration of community water connections. To enhance social safeguards in projects, the Authority undertakes Resettlement Action Plan (RAP) studies and implements its recommendations, carries out Social Impact Assessments (SIA), undertakes gender mainstreaming and conduct stakeholders' forum to sensitize the public in several cross cutting issues.

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

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General and the Project Implementation Team Leader for National Urban Transport Improvement Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 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 and the Project Implementation Team Leader for National Urban Transport Improvement Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director General and the Project Implementation Team Leader for National Urban Transport Improvement Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2022, and of the Project's financial position as at that date. The Director General and the Project Implementation Team Leader for National Urban Transport Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

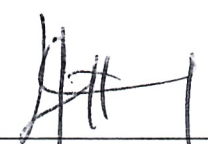
The Director General and the Project Implementation Team Leader for National Urban Transport Improvement Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period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

Approval of the Project financial statements

The Project financial statements were approved by the Director General and the Project Implementation Team Leader for National Urban Transport Improvement Project on 30 AUG 2022 2022 and signed by them.


Eng. Kungu Ndungu
Director General

Date 30 AUG 2022


Eng. Charles Obuon
Director -Development

Date 30 AUG 2022


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

Date 30 AUG 2022

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT-IDA CREDIT NO.5140-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 control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Urban Transport Improvement Project set out on pages 1 to 20, which comprise of the statement of

Report of the Auditor-General on National Urban Transport Improvement Project-IDA Credit No.5140-KE for the year ended 30 June, 2022 - Kenya National Highways Authority

financial assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows 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 matters described in the Basis of Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Urban Transport Improvement Project Credit No.5140 - Kenya National Highways Authority 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 comply with the Financing Agreement IDA Credit No. 5140 - KE dated 26 September, 2012 between Republic of Kenya and International Development Association.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects a deficit for the year of Kshs.776,768,973. However, the statement of financial assets indicates a surplus balance of Kshs.130,396 resulting in an unexplained and unreconciled variance of Kshs.776,899,369. Further, the statement of receipts and payments reflects comparative surplus of Kshs.291,744,934 for the period ended 30 June, 2021 but the audited financial statements for 2020/2021 reflected a surplus of Kshs.291,742,375 resulting in an unexplained variance of Kshs.2,559.

Further, Note 11 to the financial statements discloses opening deposits and retentions balance of Kshs.808,675,675 as at 1 July, 2020 and closing deposits and retentions balance of Kshs.31,776,307 as at 30 June, 2021 instead of 1 July, 2021 and 30 June, 2022 respectively.

In addition, the summary of fixed assets at Annex 4 to the financial statements reflects closing fixed assets cost balance of Kshs.23,631,953,730. However, re-computation of the balance reflects an amount Kshs.26,747,030,989 resulting in unexplained difference of Kshs.3,115,077,259.

Note 12.1 on pending accounts payable reflects an opening balance of Kshs.200,095 under supply of services. However, the previous year's audited financial statements reflect a nil closing balance for the same item.

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

2. Transfer from Government Entities

The statement of receipts and payments reflects transfer from Government entities through the parent Ministry of Kshs.2,338,177,890 which was fully expensed in the year

under review. The receipts could however not be confirmed since the Authority did not maintain separate bank account and cashbook for the Project.

In the circumstances, the accuracy and completeness of the transfer from Government entities amount of Kshs.2,338,177,890 could not be confirmed.

3. Unsupported Bank Balance

The statement of financial assets reflects a bank balance of Kshs.39,888,522 as at 30 June, 2022. Included in this balance is an amount of Kshs.31,776,307 held at a local bank for which no cashbook, bank reconciliation and bank confirmation certificate were provided for audit verification. Further, the bank balance includes Kshs.8,112,215 for another bank account for which the bank confirmation certificate was not provided for verification.

In the circumstances, the accuracy and completeness of bank balance of Kshs.39,888,522 could not be confirmed.

4. Unsupported Retentions

The statement of financial assets and Note 10 to the financial statements reflect retention balance of Kshs.31,776,307 as at 30 June, 2022. However, this balance was not supported by a schedule showing the payees and the retention balance due to each of the payees. Further review of the retention movement during the year indicates that a retention amount of Kshs.867,686,035 was released to a contractor. It is however not clear why this balance was released to the contractor before completion of the works.

In the circumstances, the accuracy and regularity of the payment of Kshs.867,686,035 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Urban Transport Improvement 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, 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. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.2,629,312,384. However, Management did not provide an itemized

budget showing the detailed budget items for which the expenditure was intended. Further, the statement reflects a final expenditure budget of Kshs.2,629,312,384 against actual expenditure of Kshs.3,115,107,452 resulting to an over-expenditure of Kshs.485,795,068 for which no authority was provided for audit purposes.

In the circumstances, the budget from which the Project's expenditure was incurred could not be confirmed.

2. Pending Bills

Note 12.1 and Annex 3 to the financial statements reflects pending accounts payables totalling Kshs.5,834,320,191 which comprises of Kshs.3,295,473,099 for construction of civil works, Kshs.2,466,365,853 for land compensation and Kshs.72,481,239 for supply of services that remained unpaid as at 30 June, 2022. Although Management has committed to liaise with the line Ministry and the National Treasury for timely provision of sufficient budgetary allocations to pay the debts in the subsequent financial year, the Project is at risk of incurring significant unquantified interest costs and penalties resulting from failure to pay invoiced bills when they fall due.

Failure to settle bills during the year in which they relate adversely affects the provisions of the subsequent year to which they have to be the first charge.

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

Basis for Conclusion

1. Cancellation of Financing Agreement

The project was co-financed by the World Bank (IDA) 80% and the Government of Kenya (GoK) 20% up to 31st December, 2018. The financing agreement was however cancelled in December, 2018 and thus since January, 2019 the project became a 100% Government of Kenya funded project. The funding summary at Note 1.7 of the financial statements indicates that as at the time of cancellation, a total amount of Kshs.23,837,436,577 had been drawn with the International Development Agency (IDA) having contributed Kshs.3,127,882,038 or 16% out of the total donor commitment of Kshs.19,140,160,545. It is not clear the circumstances under which the Bank withdrew from the Project and how the financing agreement was terminated.

In the circumstances, the overall objectives of the Project may not be met therefore denying the public the expected benefits from the Project.

2. Delay in Project Completion

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

Through addendum No. 3, the contract sum was varied by Kshs.4,048,208,434 or 24.7% to a new contract sum of Kshs.20,414,794,998 vide a revised bills of quantities arising from additional activities (Gitaru full cloverleaf interchange, reconstruction of major bridges instead of widening, Rironi bridge changed from 1 span to 2 span and introduction of retaining walls in line with urban road design philosophy. In addition, through addendum No.5 upon approval of extension of time request by the contractor, the contract end date was revised to November, 2023 inclusive of the defect liability period. By 30 June, 2022, the overall project progress was at 72% against a planned progress of 82.71% indicating that the project was behind schedule. Overall construction time that had elapsed was at 92.22% against an overall project progress of 72% indicating slow progress of implementation that may call for further extension of time.

Further, physical verification conducted in the month of September, 2022, revealed that no works were ongoing as the contractor had suspended work from March, 2022 citing lack of payments. The funding challenge was further evident by addendum No. 4, clause 14.9 of the contract that was effected to facilitate release of retention money to the contractor against a bank guarantee in a bid to release funds to the project.

Review of records revealed that as at 30 June, 2022, the National Urban Transport Improvement Project had accrued a total of Kshs.230,382,944 as interest due to delayed payment of interim payment certificate No.42 dated 23 May, 2022.

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

In the circumstances, value for money could not be established for the expenditure of Kshs.23,797,548,056 spent on the Project to date.

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), I report based on my audit, that:

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

Responsibilities of Management and those Charged with Governance

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

07 December, 2022

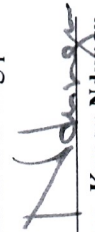
Report of the Auditor-General on National Urban Transport Improvement Project-IDA Credit No.5140-KE for the year ended 30 June, 2022 - Kenya National Highways Authority

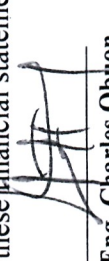
NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2022

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

		2021/22			2020/21			Cumulative to-date
		Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Total	Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Total	
	NOTES	Kshs	Kshs	Kshs	Ksh	Kshs	Kshs	
RECEIPTS								
Transfer from Government entities	1	2,338,177,890	-	2,338,177,890	3,290,598,147	-	3,290,598,147	20,697,537,432
Proceeds from domestic and foreign Loans	2	-	-	-	-	-	-	3,127,882,038
Miscellaneous Income	3	160,589	-	160,589	158,285	-	158,285	12,017,107
Total receipts		2,338,338,479	-	2,338,338,479	3,290,756,432	-	3,290,756,432	23,837,436,577
PAYMENTS								
Purchase of goods and services	4	-	-	-	200,095	-	200,095	165,357,351
Acquisition of non-financial assets	5	3,115,077,259	-	3,115,077,259	2,998,783,514	-	2,998,783,514	23,631,953,730
Miscellaneous Payments	6	30,193	-	30,193	30,448	-	30,448	236,975
TOTAL PAYMENTS		3,115,107,452	-	3,115,107,452	2,999,013,802	-	2,999,013,802	23,797,548,056
SURPLUS/DEFICIT FOR THE YEAR		(776,768,973)	-	(776,768,973)	291,744,934	-	291,744,934	39,888,521

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 Obuton
 Director -Development


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

30 AUG 2022
 Date

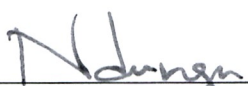
30 AUG 2022
 Date

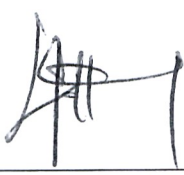
NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2022

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

	Note	2021/22	2020/21
		Kshs	Kshs
Financial Assets			
Bank Balances	7	39,888,522	816,657,494
Cash Balances			
Total Cash and Cash equivalents		39,888,522	816,657,494
Financial Liabilities			
Payables - Retentions	11	31,776,307	808,675,675
Net Assets		8,112,215	7,981,819
Represented By:			
Fund balance b/fwd		7,981,819	7,853,981
Surplus/(Deficit) for the year		130,396	127,838
Net Financial Position		8,112,215	7,981,819

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

		2021/22	2020/21
Receipts			
Transfer from Government entities	1	2,338,177,891	3,290,598,147
Miscellaneous Receipts		160,589	158,285
Total Receipts		2,338,338,480	3,290,756,432
Payments			
Purchase of goods and services	4	-	(200,095)
Miscellaneous Payments	6	(30,193)	(30,448)
Total Payments		(30,193)	(230,543)
Adjustments during the year			
Prior year adjustments			
Decrease/(Increase) in accounts receivable			
Net cash flow from operating activities		2,338,308,287	3,290,525,889
Cashflow from Investing Activities			
Acquisition of non Financial Assets	5	3,115,077,259)	(2,998,783,514)
Net cash flows from investing activities		3,115,077,259)	(2,998,783,514)
Cashflow from financing activities			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalent		(776,768,972)	291,742,375
Cash and cash equivalent at beginning of the year		816,657,494	524,915,119
Cash and cash equivalent at end of the year		39,888,522	816,657,494

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2022

9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 TH JUNE 2022						
Receipts/Payments Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Variance e=d-c	% of Utilisation f=d/c %
Receipts						
Transfer from Government entities	700,000,000	2,404,312,384	2,629,312,384	2,338,177,890	291,134,494	89%
Miscellaneous Income	-	-	-	160,589	(160,589)	0%
Total Receipts	700,000,000	1,929,312,384	2,629,312,384	2,338,338,479	290,973,905	89%
Payments						
Purchase of goods and services				-		
Land Acquisition				234,442,024		
Research, studies, project preparation, design & supervision	700,000,000	2,404,312,384	2,629,312,384	83,856,076	(485,795,068)	118%
Works Construction				2,796,779,159		
Miscellaneous Payments				30,193		
Total Payments	700,000,000	1,929,312,384	2,629,312,384	3,115,107,452	(485,795,068)	118%
Surplus or Deficit	-	-	-	(776,768,972)	776,768,972	

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 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 National Urban Transport Improvement 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.

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

ii) External Assistance

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

iii) Other receipts

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

Significant Accounting Policies (Continued)

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

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.

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.

Significant Accounting Policies (Continued)

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.

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.

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

10.11 Contingent Assets

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

Significant Accounting Policies (Continued)

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

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.

Significant Accounting Policies (Continued)

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 are no prior year adjustments for the financial year under review.

11. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from Government entities

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

	2021/2022	2020/21	Cumulative
	Kshs	Kshs	to-date
Counterpart funds Quarter 1	1,466,604,934	569,467,180	2,716,646,023
Counterpart funds Quarter 2	409,628,678	1,412,513,735	2,644,656,058
Counterpart funds Quarter 3	448,821,327	166,047,190	1,736,765,238
Counterpart funds Quarter 4	13,122,951	1,142,570,042	13,599,470,113
Total	2,338,177,890	3,290,598,147	20,697,537,432

2. Proceeds from Domestic and Foreign Loan

During the FY 2021/22 there was no Loan received from External Development Partners.

3. Miscellaneous Receipts

	2021/22	2020/21	
	Kshs	Kshs	Cumulative to date
Bank Interest	160,589	158,285	12,017,107
Total	160,589	158,285	12,017,107

4. Purchase of Goods and Services

		2021/22			2020/21	Cummulative to date
		Receipts & Payments Controlled by the Entity	Receipts & Payments made by the Third Party	Total Payments	Total Payments	
		Kshs	Kshs	Kshs	Kshs	
Domestic travel and subsistence		-	-	-	200,095	165,357,351
				-		
Total		-	-	-	200,095	165,357,351

Notes to the financial statements (Continued)

5. Acquisition of Non-Financial Assets

	2021/22			2020/21	Cumulative to-date
Description	Payments made by the Entity	Payments Made by Third Party	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs(Restated)	Kshs
Research, studies, project preparation, design & supervision	83,856,076	-	83,856,076	203,192,170	1,497,979,222
Rehabilitation of Roads	2,796,779,159	-	2,796,779,159	2,605,865,552	11,602,016,415
Acquisition of land	234,442,024	-	234,442,024	189,725,792	10,531,958,093
Total	3,115,077,259	-	3,115,077,259	2,998,783,514	23,631,953,730

6. Miscellaneous Payments

	2021/22	2020/21	Cumulative to date
	Kshs	Kshs	
Bank Charges	30,193	30,448	236,975
Total	30,193	30,448	236,975

7. Cash and Cash Equivalents C/Fwd

	2021/22	2020/21
	Kshs	Kshs
Bank accounts (Note 8)	39,888,522	816,657,494
	39,888,522	816,657,494

Notes to the financial statements (Continued)

8. Bank Accounts

	2021/22	2020/21
	KShs	KShs
<u>Local Currency Accounts</u>		
Local Currency Accounts		
Kenya Commercial Bank [A/c No 1138238945]	8,112,215	7,981,819
National Bank of Kenya [A/c No 01001-327332-00]	31,776,307	808,675,675
Total bank account balances	39,888,522	816,657,494

9. Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2022 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

10. ACCOUNTS PAYABLE

Description	2021-2022	2020-2021
	Kshs	Kshs
Retention - Payments controlled by the entity	31,776,307	808,675,675
Total	31,776,307	808,675,675

11. CHANGES IN ACCOUNTS PAYABLE – RETENTIONS

Description	2021-2022	2020 - 2021
	KShs	KShs
Deposit and Retentions as at 1 st July 2020	808,675,675	517,061,137
Deposit and Retentions as at 30th June 2021	31,776,307	808,675,675
Change in Payables	(776,899,368)	291,614,538

12. OTHER IMPORTANT DISCLOSURES

12.1 PENDING ACCOUNTS PAYABLE (SEE ANNEX 3)

	Balance b/f FY 2021/2022	Additions for the period	Paid during the year	Balance c/f FY 2021/2022
Description	Kshs	Kshs	Kshs	Kshs
Construction of Civil Works	2,076,068,954	4,100,039,380	2,880,635,235	3,295,473,099
Land Compensation	2,466,365,853	234,442,024	234,442,024	2,466,365,853
Supply of services	200,095	72,481,239	-	72,481,239
Total	4,542,434,807	4,406,962,643	3,115,077,259	5,834,320,191

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2022

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Note 1	Pending Bills Note 12 to the Financial Statements reflects pending accounts payables totalling Kshs. 4,542,434,807 as at 30th June, 2021. Although Management has committed to liaise with the line Ministry and the National Treasury for timely provision of sufficient budgetary allocations to pay the debts in the subsequent financial year, the project is at risk of incurring significant interest costs and penalties should the bills not paid in due time. Accrued Interest as a Result of Delayed Payments, The project had in the year under review	We agree with this observation. Pending bills arose due insufficient and delayed Exchequer releases to facilitate prompt contractual payments. In the subsequent Financial Year 2021/22, the Authority in liaison with the Parent Ministry and the National Treasury managed to secure a total budgetary allocation of Kshs 2,050,000,000 for the project which will reduce the pending bills i. Increase in the project sum was mainly due to redesigning and Reconstruction of major bridges instead of widening, Rironi Bridge changed from	Not resolved	Continuous

*National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2022*

	accrued a total of Kshs. 171,171,003 being interest due to delayed payment to a contractor. The accrued interest was in respect of works carried out between May, 2019 and August, 2020. The accrued interest of Kshs. 171,171,003 constitute a nugatory expenditure on the project.	1 span to 2 span and Introduction of retaining walls in line with Urban Road design philosophy. ii. Delay in land acquisition has affected the entire project and not the additional works only. iii. The introduction of retaining walls in line with Urban Road design philosophy was meant to reduce the cost of land. However, we are in liaison with the parent ministry and National Treasury to secure adequate budgetary allocation and timely receipt of funds to ensure enhanced progress of work.		
	Accrued Interest as a Result of Delayed Payments The project had in the year under review accrued a	We agree with the observation and wish to note that the interest was occasioned by the following factors which were beyond the authority' control; i. Inadequate budgetary allocation ii. Delay in release of exchequer funds		

*National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2022*

Note 2	total of Kshs. 171,171,003 being interest due to delayed payment to a contractor. The accrued interest was in respect of works carried out between May, 2019 and August, 2020. The accrued interest of Kshs. 171,171,003 constitute a nugatory expenditure on the project. Delay in Project Completion The rehabilitation and capacity enhancement of James Gichuru Road Junction to Rironi Highway (A104) was initiated on 2nd August, 2016 through an agreement between the Kenya National Highways Authority and a contractor for a contract sum of Kshs. 16,366,586,563 inclusive of taxes and a contract period of 48 Months. The contract period comprised of 36 Months for completion and 12 Months defects liability	iii. Cash crunch occasioned from Withdrawal of World Bank credit facility to the project. We agree with the observation and wish to note the following; i. Increase in the project sum was mainly due to redesigning and Reconstruction of major bridges instead of widening, Rironi Bridge changed from 1 span to 2 span and Introduction of retaining walls in line with Urban Road design philosophy. ii. Delay in land acquisition has affected the entire project and not the additional works only. iii. The introduction of retaining walls in line with Urban Road design philosophy was meant to	Not resolved	Continuous
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*National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2022*

Note 3	period. The works began on 4th August, 2017 and the original project completion date was to be on 3rd August, 2020. However, the project activities were revised with new additional activities which entailed the following. (i) Gitaru full clover interchange (ii) Reconstruction of major bridges instead of widening (iii) Rironi bridge changed changed from 1 span to 2 spans (iv) Introduction of retaining walls in line with urban roads design philosophy Due to the above additional works, the project sum increased to Kshs. 20,414,794,998 being 25% of original cost. The increased works as planned could not be executed due to dealy in Land acquisition and shifting of utilities. Though the land was finally acquired on 9th June, 2021, the work could not move on	reduce the cost of land. However, we are in liaison with the parent ministry and National Treasury to secure adequate budgetary allocation and timely receipt of funds to ensure enhanced progress of work	Not resolved	Continuous
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*National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2022*

	as expected since the financier (IDA) pulled out in 2018 leaving the project to be funded solely by Kenya Government. As result of the withdrawal of the funding, there has been delay in payment of works done resulting to delays in completion of the project.			
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Eng. Kungu Ndungu
Director General

30 AUG 2022
Date


Eng. Charles Obuon
Director Development

30 AUG 2022
Date

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT
Reports and Financial Statements For the financial year ended 30th June 2022

14. ANNEXES

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget $d=b/a \%$	Comments on Variance
	a	b	c=a-b	d=b/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	2,629,312,384	2,338,177,890	291,134,494	89%	
Miscellaneous receipts	-	160,589	(160,589)	-	Interest earned during the year
Total receipts	2,629,312,384	2,338,338,479	290,973,905	89%	
PAYMENTS DURING THE YEAR/PERIOD					
Miscellaneous Payments		30,193			Bank Charges during the year
Acquisition of non-financial assets	2,629,312,384	3,115,077,259	(485,795,068)	118%	Retention released in current financial year but budgeted in previous Financial years
Purchase of Goods and Services		-			
Total payments	2,629,312,384	3,115,107,452	(485,795,068)	118%	

ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

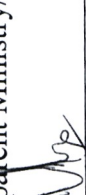
PROJECT NAME: NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT				
BREAK DOWN OF TRANSFERS FROM THE MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT AND PUBLIC WORKS				
Government Counterpart Funding	Bank Statement Date	Amount (KShs)		FY
Counterpart funds Quarter 1	31.08.2021	1,466,604,934		2021/22
Counterpart funds Quarter 2	23.09.2021	409,628,678		2021/22
Counterpart funds Quarter 3	19.02.2022	448,821,327		2021/22
Counterpart funds Quarter 4	03.05.2022	13,122,951		2021/22
Total		2,338,177,890		

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


Eng. Kungu Ndungu
Director General

30 AUG 2022

Date


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

30 AUG 2022

Date

*National Urban Transport Improvement Project.
Annual Report and Financial Statements for the financial year ended June 30, 2022*

ANNEX 3- ANALYSIS OF PENDING BILLS

IPC/Fee Note No	Supplier of Goods or Services	Project	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance
A	Works Construction					2021/22	2020/21
	13 China Wu Yi Ltd	James Gichuru - Rironi	274,970,290	13-May-19	264,162,944	10,807,346.00	
	21 China Wu Yi Ltd	James Gichuru - Rironi	246,877,905	10-Mar-20	214,219,764	32,658,141.00	
	22 China Wu Yi Ltd	James Gichuru - Rironi	220,048,438	10-Feb-20	165,304,281	54,744,157.00	
	23 China Wu Yi Ltd	James Gichuru - Rironi	458,625,512	14-Aug-20	385,664,153	72,961,359.00	-
	33 China Wu Yi Ltd	James Gichuru - Rironi	451,458,119	08-Jul-21	144,652,999	306,805,120.00	
	34 China Wu Yi Ltd	James Gichuru - Rironi	343,272,743	03-Aug-21	58,356,366	284,916,377.00	
	35 China Wu Yi Ltd	James Gichuru - Rironi	377,781,631	09-Sep-21	64,222,878	313,558,753.00	
	36 China Wu Yi Ltd	James Gichuru - Rironi	397,616,622	14-Oct-21	67,594,826	330,021,796.00	
	37 China Wu Yi Ltd	James Gichuru - Rironi	377,068,167	30-Oct-21	55,418,041	321,650,126.00	
	38 China Wu Yi Ltd	James Gichuru - Rironi	293,582,918	07-Dec-21	49,909,096	243,673,822.00	
	40 China Wu Yi Ltd	James Gichuru - Rironi	622,746,556	29-Jan-22	105,866,915	516,879,641.00	
	41 China Wu Yi Ltd	James Gichuru - Rironi	412,242,311	21-Apr-22	70,081,193	342,161,118.00	
	42 China Wu Yi Ltd	James Gichuru - Rironi	550,003,726	23-May-22	85,368,383	464,635,343.00	
	Sub Total		5,026,294,937		1,730,821,838	3,295,473,099	2,052,276,171
	66 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	12,270,016	22-Sep-21	5,375,942	6,894,074.00	
	67 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	16,362,158	27-Oct-21	11,000,000	5,362,158.00	
	68(Tax) Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	4,053,184	27-Oct-21	-	4,053,184.00	
	69 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	10,348,832	23-Nov-21	0	10,348,832.00	
	70 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	9,296,797	20-Dec-21	(0)	9,296,797.00	
C	71 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	12,847,214	31-Jan-22	(0)	12,847,214.00	
	72 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	13,637,353	04-Mar-22	0	13,637,353.00	
	72(Tax) Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	13,637,353	30-Mar-22	9,907,991	3,729,362.00	
	74 Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	1,952,395	04-Mar-22	-	1,952,395.00	
	Forex China Wu Yi Ltd	James Gichuru - Rironi	3,041,550	30-Jun-19	-	3,041,550.00	
	Forex Intercontinental Consultants & Technocrats Pvt	James Gichuru - Rironi	1,318,320	30-Jun-19	-	1,318,320.00	
	Land Compensation	James Gichuru - Rironi	-		-	-	
	Sub Total		98,765,173		26,283,934	72,481,239	23,792,783
C	Land Compensation						
	Total		5,125,060,111		1,757,105,773	5,834,320,191	2,466,365,853
							4,542,434,807

ANNEX 4 SUMMARY OF FIXED ASSETS

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)
Research, studies, project preparation, design & supervision	1,497,979,222	83,856,076	-	1,497,979,222
Rehabilitation of Roads	11,602,016,415	2,796,779,159	-	11,602,016,415
Land Acquisitions	10,531,958,093	234,442,024	-	10,531,958,093
Total	23,631,953,730	3,115,077,259	-	23,631,953,730

Appendices

- 1. Bank Reconciliation**
- 2. Special Deposit Account Reconciliation Statements**