REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 25 SEP 2024
DAY. WEDNESDAY
TABLED BY: HON. OWEN BAYA (DEP. LEADER OF MAJORITY)
CLERK-AT THE-TABLE: MOSES LOMALE

REPORT OF THE AUDITOR-GENERAL

ON

KENYA RAILWAYS CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2023

OFFICE OF THE AUDITOR GENERAL
P. O. Box [illegible] 00100, NAIROBI
REGISTRY
10 MAY 2024
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REPUBLIC OF KENYA

KENYA RAILWAYS
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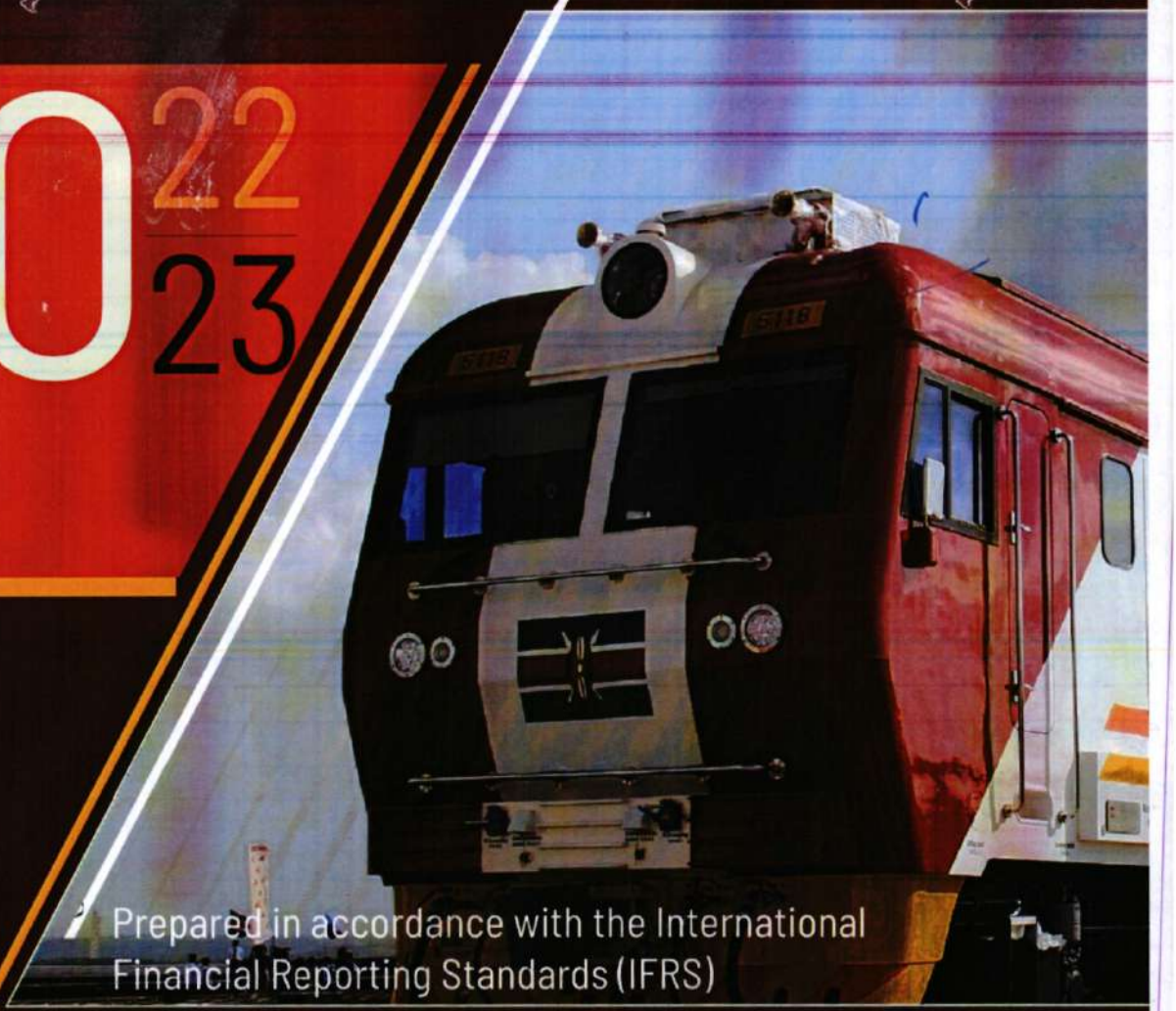
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2023

2022/23



Prepared in accordance with the International Financial Reporting Standards (IFRS)

REPUBLIC OF KENYA

KENYA RAILWAYS
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KENYA RAILWAYS ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2023

Prepared in accordance with the International Financial Reporting Standards (IFRS)

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1. ACRONYMS AND GLOSSARY OF TERMS

CoK	Constitution of Kenya
CPA	Certified Public Accountant
EBS	Elder of Order Burning Spear
GoK	Government of Kenya
ICD	Inland Container Depot
IFRS	International Financial Reporting Standards
KPA	Kenya Ports Authority
KR	Kenya Railways
KRA	Kenya Revenue Authority
KRAs	Key Results Areas
MD	Managing Director
MGR	Meter Gauge Railway
MoRT	Ministry of Roads and Transport
OAG	Office of the Auditor General
PC	Performance Contract
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
Rtd	Retired
RTI	Railway Training Institute
SGR	Standard Gauge Railway
TNT	The National Treasury
TEUS	Twenty-foot Equivalent unit

2. KEY ENTITY INFORMATION

a. Background information

Kenya Railways (KR) was established by the Kenya Railways Corporation Act (Cap 397) to take over the railways section in Kenya after the collapse of the East Africa Community in 1977 which managed the East African Railways and Harbours Corporation. At Cabinet level, Kenya Railways is represented by the Cabinet Secretary for Ministry of Roads and Transport (MoRT), who is responsible for the general policy and strategic direction of the Corporation.

The Corporation is domiciled in Kenya with headquarters in Nairobi.

b. Principal Activities

The principal activity of the Corporation is provision of rail services within the Republic of Kenya. Rail services provided include freight and passenger services.

The Corporation manages the Meter Gauge Railway, which offers freight services for goods for both domestic and regional economies. The line runs from Mombasa to Malaba with various branch lines. KR also runs the marine services on Lake Victoria through MV Uhuru. This serves the needs of the regional economies around Lake Victoria. Passenger services are in form of commuter services for Nairobi and its environs. There are also long-distance passenger services from Nairobi to Nanyuki and Nairobi to Kisumu.

Transit shed commenced its operations in Nairobi and Malaba dealing with container handling, de-consolidation and storage services.

The Corporation also runs the Standard Gauge Railway (SGR), which is a key infrastructure funded by the Government of Kenya (GoK) and a loan from China Exim Bank. SGR offers freight and long-distance passenger services between Mombasa and Nairobi. The service also offers freight services to Naivasha ICD and passenger services from Nairobi Terminus to Suswa Station. The Operations and Maintenance (O&M) of the SGR has been subcontracted to China Road and Bridge Corporation whose operations are under Africa Star Rail Operations Company (AfriStar) through a Novation Agreement. The Corporation has been undertaking phased takeover of SGR operations from the Operator (Africa Star Railway Operating Company) beginning with takeover of passenger ticketing, fuel management and security. In addition, SGR Track maintenance and 265 No. of staff were taken over in the financial year.

The Corporation's Vision, Mission and Mandate is as below;

c. Directors

The Directors who served the entity during the year/period were as follows:

Table 2.1 Directors who served during the year

S/No	Name	Designation	Date of Appointment & End of Term
1.	Capt. Mohamed M. Abdi	Chairman	Appointment: 10.02.2023 End of Term: 09.02.2026
2.	Maj. Gen. (Rtd) Pastor Awitta	Chairman	Appointment: 18.10.2019 End of Term: 09.02.2023
3.	Dr. John O. A. Nyerere	Director	Appointment: 07.08.2020 End of Term: 20.10.2022
4.	Mr. Martin Mogwanja	Director	Appointment: 07.08.2020 End of Term: 20.10.2022
5.	Ms. Catherine Musakali	Director	Appointment: 06.10.2021 End of Term: 05.10.2024
6.	Mr. Mohamed Alawi	Director	Appointment: 06.10.2021 End of Term: 05.10.2024
7.	Mr. Dennis B. Aroka	Director	Appointment: 05.06.2022 End of Term: 04.06.2025
8.	Ms. Sumaiya S. Mohamed	Director	Appointment: 13.07.2022 End of Term: 12.07.2025
9.	Ms. Nancy Sang	Director	Appointment: 31.05.2023 End of Term: 30.05.2026
10.	Mr. Humphrey Muhu	Alt Director - National Treasury	Statutory Office Holder
11.	Dr. Duncan Hunda	Alt Director MoRT	Statutory Office Holder
12.	Mr. Isaac Odek	Rep. Inspectorate of State Corporation	Statutory Office Holder
13.	Mr. Sudi Mwasinago	Alt Director - Kenya Ports Authority	Statutory Office Holder Appointment: 20.1.2022 End of Term: 11.5.2023
14.	Mr. Paul Bor	Alt. Director - Kenya Ports Authority	Statutory Office Holder Appointment: 12.5.2023

d. Corporate Secretary

Mr. Stanley Gitari

P.O. Box 30121 - 00100

Nairobi

e. Registered Office

Kenya Railways Headquarters
LR No. 209/11954/2, Workshop Road
Off Haile Selassie Avenue
P.O Box 30121-00100
Nairobi, Kenya

f. Corporate Headquarters

Kenya Railways Headquarters
Haile Selassie Avenue
P.O Box 30121-00100
Nairobi, Kenya

g. Corporate Contacts

Telephone: +254 (0) 709907000
Mobile Nos: 0708572574, 0728603581, 0728603582,
E-mail: info@krc.co.ke
Website: www.krc.co.ke

a. Corporate Bankers

1) Kenya Commercial Bank
Moi Avenue Branch
P. O. Box 30081, 00100
Nairobi

2) NCBA Bank
NCBA House, Masaba Rd
P. O. Box 44599, 00100
Nairobi

3) Citi Bank N.A
Upper Hill Branch
P. O. Box 30711,00100
Nairobi

4) SBM Bank
Riverside Mews
P. O. Box 34886, 00100
Nairobi

5) Equity Bank
Moi Avenue Branch
P. O. Box 75104,00100
Nairobi

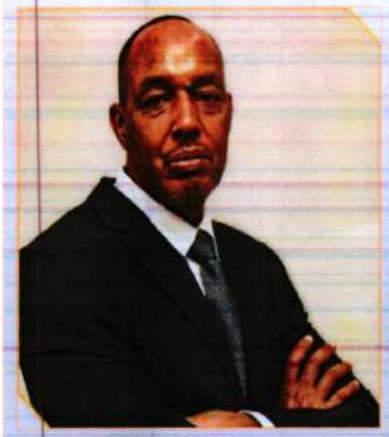
b. Independent Auditors

Auditor-General
The Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

c. Principal Legal Advisers

1	The Attorney General State Law Office and Department of Justice P.O Box 40112 - 00200 **NAIROBI**	11	NOW Advocates P O Box 70678-00400 **NAIROBI**
2	Prof. Albert Mumma and Company Advocates P O Box 10481-00100 **NAIROBI**	12	Miller and Company Advocates P O Box 45707-00100 **NAIROBI**
3	Mutonyi Mbiyu and Company Advocates P O Box 142191 -20100 **NAKURU**	13	Nyaanga and Mugisha Company Advocates P O Box 34544-00100 **NAIROBI**
4	Mohamed Muigai & Company Advocates P O Box 61323 - 00200 **NAIROBI**	14	MMC Asafo P.O Box 90282 - 8011 **MOMBASA**
5	Oraro and Company Advocates P O Box 51236-00200 **NAIROBI**	15	G& A Advocates P.O Box 22966-00100 **NAIROBI**
6	Mwaniki Gachoka and Co Advocates P O Box 13439-00800 **NAIROBI**	16	SMS Advocates P.O Box 79936 - 00100 **NAIROBI**
7	Ndegwa Sitonik & Karina Advocates P O Box 87171-80100 **MOMBASA**	17	Triple O Advocates P.O Box 43170 - 00100 **NAIROBI**
8	Kiogora Mutai and Company Advocates P O Box 45790-00100 **NAIROBI**	18	Cheptumo & Company Advocates P.O Box 35556 - 00200 **NAIROBI**
9	Tom Mutei Advocates P O Box 7289-30100 **ELDORET**	19	Waweru Gatonye & Co. Advocates P.O Box 55207 - 00200 **NAIROBI**
10	Meritad Law Africa LLP Advocates P O Box 2368-00100 **NAIROBI**	20	Maina Rogoi & Company Advocates P.O Box 10751 - 00100 **NAIROBI**

3. THE BOARD OF DIRECTORS



Capt. Mohamed M. Abdi
Chairman

Key academic/professional qualifications:

Masters of Arts in Sustainable Human Development- Ongoing Catholic University of Eastern Africa

Masters of Business Administration, Aviation Moi University Bachelors of Arts in Sustainable Human Development, Catholic University of Eastern Africa.

With over 30 years of experience in the Aviation, Government of Kenya (Kenya Air Force) Industry.

Capt. Mohamed M. Abdi is a visionary leader who is results driven with extensive experience in Aviation, proven success in leadership and a track record of driving business growth. He is a professional member of Kenya Airline Pilots Association (KALPA).

Prof. Njuguna Ndung'u, CBS
Cabinet Secretary, National Treasury

Key academic/professional qualifications:
Prof. Njuguna Ndung'u is the Cabinet Secretary, The National Treasury and former Governor, Central Bank of Kenya. A member of the Global Advisory Council of the World Economic Forum, Visiting Fellow of Practice at Blavatnik School of Government, Oxford University, Director of Training at AERC, Program specialist at IDRC and Team Leader in Macro modelling at the Kenya Institute for Public Policy Research and Analysis. He holds a PhD in economics from University of Gothenburg, Sweden. He is a Member of Brookings Africa Growth Initiative, Member of the Advisory Committee of the Alliance for Financial Inclusion, that coordinates financial inclusion policies in Africa, Asia and Latin America, and Senior Advisor for the UNCDF-based Better Than Cash Alliance

Mr. Mohamed Daghar
Principal Secretary – State Department of Transport

Key academic/professional qualifications:
Mr. Mohamed is a holder of BA International Relations from United States International University, Kenya, Masters in Peace, Conflict and Development studies from Universitat Jaume I, Spain.

He is a member of the Executive Committee of the Northern Corridor Transit and Transport Coordination Authority (NCTTCA) and therefore he is responsible for all matters relating to NCTTCA.

Mr. Mohamed Alawi Hussun

Director

Key academic/professional qualifications:

Master of Laws Degree in International Maritime Law – Malta

Post Graduate diploma in Contemporary Public Administration - Galilee International Management Institute

Post Graduate diploma in Law- advocacy Kenya School of Law

Bachelor of Laws Degree – University of Nairobi

Advocate of the High Court of Kenya

Certified Public Secretary

Mr. Mohammed Alawi is an independent director of the Board. He is the Chairperson of the Finance, Human Resource and Administration Committee of the Board.

He is an Advocate of the High Court of Kenya and is currently the Team Leader at Hassan Alawi & Co. Advocates. Alawi has vast experience in public sector, legal services and logistics matters. He served as a Commissioner at the Independent Electoral and Boundaries Commission (IEBC) and worked at Kenya Ports Authority as the head of the legal department.

Chairperson - Finance,Human Resource and Administration Committee

FCS Catherine Musakali, LL. B, LL.M, FCPSK

Director

Key academic/professional qualifications:

Master of Laws (LLM) Degree - University of Nairobi

Postgraduate Diploma in Law – Kenya School of Law

Bachelor of Laws (LLB) Degree – University of Nairobi

Certificate in Securities and Investment from the Securities and Investment Institute (London).

Advocate of the High Court of Kenya Fellow of the Institute of Certified Secretaries of Kenya Mrs. Catherine Musakali is an Independent Director of the Board.

Catherine is the Founder of Dorion Associates LLP, a firm specialising in governance matters and commercial legal consultancies. Prior to founding Dorion Associates, Catherine worked for Kenya Shell Limited (Now Vivo Energy Kenya Limited) as their Company Secretary and Head of Legal for over fifteen (15) years, during which period she managed the Legal Functions of Shell operations in Kenya, Uganda, Tanzania, Sudan, Eritrea, Ethiopia, Morocco, Egypt and Tunisia. She has worked for Shell in the United Kingdom during which period she specialised in Mergers and Acquisitions and other commercial transactions as well as being the Legal Focal Point for all Contracting and Procurement matters for its businesses in the 23 Countries in Africa.

Chairperson - Strategic Projects Committee

Ms. Sumaiya Salim
Director

Key academic/professional qualifications:
Masters' Degree in Corporate Communication - Daystar University
Bachelor's Degree in Journalism - United States International University (Africa) Diploma in Mass Communication - Institute of Commercial Management.
Corporate Communications
Project management
Ms. Sumaiya Salim is an Independent Director of the Board appointed on 13th July 2022. She is an expert in project management, corporate communication and brand strategy. She is currently a project manager in the logistics field undertaking projects in the oil and gas, freight and transport industries.

Chairperson - Audit & Risk Committee

FCS. Dennis B. Aroka
Director

Key academic/professional qualifications:
Master's in Business Administration (Executive) - Moi University,
Postgraduate Diploma in Law, Kenya School of Law
Bachelor of Laws (LLB) Degree - Catholic University of Eastern Africa
Advocate of the High Court of Kenya and Fellow of the Institute of Certified Secretaries of Kenya. Mr. Dennis Aroka was appointed as an Independent Director of the Board on 8th July, 2022. He has over 25 years' experience in Corporate Secretarial, Governance, Company registration and compliance and Board services. He has served as a Company Secretary in many organizations both in the private and public sectors including National Irrigation Authority (formerly the National Irrigation Board) where he served from 2011 to 2019. His experience spans many sectors including Energy, Agriculture, Service, Manufacturing, Transport & Logistics, Real Estate, Insurance and Banking.

Chairperson - Business, Operations & Investment Committee

Ms. Nancy Sang
Director

Key academic/professional qualifications:
Masters' Degree in Public Policy & Administration - Kenyatta University, Bachelor's Degree in Human Resource - Kenyatta University, Higher Diploma in HR Management - Kenya Polytechnic University, Diploma in Human Resource Management

Ms. Nancy Sang is an Independent Director of the Board appointed on 31.05.2023. She is an expert in Public Policy & Administration and has served as a Member of County Assembly of Uasin Gishu County. She is currently serving as a Board member in other organizations.

Captain William Ruto

Managing Director, Kenya Ports Authority

Key academic/professional qualifications:

Captain William Ruto is the Managing Director, Kenya Ports Authority. With over 20 years of service at KPA, he has also served as the General Manager Operations and Harbor Master. He is a trained Mariner by profession and holds a Class 1 Master Mariner from the United Kingdom (UK). He is an Associate Fellow of the Nautical Institute (AFNI) and a Member of International Harbour Master's Association (IHMA – UK). He has undertaken Port Security course at the University of Maryland (USA), IMO course on Port Management and Operations, in France - Port du Havre and several other short courses on port maritime and management. He holds a Master of Business Administration (MBA) Strategic Management option, from Jomo Kenyatta University of Agriculture and Technology (JKUAT).

Dr. Duncan G. Hunda,

Alternate Director, State Department of Transport

Key academic/professional qualifications:

Doctorate Degree (PhD) in Finance - SMC University, Switzerland

MA, International Finance - North London University, UK

Bachelor Degree in Economics and Statistics - University of Nairobi.

Economist and Public Certified Accountant

Dr. Duncan Hunda is the Alternate Director to the Principal Secretary, State Department of Transport in the Ministry of Roads and Transport and an executive member of the Board.

He has over 25 years of Public sector experience. He is currently serving as Secretary, Transport Policy, Planning, Finance and Coordination of State Corporations in the State Department of Transport. He is a Public Certified Accountant and a Member of ICPAK.

Mr Humphrey Muhu,

Alternate Director, National Treasury

Key academic/professional qualifications:

MA in Economics - University of Nairobi

BSc (Mathematics & Statistics) and B. Phil (Economics) - Kenyatta University

Economist Mr Humphrey Muhu is the Alternate Director to the Cabinet Secretary, National Treasury.

He is an Economist with over 30 years' experience in various government ministries and departments. He holds a BSc (Mathematics & Statistics) from Kenyatta University B. Phil (Economics) and an MA in Economics from the University of Nairobi. He also holds a Diploma in Financial Management from KCA University.

Mr. Paul Bor
Alternate Director, KPA

Key academic/professional qualifications:

Bachelor of Arts- Economics – Kenyatta University

Management of General Cargo Operations, Management of Container Terminal Operations and currently Manager in charge of Inland Container Depots and Kisumu Port.

Mr. Paul Bor is the Alternate Director to the Managing Director, Kenya Ports Authority.

He is a trained Port Management professional and has over 25 years of Port Management experience.

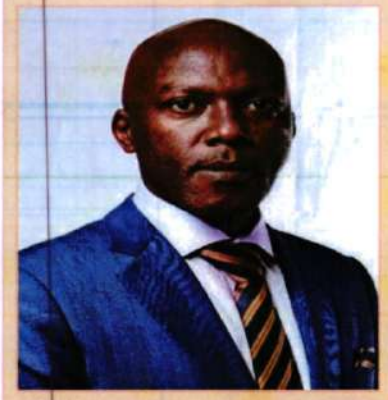
Mr. Philip J. Mainga, EBS
Managing Director

Key academic/professional qualifications:

Masters in Project Planning and Management (MAPM) ,University of Nairobi

Bachelor of Arts – Economics, Planning and Research

With over 20 years in the Planning and Research professional, Mr. Mainga has worked in KR in several capacities most recent being General Manager Business and Operations after having held the Corporate Planning and Research Manager Position.



Mr. Stanley Gitari
Ag. General Manager, Legal Services and Corporation Secretary

Key academic/professional qualifications:

Bachelor of Law - University of Nairobi and Post Graduate Diploma in Law - Kenya School of Law.

Mr. Stanley Gitari is the Ag. General Manager, Legal Services and Corporation Secretary serving as the secretary to the Board.

He is an advocate of the High Court and has served in several capacities in the legal department of Kenya Railways and previously served in the State Law office.

He is a member of the Law Society of Kenya and a member of the Commonwealth Lawyers Association.

TERMS OF DIRECTORS

Table 3.1 Terms of Directors

S/No	Name	Designation	Date of Appointment & End of Term
1.	Capt. Mohamed M. Abdi	Chairman	Appointment: 10.02.2023 End of Term: 09.02.2026
2.	Maj. Gen. (Rtd) Pastor Awitta	Chairman	Appointment: 18.10.2019 End of Term: 09.02.2023
3.	Ms. Catherine Musakali	Director	Appointment: 06.10.2021 End of Term: 05.10.2024
4.	Mr. Mohamed Alawi	Director	Appointment: 06.10.2021 End of Term: 05.10.2024
5.	Mr. Dennis B. Aroka	Director	Appointment: 05.06.2022 End of Term: 04.06.2025
6.	Ms. Sumaiya S. Mohamed	Director	Appointment: 13.07.2022 End of Term: 12.07.2025
7.	Ms. Nancy Sang	Director	Appointment: 31.05.2023 End of Term: 30.05.2026
8.	Mr. Humphrey Muhu	Alt Director - National Treasury	Statutory Office Holder
9.	Dr. Duncan Hunda	Alt Director – MoRT	Statutory Office Holder
10.	Mr. Isaac Odek	Rep. Inspectorate of State Corporation	Statutory Office Holder
11.	Mr. Sudi Mwasinago	Alt Director – Kenya Ports Authority	Statutory Office Holder 20.1.2022 – 11.5.2023
12.	Mr. Paul Bor	Alt. Director – Kenya Ports Authority	Statutory Office Holder Appointment: 12.5.2023
13	Dr. John O. A. Nyerere	Director	Appointment: 07.08.2020 End of Term: 20.10.2022
14	Mr. Martin Mogwanja	Director	Appointment: 07.08.2020 End of Term: 20.10.2022

BOARD COMMITTEE DETAILS

STRATEGIC PROJECTS COMMITTEE

1st July 2022 – 30th September, 2022

1. Mr. Martin Mogwanja **Chairperson**
2. Mr. Dennis Aroka
3. Principal Secretary, Ministry of Roads and Transport
4. Cabinet Secretary, National Treasury or Alternate
5. Managing Director, Kenya Ports Authority or Alternate
6. Inspectorate of State Corporations or Representative (By invitation)

1st October 2022 – 20th October 2022

1. Mr. Martin Mogwanja **Chairperson**
2. Mr. Dennis Aroka
3. Ms. Sumaiya S. Mohamed
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Managing Director, Kenya Ports Authority or Alternate
7. Inspectorate of State Corporations or Representative (By invitation)

21st October 2022 – 30th June 2023

1. Ms. Catherine Musakali **Chairperson**
2. Mr. Mohamed Alawi
3. Ms. Sumaiya S. Mohamed
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Managing Director, Kenya Ports Authority or Alternate
7. Inspectorate of State Corporations or Representative (By invitation)

FINANCE, HUMAN RESOURCE AND ADMINISTRATION COMMITTEE

1st July 2022 – 20th October 2022

1. Mr. Mohamed Alawi Hussun **Chairperson**
2. Prof. John Nyerere
3. Mr. Dennis B. Aroka
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Inspectorate of State Corporations or Representative (By invitation)

21st October 2022 – 30th June 2023

1. Mr. Mohamed Alawi Hussun **Chairperson**
2. Ms. Catherine Musakali
3. Mr. Dennis B. Aroka
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Inspectorate of State Corporations or Representative (By invitation)

BUSINESS, OPERATIONS & INVESTMENTS COMMITTEE

1st July 2022 – 20th October 2022

1. Dr. John Nyerere **Chairperson**
2. Ms. Sumaiya Salim
3. Ms. Catherine Musakali
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Managing Director, Kenya Ports Authority or Alternate
7. Inspectorate of State Corporations or Representative (By invitation)

21st October 2022 – 30th June, 2023

1. Mr. Dennis B. Aroka **Chairperson**
2. Mr. Mohamed Alawi
3. Ms. Sumaiya S. Mohamed
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Managing Director, Kenya Ports Authority or Alternate
7. Inspectorate of State Corporations or Representative (By invitation)

AUDIT & RISK COMMITTEE

1st July 2022 – 20th October 2022

1. Mr. Martin Mogwanja **Chairperson**
2. Ms. Catherine Musakali
3. Mr. Mohamed Alawi Hussun
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Inspector of State Corporations or Representative (By invitation)

21st October 2022 – 30th June 2023

1. Ms. Sumaiya S. Mohamed **Chairperson**
2. Mr. Dennis B. Aroka
3. Ms. Catherine Musakali
4. Principal Secretary, Ministry of Roads and Transport
5. Cabinet Secretary, National Treasury or Alternate
6. Inspector of State Corporations or Representative (By invitation)

4. KEY MANAGEMENT TEAM

The Corporation's Management is organised as follows:

- The Managing Director
- Departmental General Managers
- Divisional Managers

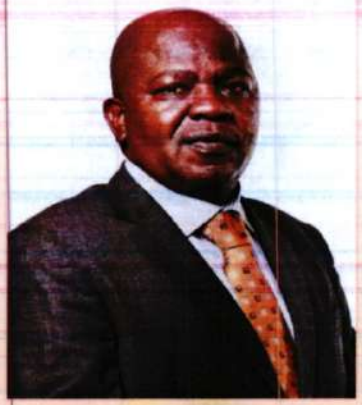
Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

Table 4.1 Fiduciary Management

No	Designation	Name
1	Managing Director	Mr. Phillip J. Mainga, EBS
2	Director ,Railway Training Institute (RTI)	Ms. Milly Kizili
3	Acting General Manager - Finance	Ms. Jemimah Matu
4	General Manager - Finance (Served until 19th April 2023)	Mr Sammy Kariuki
5	General Manager - Business Development & Operations	Ms. Millicent Omido
6	General Manager - Human Resource and Administration	Mr. Asava Kadima
7	General Manager - Research Planning Compliance and ICT	Mr. Job Otiwa
8	General Manager Internal Audit	Mr. Remmy Koech
9	Acting General Manager - Supply Chain Management	Ms Jane Vuligwa
10	General Manager - Infrastructure Development	Eng. Tobias Otieno
11	Acting General Manager - Legal Services & Corporation Secretary	Mr. Stanley Gitari

Management Team



Mr. Philip J. Mainga, EBS
Managing Director

Mr. Mainga is currently the Managing Director of Kenya Railways. Until his appointment, Mr. Mainga was the General Manager Business and Operations. He previously had 19 years of experience in Corporate Planning, Project Management and Business Management. He holds Master in Project Planning and Management – UoN, Masters and Bachelor of Arts in Economics - University of Mysore.
Trained in driving Government Performance at Harvard University –USA Boston. He undertook a course on Regional Integration in Africa by a joint World Bank Institute and African Economic Research Consortium (AERC). He is a professional member of Certified Finance Management for Project Managers, Associate Member MEGADEV Consultants and Associate Member Kenya Institute of Management (KIM). Author of Economics and Ethics First Edition 2010 and Doing Business in Kenya 2006-Handbook (UNDP – Kenya). He received the Presidential award of 2nd Class – Elder of the Order of the Burning Spear (E.B.S.) in June 2020. He also won The Star Person of the Year Award 2020.

Ms. Milly Kiziili Otieno
Director, RTI

Ms. Milly Kiziili Otieno is an education administrator with over 20 years of professional experience in both Kenya and the region. Her experience includes classroom teaching, school administration including Public Financial Management, Policy Development and Implementation, Competency-Based Curriculum Development and Management of projects.
She spearheaded the enactment of the Technical Vocational Entrepreneur Training (TVET) Act 2013 and other policy interventions while serving in the position of National Chairperson for Research and Innovation under the auspices of The Kenya Association of Technical Training Institutions.
She holds a Master's in Business Management (Strategic Management) from Maastricht Business school, Post Graduate Diploma in Human Resources Management (Maseno University), Post Graduate Diploma in Financial Management (Kenya School of Monetary Studies) and a Bachelor of Education Arts from Kenyatta University. In addition, she is a Certified Facilitator in developing competency-based curricular (DACUM) by Ohio State University.

CPA Jemimah Matu
Acting General Manager, Finance

Bachelor of Commerce, Accounting Major
She is a Certified Public Accountant (CPA) and a member of the Institute of Certified Public Accountants (ICPAK)
With over 20 years of Financial Management experience prior to the current position, Ms Matu served the Corporation in the management as the Finance Manager and Management Accountant.

Ms. Milly Omido
General Manager, Business Development & Operations

Ms. Milly Omido is a specialist in planning and executing marketing, commercial, sales and business development strategies with over 15 years of experience in private and public sectors having worked in the Railway, Telecommunications and Pharmaceutical sectors.

Prior to her current role she was the Business Development Manager during which she provided leadership to various business units including train passenger and freight services as well as real estate management and investment.

Previously, she worked in the telecommunication sector with a bias in customer service and marketing where she was key in setting up the customer service function for a new entrant in the telecommunication sector in the year 2009. She has also worked in the pharmaceutical industry where she was responsible for creating demand and implementing sales strategy.

Milly is currently pursuing a PhD in Strategic Management at Kenyatta University. She holds a Master's degree in Business Management from the University of Nairobi, a Bachelor's degree in Education (Science) from Moi University, and a post-graduate diploma from the chartered institute of marketing. She is a member of the Chartered Institute of Marketing (CIM- UK) and the Marketing Society of Kenya (MSK).

Mr. Asava Kadima
General Manager - Human Resource & Administration

Mr. Kadima has 22 years of experience 19 of which have been in human resource management in various capacities both in private sector and Public Service.
Prior to his current position, Mr. Kadima has served the Corporation in the capacity of Human Resources Manager - Railway Training Institute and later as the Corporations Employee and Benefits Manager.
He holds Masters degree in Human Resource Management and Bachelor of Education-Arts. He is a Certified Human Resource Practitioner (CHRP-K), and a Certified Balance Score Card (BSC) professional. He is member of the Institute of Human Resource Management (IHRM).

Mr. Job Otiwa
General Manager - Research, Planning, Compliance & ICT

Job Omondi Otiwa is the General Manager, Research, Planning and Compliance at Kenya Railways Corporation. Prior to his appointment, Mr. Otiwa was the Manager, Strategy and Economic Planning at Kenya Railways, a position he held since the year 2020.

Mr. Otiwa has had a successful career in several government institutions. He has over fifteen (15) years' experience in Corporate Strategy, Performance Management and Economic Policy Planning and Analysis. Mr. Otiwa joined the Corporation in January 2020 from Commission on Revenue Allocation where he was a Senior Analyst/ Manager, Microeconomics and Public Finance. Prior to joining the Commission on Revenue Allocation Mr. Otiwa also worked at the Ministry of Devolution and Planning and Ministry of Planning and National Development.

He holds a Master of Arts in Economics from the University of Nairobi and a Bachelor of Arts in Economics from the University of Nairobi. He has also attended several courses

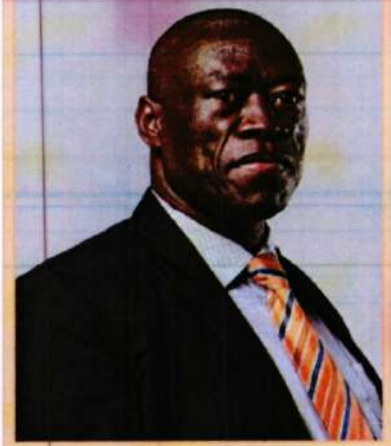
Mr. Remmy Koech
General Manager - Internal Audit

Mr. Koech has work experience of 30 years, 22 of which have been in the internal audit function. He has served in senior management positions for the last 15 years, 10 of which have been with Kenya Railways. He holds a Master in Business Administration (MBA) and a Bachelor of Commerce (Accounting option).

Mr. Koech has undertaken several professional training courses locally and abroad covering areas of risk-based internal auditing and management, report writing and presentation, Enterprise Risk Management, Corporate Governance, Project Management, Management and Leadership development. He is a Certified Public Accountant (CPAK) and a member of the Institute of Certified Public Accountants (ICPAK) for the last 22 years. He is also a member of ISACA (Kenya).

Ms. Jane Vuligwa
Ag. General Manager - Supply Chain Management

Ms. Jane Vuligwa has over 16 years working experience in Supply Chain Management, holds a Master's Degree in Business Administration (MBA), a Bachelor's Degree in Procurement and Logistics and Diploma in Purchasing and Supplies Management. Jane is a member of Chartered Institute of Purchasing and Supply Management (CIPS). She is also a member of Kenya Institute of Supplies Management (KISM) and licensed as Procurement Practitioner by KISM.



Eng. Tobias Otieno
General Manager - Infrastructure Development

Prior to his appointment as General Manager, Eng. Tobias was the Railway Development Manager at Kenya Railways. He previously worked on roads, water supply and sanitation systems, housing and ports in the Private Sector in Kenya, Uganda, Tanzania, Ethiopia and the Middle East. He is a registered Professional Civil Engineer with 24 years of experience in the design, construction, management and maintenance of highways, water supply systems, railways, ports as well as project administration and management.

He holds a Bachelor's Degree in Civil Engineering from the University of Nairobi and is a Certified International Project Manager by the International Academy of Business and Financial Management (IABM). He is also an Advanced Senior Project Manager by the International Institute of Executive Training (iIET). He holds a Diploma Certificate in Railway Construction, Operations and Maintenance from the University of Beijing Jiao tong University (BJTU) - China (2016). He holds a Diploma Certificate in Transport Planning and Rail Safety from Galilee International Management Institute (GIMI) - Israel (2016).

Mr. Stanley Gitari
Ag. General Manager, Legal Services and Corporation Secretary

Mr. Stanley Gitari is an advocate of the High Court and has served in several capacities in the legal department and previously served in the State Law office.
He holds a Bachelor of Law from the University of Nairobi and a Post Graduate Diploma in Law from the Kenya School of Law.
He is a member in good standing of the Law Society of Kenya (LSK) and a member of the Commonwealth Lawyers Association.

5. CHAIRMAN'S STATEMENT

Capt. Mohamed M. Abdi

CHAIRMAN

I am pleased to present the Kenya Railways Corporation Annual Report and Financial Statements for the Financial Year 2022/2023, reflecting the progress, challenges, and outlook of the Corporation. The year was a period of significant progress towards achievement of our objectives and fulfillment of the Corporation's mandate. We remain steadfast in our commitment to providing efficient and reliable rail services to the people of Kenya.

The fiscal year marked a significant chapter in KR's journey towards transforming Kenya's transport landscape. Despite the challenges posed by the global economic conditions, we achieved several notable milestones:

Infrastructural developments

One of our key objectives has been to enhance and expand our rail infrastructure to meet the growing demands of our customers. In pursuit of this goal, we have successfully completed several infrastructure projects during the year geared towards business, operations and financial sustainability. These include operationalization of a cargo handling facility in Malaba, Rehabilitation of the Longonot - Malaba section of the MGR main line and acquisition of locomotives

Additionally, key projects were commenced during the period, including: Establishment of Nairobi and Eldoret cities as transit oriented developments, Construction of the 2.8KM link between Miritini MGR station - Mombasa SGR Terminus and Construction of Riruta - Ngong commuter line. These investments will not only improve operational efficiency, but also contribute to overall economic development of the country.

Customer Service

KR is committed to providing exceptional customer experience. We have made significant strides in enhancing customer experience by focusing on reliability, safety, and convenience. Our efforts to improve punctuality, reduce travel times, and enhance passenger comfort have been well received by our valued customers. We will continue to prioritise customer satisfaction and strive to exceed their expectations in the years to come by investing in technology.

Challenges

The Corporation recognizes that the journey has not been without its fair share of challenges including high cost of operations due to the global rise in cost of commodities and fluctuation in hard currencies that affected the Corporation's financial bottom line. There is also a rise in cases of rail infrastructure vandalism and encroachment along the railway corridor, which continues to be a risk to safety of operations, the Corporation is collaborating with security agencies to curb the vice. The corporation is also grappling with resource mobilization for infrastructure projects, which are in the pipeline, necessitating innovative financing model for GoK and development partners.

> *"You should be far more concerned with your current trajectory than with your current results."*
>
> *- James Clear (Atomic Habits)*

Board Changes

I wish to thank my fellow Directors for their invaluable support and contribution during the year. I take this opportunity to welcome fellow Directors appointed to the Board during the financial year and thank outgoing Chairman Maj Gen. Awitta for his invaluable contributions and dedication to the Corporation. The Corporation also welcomes Ms. Sumaiya Mohamed, Ms. Nancy Sang & Mr. Paul Bor and appreciates Prof. Nyerere and Mr. Mogwanja who exited the board during the financial year.

Outlook

Looking forward, we remain focused on our Vision ***"To be a world class provider of rail services"*** and endeavour to work through our Mission ***"To upgrade and develop an integrated rail network that is safe, reliable and sustainable in providing rail services"***. We will continue to invest in our people, infrastructure, and technology to ensure that Kenya Railways remains sustainable and at the forefront of the rail industry in the region and globally. We are confident that with the dedication and hard work of our talented team, we will overcome any challenges and continue to deliver value to our stakeholders.

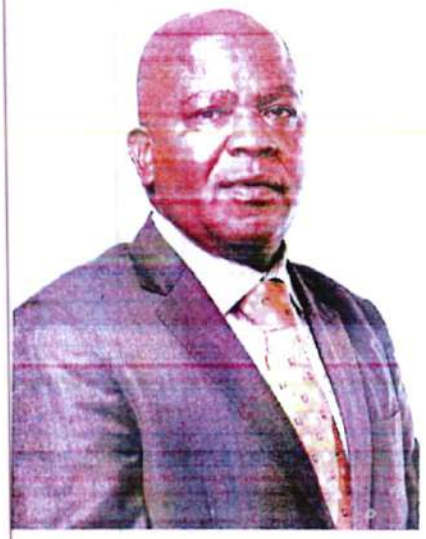
In conclusion, I extend my sincere appreciation to the entire KRC team for their dedication and hard work. I also thank our esteemed stakeholders and partners for the trust and support. Together, we will continue to drive Kenya Railways Corporation towards a brighter and more prosperous future.

Thank you.

Capt. Mohamed M. Abdi

CHAIRMAN OF THE BOARD

6. REPORT OF THE MANAGING DIRECTOR



Mr. Philip J. Mainga, EBS

MANAGING DIRECTOR

Overview

"If you want to build a ship, don't drum up the men to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea.

- Antoine de Saint-Exupéry

It is an honour to present to you the Kenya Railways Annual Report and Financial Statements for the year ended 30th June 2023. The Corporation looks back in appreciation for realising several key activities in the FY2022/23, in line with its strategic plan 2023- 2027. KR stepped into the year with renewed optimism to do better as the economy is recovering from the reeling effects of Covid -19 pandemic.

During the financial year, the Corporation remained committed to working with its stakeholders. To build synergetic relationships, the Corporation has continued to improve on its service delivery by listening to the customers.

Towards this end, we continued to implement strategic goals to further strengthen the business and guarantee our viability. We sustained our efforts by increasing freight volumes, passenger and commuter numbers, prudently managing costs and enhancing customer experience. These focus areas were complemented by on-going investments in railroad infrastructure. This includes rehabilitating the railway network & enabling infrastructure and purchase of locomotives.

Business Focus Area

During the FY2022/23, the Corporation moved an impressive 7,164,778 tonnes, comprising 6,295,255 tonnes by SGR and 869,523 tonnes moved along the MGR. This translated to an improvement from 6,227,952 tonnes moved in FY2021/22 and 5,780,274 tonnes moved in FY2020/21. This performance represented an achievement of 22% of rail market share of Port throughput, an increase from 18% in FY2021/22 and 16% moved in FY2020/21.

The SGR freight business continued for the sixth year serving the Inland Container Depot Nairobi (ICDN) and Naivasha Inland (NICD) transhipment zone. The SGR Containerized cargo business remained relatively the same compared to FY 2021/22 and the Conventional business improved in performance as the Corporation forged strategic partnerships with bulk cargo stakeholders. Evidenced by containerized cargo and conventional cargo business at 3.94 Million tons and 2.35 Million tons respectively. Compared to the FY 2020/21 the SGR containerized cargo tons were at 4 Million tons and 1.57 Million tons

The MGR freight business continued to operate from Mombasa to Malaba, Nanyuki line including the operation to the Kenya Railway Transit Shed (KRTS) and the opening up of SGR- MGR transhipment yard in Longonot. The tonnage moved was 0.84 Million tons from 0.56 Million tons in the previous year. Cargo was available but locomotive and rolling stock availability was the main challenge.

On the passenger services, the SGR continued operating the three pair of trains from Mombasa to Nairobi (and vice versa), long distance passenger ferried were 2.53 Million compared to 2.36 Million in FY 2021/22. The improved performance is due to continued reliability after coming out from the restriction in movement during the Covid 19 high season that started in March 2020. Similarly, the Nairobi Commuter Rail expansion & additional DMUs, Nairobi-

Nanyuki line continued operations and the launched Nairobi- Kisumu passenger travel contributed to improved performance. The passenger ferried were 3.18 Million compared to 3.96 Million passengers in a similar period last year.

The Non -Rail business continued with leasing our properties, which has continued to be the backbone of the Corporation. The line generated **Kes 888.10 Million** compared to **Kes 874.72 Million** the previous year. This is as a result of reduction in leases due to the opening of the corridor for operations.

KR runs Railway Training Institute that is a centre of excellence recorded an enrolment of **8,109** students in the year compared to **6,291** in the previous financial year. The improved performance was due to additional courses on offer and the lifting of Covid 19 containment measures that allowed learning all through the financial year.

Financial performance

Revenue

The overall revenues went up by 9% (**Kes 1.59 Billion**) to **Kes 19.30 Billion** during the year under review from **Kes 17.71 Billion** recorded in FY2021/22. The increase is attributed to the SGR revenue that increased due to movement of more volumes of conventional cargo coupled by an impressive increase in MGR performance.

The Corporation also received grants of **Kes 16.05 Billion** during the year under review compared to **Kes 30.9 Billion** in the previous year to anchor operations.

Operating Expenditure

In the FY2022/23, The overall expenditure reduced by 4% owing to reduced provisions for bad and doubtful debts. There was an decrease in operational costs with an improved top line, increased depreciation with capitalization of assets, increased staff costs due to recruitments and annual increments, increased financing costs due to SGR loan obligations.

Financial Position

The Corporation's balance sheet has assets worth **Kes 784.36 Billion**. Of these 66%, relate to SGR assets. The Working capital is **Kes 90.36 Billion**. The main debtor for the Corporation is KPA and the main creditor is the SGR Operator (Afristar) KR has cash reserves of **Kes 46.91 Billion**, most of these funds relate to SGR collections, which are ring-fenced funds.

Government Support and Stakeholder collaborations.

The Corporation continued to receive GoK support to ensure that both operations and capital projects are towards ensuring KR meets its vision and mandate. The Corporation receives the funds from the Railway Development Levy and the exchequer.

KR has continued to work closely with GoK agencies to ensure that the projects are implemented. These entities include KURA for access roads, Kenya Defence Force and National Youth Service for cost efficient labour and Kenya Shipyard for the Locomotive refurbishment.

From an operational perspective, KR has also worked closely with KPA in ensuring efficiency in SGR and MGR operations, revenue assurance and collection from the SGR.

KR owes its gratitude to GoK for the immense support accorded from planning, financial injection and the labour supply to ensure projects execution.

Safety

Safety is our license to operate and a core value to our rail operations. As a Corporation, we constantly identify, prevent and mitigate operational risks. We ensure continuous routine inspections

Technology

Technology and digital transformation continue to be integral catalysts for our operational efficiency. In 2023, we embarked on an ERP system change to ensure integration of all our services both internally and externally. We also introduced a customer relationships management to provide direct insights on our services to drive value for our

customers and stakeholders.

There was also a deliberate focus on cybersecurity to ensure all systems are more secure and resilient.

People & Culture

Our employees' dedication, commitment and resilience has continued to be commendable and instrumental in ensuring the Corporation delivers its value to both passengers and cargo customers.

At the end of June 2023, we had a staff headcount of 4047 both permanent and temporary. There was a decrease of 396 compared to staff in FY2021/22.This is mainly so because of a reduced number of casuals.

KRC has a huge staff base due to its human capital-intensive operations. On this backdrop, KR has ensured it has a senior management with a wealth of experience to handle the unique nature of rail operations and engaged consultants where necessary.

We pride ourselves in promoting and having a gender balance ratio of 81% to 19% for men and women respectively. Since SGR inception, KR embarked on a localization program to enable KRC prepare for a takeover at the end of first five years of operations. We are pleased to announce that during the year the Corporation took over major components of the SGR operations from the Operator (Afristar) thereby bringing on board 265 employees to close at 3,038 staff at year-end from 2,649 the previous year. KR facilitated a smooth transition from the Operator and therefore no local staff were laid off.

Due to expected take over, the Corporation embraced a Culture Change program, which kicked off within the year to ensure a harmonized staff especially after the end of the concession and on boarding of SGR staff to by having a unified culture.

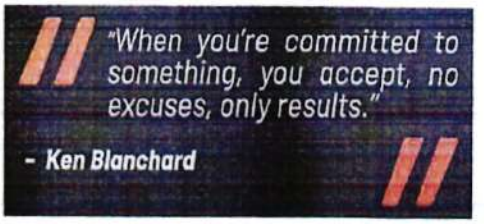
We have also engaged approximately 1921 number temporary staff and casuals due to the unique nature of rail operations to assist in the rail maintenance and rehabilitations across the network hence creating jobs for the people of Kenya.

Staff being the most valuable asset, which the Corporation prides in, has continued to train its staff in order to motivate, retain and improve the quality of output. Due to lessons learnt from the Covid 19 pandemic, the Corporation has renovated its offices to create more space for staff to ensure social distancing is observed and has continued to provide the staff with protective masks and sanitizers.

Brand Visibility

KR brand has grown overtime and today, our brand visibility across media and social media platforms is more pronounced. This is attributed to our deliberate efforts through various initiatives to sensitize our customer base on our strategic focus.

As part of enhancing media relations, the Corporation has engaged media reporters, stakeholders, passengers and commuters on social media and revamped its call centre to ensure real time response.



Commitment

As a matter of priority, the management team is focusing on provision of excellent services by strengthening our network and streamlining internal processes to improve customer experience and stakeholder confidence. Our business has always been at its best when we have made customers our absolute priority and over the past year, we have restored our total commitment to giving the best possible service to our customers.

From the foregoing, it is evident that KR is gearing up towards a brighter future. As this report describes, we have made considerable progress from where we were five years ago. The actions we have taken to reaffirm our competitiveness regionally, protect the balance sheet, and rebuild trust and transparency has also stabilized our business. We are committed to serving Kenyans better every day, in what remains a challenging and uncertain market. We are confident that the investments we are making will lead to sustainable improvements for customers

whilst creating long-term value for our shareholders and Kenya at large.

Acknowledgment

I take this opportunity to express my sincere gratitude to our stakeholders: GoK for their distinguished role in helping us achieve our mandate through both policy and budgetary support.

On behalf of our Executive management team and entire staff, I wish to pay tribute to the Chairman and the Board of Directors for their continued support, visionary leadership and the guidance in the implementation of our strategy. Their stewardship of the organization has been invaluable and essential to our success.

I also wish to recognize the role played by our customers who continue to support our various initiatives and take up our services. We would not have achieved our set objectives and financial goals without these critical stakeholders.

On behalf of the Board of Directors and management of KRC, I take this opportunity to congratulate the entire KR family for their resilience and dedication as we continue to deliver on our strategic aspirations. KR is currently seeking to recapture its market share in the country and within the region and this could not come at a better time, with the revamping of its network.

Regards

Philip J. Mainga EBS

MANAGING DIRECTOR

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY2022/23

Kenya Railways is implementing the 2023 – 2027 Strategic Plan, which contains 6 Key Result Areas (KRAs) and 8 Strategic Objectives as follows:

KRA 1. Expansion of Rail Network

KRA 2. Rail Operations Efficiency and Reliability

KRA 3. Business Development and Marketing

KRA 4. Optimization of Returns on Non-Rail Assets

KRA 5. Financial Sustainability and Resource Mobilization

KRA 6. Institutional Capacity Development and Governance

It is through the KRAs that the Vision, Mission, Core Values and Mandate of the Corporation are translated into a comprehensive set of strategic objectives (S.O.) as follows:

S.O.1. To develop, rehabilitate and upgrade rail network and Associated Infrastructure

S.O. 2. Optimise rail assets availability, reliability and utilization for increased NTK from 2.93 Billion in 2022 to 5.20 Billion by 2027

S.O. 3. To move 8.8 Million passengers comprising of 6 Million commuters and 2.8 Million long distance passengers per annum by 2027

S.O. 4. To raise rail market share of Port throughput from 22% in 2022 to 35% by 2027

S.O. 5. To grow Kenya Railways brand equity by 20% in five years

S.O. 6. To grow Return on non-rail assets by 34% from **Kes.1.37 Billion** in 2022 to **Kes 1.83 Billion** by 2027

S.O. 7. To move from an operating loss of **Kes 4.8 Billion** in 2022 to an operating profit of **Kes 9.09 Billion** in 2027 at an annual average growth rate of 15% and a Liquidity Ratio of 1.5: 1.

S.O. 8. To build a competent, performance driven workforce and uphold good governance.

KR developed its annual work plan based on the above 8 Strategic Objectives. The Corporation achieved its performance targets for these objectives for the FY2022/23 period as indicated in the diagram below:

Table 7.1 Performance against predetermined objectives

KRA	Objective	KPI	Activities 2022/2023	Achievements 2022/2023
KRA 1. Expansion of Rail Network	S.O. 1. To develop, rehabilitate and upgrade rail network and Associated Infrastructure	KM of Rail Constructed KM of Rail rehabilitated No. Associated Infrastructure Established	Constructed 2.8 Km Miritini MGR station - Mombasa Terminus MGR Link Established Cargo Handling Facility in Malaba	**2.8**KM Constructed 1 Associated Infrastructure established
KRA 2. Rail Operations Efficiency and Reliability	S.O. 2. Optimize rail assets availability, reliability and utilization for increased NTK from 2.93 Billion in 2022 to 5.20 Billion by 2027	Net Tonne Kilometres (NTK)	Acquired 11 new MGR Locomotives	**3.39 Billion** NTK
	S.O. 3. To move 8.8 Million passengers comprising of 6 Million commuters and 2.8 Million long distance passengers per annum by 2027	Total Passengers moved on rail services No. Passenger moved on MGR No. Passenger moved on SGR	Enhanced marketing of utilization of Rail passenger services	**5,709,350** total passengers . **3,183,670** MGR passengers . **2,525,680** SGR passengers
KRA 3. Business Development and Marketing	S.O. 4. Raise rail market share of Port throughput from 22% in 2022 to 35% by 2027	Rate (%) Rail Market share of Port throughput	Enhanced marketing of freight services. Intensified operations of the Malaba Logistics Hub. Diversified cargo mix on MV Uhuru operations. Commenced haulage operations of local steel from Samburu Manjewa plant. Enhanced SGR to MGR link operations at NICD	**22%**
	S.O. 5. Grow Kenya Railways brand equity by 20% in five years	Rate (%) brand equity	Commenced preparation for conducting brand audit.	-

KRA 4. Optimization of Non-Rail Assets	S.O. 6. Grow Return on Non-rail assets by 34% from **Kess.1.37 Billion** in 2022 to **1.83 Billion** by 2027	Return on Non-rail Assets	1. Enhanced marketing for KR Museums; 2. Engaged auctioneers to assist in collection of long overdue rent arrears 3. Undertook campaign to lease unoccupied / bare KR land across the network.	**Kes 888,099,046**
KRA 5. Financial Sustainability and Resource Mobilization	S.O. 7. To move from an operating loss of **Kes 4.8 Billion** in 2022 to an operating profit of **Kes 9.09 Billion** in 2027 at an annual growth rate of 15% and a Liquidity Ratio of 1.5:1.	Operating Profit / loss Liquidity ratio	1. Took over track maintenance functions from the SGR Operator 2. Implemented cost containment measures	**Kes 2.45 Billion** **2.1 : 1**
KRA 6. Institutional capacity development and Governance	S.O. 8. To build a competent, performance driven workforce and uphold good governance.	No. of staff recruited No. Staff trained	1. Recruited staff for key operational and support areas. 2. Trained staff to bridge identified skills gap	**207** staff recruited 669 staff trained

In carrying out its mandate, KR directed its efforts towards contributing effectively and efficiently to the achievement of the national development agenda as espoused in the Kenya Vision 2030 MTP IV, as well as priority areas identified by the Bottom-Up Economic Transformation Agenda. The following project activities were prioritised for implementation in the FY2022/23 Performance Contract (PC) :

1. Expansion of Nairobi Commuter Rail Services (NCR);
2. Development of Mombasa Commuter Rail Network;

8. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Kenya Railways is responsible for the governance of the Corporation and is accountable to the shareholders and stakeholders in ensuring compliance with the laws and the highest standards of business ethics and corporate governance. Accordingly, the Board attaches very high importance to the generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance.

Role & Functions of the Board of Directors

The roles and functions of the Chairman of the Board, Directors and the Managing Director are distinct and their respective responsibilities clearly defined within the Kenya Railways Corporation Act, Cap 397. The Board comprises of 12 (twelve) directors namely, the Chairman, the Managing Director, six independent non-executive directors, and four statutory office holders from; the National Treasury, the State Department of Transport under the Ministry of Roads and Transport, the Kenya Ports Authority and a representative of the Inspector General of State Corporations.

The Board defines the Corporation's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The Directors bring a wealth of experience and knowledge to the Board's deliberations. The Board is responsible for the stewardship of the Corporation and assumes responsibilities for the effective control over matters. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to the Management through the Managing Director. The Corporation Secretary attends all meetings of the Board and advises the Board on all corporate governance matters as well as prevailing statutory requirements. As KR is a State Corporation, the Inspector General of State Corporations from time to time attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it deemed necessary to do so. The Board held the following meetings during the year under review.

The attendance per Board Member was as follows:

FULL BOARD

Table 8.1 Full Board

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
Capt. Mohamed Abdi - Chairman	1	1	2
Maj. Gen (Rtd) P. Awitta - Outgoing chairman	4	10	14
Mr. Martin Mogwanja	2	7	9
Dr. John Nyerere	1	2	3
Ms. Catherine Musakali	5	12	17
Mr. Mohamed Alawi	4	13	17
Ms. Sumaiya Salim	3	11	14
Mr. Dennis Aroka	4	11	15
Ms. Nancy Sang	0	1	1
Mr. Humphrey Muhu	5	12	17

Dr. Duncan Hunda	3	10	13
Mr. Sudi Mwasinago	1	0	1
Mr. Isaac Odek	4	8	12
Mr. Philip J. Mainga	5	13	18
Mr. Stanley Gitari	5	13	18

STRATEGIC PROJECTS COMMITTEE

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
Mr. Martin Mogwanja	2	0	2
Mr. Dennis Aroka	2	1	3
Ms. Sumaiya Salim	3	3	6
Mr. Humphrey Muhu	4	2	6
Dr. Duncan Hunda	4	3	7
Mr. Sudi Mwasinago	0	0	0
Mr. Isaac Odek	1	2	3
Mr. Philip Mainga	4	3	7
Mr. Stanley Gitari	4	3	7

FINANCE, HUMAN RESOURCES AND ADMINISTRATION COMMITTEE

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
Mr. Mohamed Alawi Hussun	4	4	8
Dr. John Nyerere	1	1	2
Mr. Dennis Aroka	4	4	8
Mr. Humphrey Muhu	4	4	8
Dr. Duncan Hunda	3	3	6
Mr. Isaac Odek	6	2	8
Mr. Philip Mainga	4	4	8
Mr. Stanley Gitari	4	4	8

BUSINESS OPERATIONS & INVESTMENTS COMMITTEE

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
Dr. John Nyerere	1	1	2
Ms. Catherine Musakali	2	1	3
Mr. Dennis Aroka	2	3	5
Dr. Duncan Hunda	5	1	6

Mr. Humphrey Muhu	4	3	7
Mr. Sudi Mwasinago	-	-	3
Mr. Isaac Odek	1	1	2
Mr. Philip Mainga	4	3	7
Mr. Stanley Gitari	4	3	7

AUDIT AND RISK COMMITTEE

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
Mr. Martin Mogwanja	2	1	3
Ms. Sumaiya Salim	2	-	2
Ms. Catherine Musakali	4	1	5
Mr. Dennis Aroka	2	-	2
Mr. Mohamed Alawi	2	1	3
Mr. Humphrey Muhu	4	1	5
Dr. Duncan Hunda	4	1	5
Mr. Isaac Odek	2	-	2

Board Performance

In order to assure the shareholders of the Corporation's commitment to activities that create and enhance shareholder value, the Board signs a Performance Contract with the Government as well as sets Corporate Performance strategies with Management and continues to perform an annual evaluation exercise to review and audit its role and success or otherwise to meet the targets envisaged at the beginning of each year.

Directors' Emoluments

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2022/23 are disclosed in the notes to the financial statements. Non-executive directors are paid sitting allowances for every meeting attended.

Ethics, Conduct and Governance

The Corporation seeks to adhere to the principles of good governance as appropriate. The Corporation is a non-discriminatory employer operating an equal opportunities policy, which aims to eliminate discrimination, harassment and victimization. The Corporation is committed to ensuring all individuals are treated fairly, with respect and are valued irrespective of gender, disability, social class, nationality, religion, marital status, age, employment status, membership or non-membership of a trade union.

Orientation, Information and Board Developments

Newly appointed Board Members are taken through an orientation process. Directors receive induction training on appointment to the Board, which is tailored to their individual needs and experience. Information is provided to Directors on their responsibilities, regulations and legal obligations. The new Board Members are also taken through induction tours in all regions in the country where Railway assets exist.

As per the guidelines in the Mwongozo Code of Governance for State Corporations, the Board is to receive detailed briefing papers and reports on the business to be conducted at each meeting at least ten days in advance of the meeting. All directors have access to the advice and services of the Corporation Secretary who, if necessary, has access to external legal advice.

9. MANAGEMENT DISCUSSION AND ANALYSIS

Board and Management diligently pursued the outlined objectives within the FY2022/23 Annual Work Plan. The primary focus was directed towards enhancing operational efficiency, service delivery, and cultivating a favourable financial outlook. This steadfast commitment aligned with the broader vision set forth in the 2023-2027 Strategic Plan. In addition, the Corporation purposed to achieve objectives laid out in the Bottom-up Economic Transformation Agenda (BETA), signifying the Corporation's dedication to contributing positively to comprehensive economic transformations.

This section highlights the macro-economic conditions within which KR operated in the period under review. It also presents business, operations and financial performance for the Corporation, as well as challenges experienced and management initiatives to improve performance in the subsequent period. Status of key projects and investments undertaken including major risks that materialised have also been highlighted.

Macro-Economic Performance

Within the context of the macro-economic landscape, the performance of the rail sub-sector in Kenya during the specified period was significantly influenced by the prevailing macro-economic shocks. These disruptions encompassed a range of factors, most notably the ongoing Russian-Ukraine conflict, which reverberated across global trade networks and exerted considerable pressure on various economic facets.

One of the pronounced outcomes of these macro-economic shocks was the discernible escalation in prices of essential commodities, notably food, fertiliser, and fuel. This inflationary trend exceeded predetermined benchmarks, reaching a notable 7.9% by the close of June 2023—surpassing the government's targeted ceiling of 7.5%. Consequently, this weighed heavily on the rail sub-sector's operational dynamics in the period under review.

Another pivotal dimension of this period was the consistent depreciation of the Kenyan Shilling against key international currencies. The Kenya Shilling experienced a notable 19% decline against the **US Dollar**—moving from **Kes 118.02** in July 2022 to **Kes 140.45** by the end of June 2023. This depreciation, beyond its fiscal implications, had pronounced repercussions on rail performance. Transactions and obligations denominated in US Dollars introduced financial complexities and adversity to the Corporation's fiscal landscape.

Business and Operations Performance and Sustainability

Given the context of the existing macro-economic conditions, the Corporation's business operations demonstrated remarkable resilience. This resilience was instrumental in not only sustaining but also bolstering an upward trajectory in the rail market share of Port throughput. The Corporation achieved 22% of the of the ports throughput, this accomplishment marked a substantial improvement from previous year's market share of 18% in 2021, 16% in 2020, 15% in 2019, and 12% in 2018 as illustrated in the figure below.

Graph 9.1 Annual Rail Freight performance and Market share

	2018	2019	2020	2021	2022
Rail Freight Vol.	3,565	4,796	5,042	5,898	6,787
Port Throughput	29,600	31,835	31,975	31,944	31,484
Rail Market Share	12%	15%	16%	18%	22%

Freight Performance:

The total freight hauled during the year amounted to 7,164,778 tonnes, achieving an impressive 99% of the designated target of 7,190,819 tonnes for the period. This accomplishment signified a notable upswing, reflecting a 15% escalation from 6,227,952 tonnes moved in FY2021/22. Furthermore, this achievement represented a substantial 24% improvement when compared with the figures recorded in the fiscal year 2020/21.

Graph 9.2 Freight performance trend

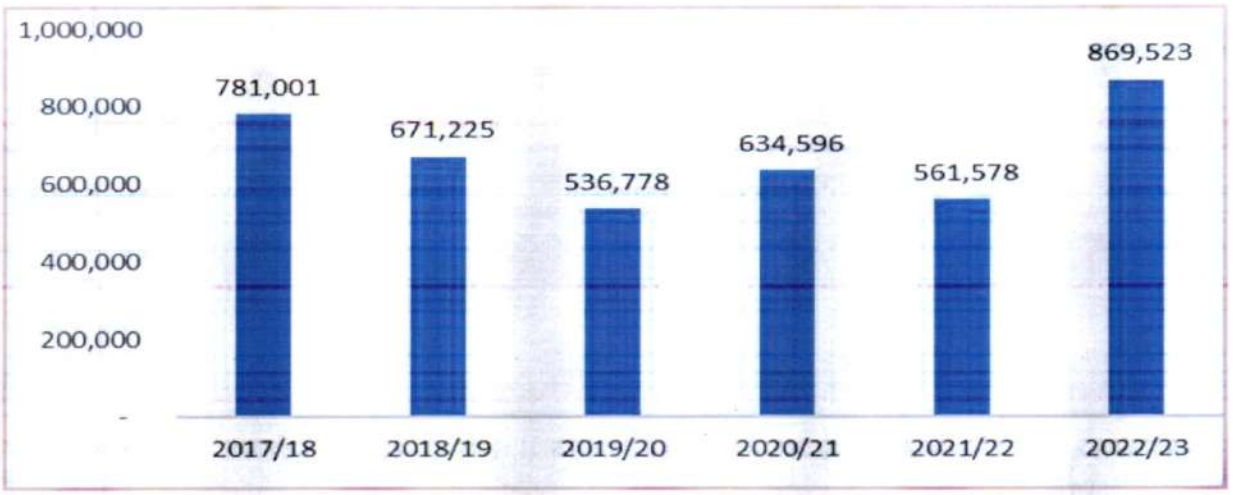
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SGR	950,396	4,009,703	4,122,858	5,145,677	5,666,375	6,295,255
MGR	781,001	671,225	536,778	634,596	561,578	869,523
TOTAL FREIGHT	1,731,397	4,680,927	4,659,636	5,780,274	6,227,952	7,164,778

The Standard Gauge Railway (SGR) demonstrated exceptional accomplishments in cargo transportation. During the period, 6,295,255 tonnes of cargo were transported via the SGR, surpassing the targeted goal of 6,230,778 tonnes with an impressive achievement rate of 101%. This achievement translates to a remarkable 11% increase when compared with 5,666,375 tonnes recorded in the FY2021/22. Furthermore, it signifies a substantial 22% upsurge compared to the 5,145,677 tonnes transported in the FY 2020/21.

Nonetheless, we have observed a marginal decline in the containerized cargo segment compared to conventional cargo. This decrease in containerized cargo performance underscores the intricate and dynamic nature of cargo transportation. A substantial contributing factor to this shift was a pivotal governmental decision to terminate the direct nomination of cargo for Standard Gauge Railway (SGR) transportation. Consequently, this decision has intensified competition within SGR's containerized freight services. The figure presented below provides a visual representation of the disparity between port throughput (measured in TEUs) and the TEUs transported via the SGR.

MGR's freight service achieved a remarkable feat by hauling a substantial 869,523 tonnes of cargo, attaining a commendable 91% against a target of 960,041 tonnes for the period. This accomplishment is indicative of the Corporation's dedication to surpass previous performance to grow by 54% in comparison to 561,578 tonnes moved in the FY2021/22, indicating an upward trajectory.

Graph 9.3 MGR Haulage trend



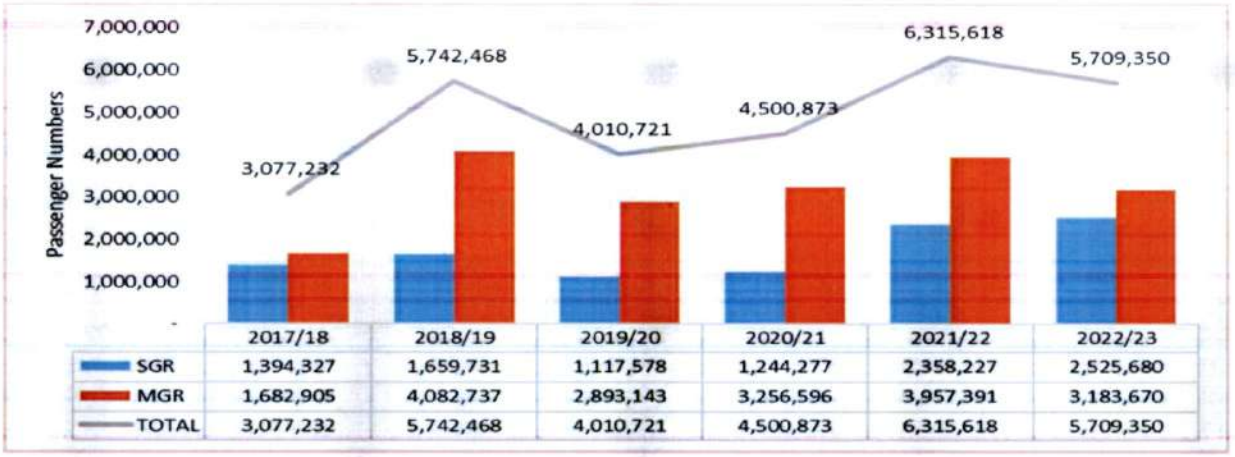
The freight service's performance displays a remarkable 37% increase when contrasted with the cargo movement of 634,596 tonnes in FY2020/21. This consistent trend of improvement over multiple fiscal years solidifies the corporation's efforts to improve freight service and ability to adapt and thrive in dynamic market conditions.

It becomes evident that MGR's freight service is significantly outperforming historical records, which bodes well for the service's future prospects, instilling confidence in its capacity to continue excelling in the industry. With this impressive record of accomplishment, the team is well poised to navigate challenges and seize opportunities, ultimately propelling the service to even greater heights in the upcoming periods.

Passenger Service performance

5,709,350 passengers travelled against the period's target of 7,600,000 which is 76% achievement rate. Within this dynamic movement, a remarkable 2,525,680 passengers chose the SGR Madaraka Express, surpassing the set goal by 25,680 passengers. Simultaneously, 3,183,670 passengers travelled on the MGR passenger trains against a target of 5,000,000 representing 64% achievement rate. However, it is worth noting that this figure experienced a mild decline of 10% from previous year that, where 6,315,618 passengers embarked on their travels. The figure below paints the overall picture;

Graph 9.4 Passenger numbers trend



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SGR	1,394,327	1,659,731	1,117,578	1,244,277	2,358,227	2,525,680
MGR	1,682,905	4,082,737	2,893,143	3,256,596	3,957,391	3,183,670
TOTAL	3,077,232	5,742,468	4,010,721	4,500,873	6,315,618	5,709,350

The SGR Madaraka Express facilitated the journey of an impressive 2,525,680 passengers, surpassing the intended target of 2,500,000 by a notable 25,680 passengers. This achievement translates to a commendable 7% increase when compared to the 2,358,227 passengers who journeyed in the previous year. The significance of this feat becomes even more apparent when contrasting it with the 1,244,277 passengers who travelled on the same route during FY2020/21 - a remarkable doubling in numbers.

MGR's passenger services demonstrated their efficiency by successfully transporting 3,183,670 passengers, achieving 63% of the targeted goal of 5,000,000 passengers for the period. However, the performance for the year exhibited a decline of 24% compared to the previous year and a marginal dip of 2% compared to FY2021/22.

This decline can be attributed to various factors. Notably, the introduction of the Nairobi Expressway, which has greatly improved road commuting, led to a decrease in performance along routes connecting Athi River, Embakasi, and Syokimau to Nairobi CBD. This enhancement in road infrastructure affected rail commuter numbers as commuters sought alternative means of transportation.

Furthermore, the service encountered substantial disruptions due to the limited availability of Diesel Multiple Units (DMUs), which impacted scheduling and service regularity. In addition, disturbances in urban movement resulting from political activities further compounded the challenges faced by MGR's passenger services. Despite these setbacks, the dedication and resilience of the service's team remain commendable, and strategies for continued improvement in the face of evolving conditions are undoubtedly being pursued.

The rail commuter service encountered a significant challenge as the Corporation grappled with the substantial operational costs associated with fulfilling its socio-economic responsibilities during the period. The cost of delivering these services outweighed the revenue generated, resulting in the need for government subsidies to bridge the financial gap.

Performance of other operational indicators

Highlights of other key operational indicators are illustrated in the table below.

Table 9.1 Other Operational Indicators

Key Performance Indicator	Trend	2018/19	2019/20	2020/21	2021/22	2022/23	% Change 2021/22 - 2022/23
SGR NTK ('000)		1,872,117	1,948,689	2,446,415	2,637,909	2,916,745	↑ 9.56%
SGR GTK ('000)		4,353,302	4,749,230	5,547,043	5,731,557	6,043,138	↑ 5.16%
MGR NTK ('000)		255,754	261,954	400,201	290,718	469,129	↑ 38.03%
MGR GTK ('000)		479,592	491,594	720,955	560,326	895,021	↑ 37.40%

Factors Influencing Business and Operational Performance

While we have observed promising improvements in our freight movement year after year, it is important to acknowledge the significant factors that have influenced our overall performance. These factors have played a crucial role in shaping our performance landscape, and gaining a deeper understanding of them is essential for making informed decisions.

During the reporting period, the reliability of the Meter Gauge Railway (MGR) freight service faced considerable challenges. These challenges were a result of a combination of factors, including limited locomotive availability and reliability, an increase in track-related incidents, the implementation of Temporary Speed Restrictions (TSRs), as well as inefficiencies in cross-border operations of the URC and inadequate hauling equipment. These issues have had a substantial impact on the punctuality and efficiency of cargo movement within our network, leading to increased operational costs, customer dissatisfaction, and cargo diversion. Consistently compromised cargo delivery schedules have negatively affected customer retention. These challenges are discussed in more detail below. They are further discussed as under;

1. **The SGR Containerized Cargo Segment Performance Amidst Evolving Dynamics** - The containerized cargo segment experienced a slight performance decline following the elimination of direct nomination of cargo. This shift has vested importers to take charge of critical decisions regarding their cargo and have actively exercised alternative avenues for cargo clearance, diversifying their options beyond reliance on the SGR and Inland Container Deports.
2. **MGR locomotive availability and reliability -** Our focus remains on enhancing locomotive performance. While we have seen a decrease in availability to 70%, below the desired 90%, and a dip from the previous years 72.6%, we acquired 12 additional locomotives. Performance also decreased slightly from 73% in the fiscal year 2020/21. Furthermore, locomotive reliability faced a challenge with an average Mean Kilometers between Failures (MKBF) of 1,523km during the period, below our target of 4,000km.
3. **Track Incidences, and Cross-Border Inefficiency -** During the review period, reported accidents/incidents increased from 648 (the previous year) to 747. This rise, largely attributed to derailments, track vandalism, and track failures, resulted in extended blockage times, up from 4,279 to 6,314 hours. Nonetheless, we are actively addressing these challenges, emphasizing safety, and enhancing operational efficiency. This commitment will yield improvements in cargo delivery and asset cycle times, reflecting our dedication to a safer and more efficient railway system.
4. **Temporary Speed Restrictions (TSRs) Impact on Efficiency** - In the review period, Temporary Speed Restrictions (TSRs) contributed to 18% of operational challenges. These restrictions were essential for addressing sleeper defects and facilitating mainline rehabilitation and maintenance across sections. While the TSR-covered distance decreased from 726.9km to 652.4km compared to the previous year, lower speeds still impacted timely freight deliveries. Our commitment to streamlining TSR management remains steadfast to ensure efficient and punctual freight services for our clients

5. **Cross-Border Inefficiencies** - During the period under review, there were notable delays in evacuating cargo from Malaba due to the temporary closure of the line for rehabilitation by the Uganda Railways Corporation (URC). This closure led to cargo congestion at the Malaba border crossing, resulting in frustrated clients, cargo diversions to road transport, export volume delays, and empty wagon return challenges.

6. **Inadequate haulage equipment to meet the demand for steel haulage -** The MGR network experienced a significant challenge in meeting the demand for steel haulage due to inadequate equipment, specifically the shortage of saddles required for transporting steel. This equipment shortfall created bottlenecks in the efficient movement of steel cargo across our network, impacting our ability to serve our customers effectively.

Management Strategies

To thrive in this dynamic environment, the board and management are actively pursuing innovative strategies. These strategies aim to address declining containerized cargo performance and position the railway as a compelling, competitive, and reliable choice in the evolving cargo transportation landscape. This following proactive approach emphasizes our commitment to adaptability and progress, ensuring the railway's continued relevance and success in the ever-changing world of cargo logistics;

i. **Strategic Response to Competitive Cargo Landscape:** In the face of heightened competition in the containerized cargo sector, we are proactively enhancing customer engagement with tailored services and value-added support. We are also diversifying our offerings and embracing integrated logistics solutions with other government agencies, along with competitive pricing strategies while leveraging on efficiency and reliability of our services. We are also pursuing collaborative efforts with the Government of Kenya (GOK) on favorable rail transport policies to ensure our agility and sustained success in this dynamic competitive landscape.

ii. **Enhancing Locomotive Performance and Reliability:** we are implementing a comprehensive maintenance programs, timely spare parts acquisition, rigorous performance monitoring, and collaboration with Kenya Shipyard to achieve and maintain the critical 90% availability threshold.

iii. **Comprehensive Approach to Track Safety and TSR Reduction:** We are taking a multifaceted approach to improve track safety and reduce Temporary Speed Restrictions (TSRs) including investing in advanced track-monitoring systems for early defect detection, reinforcing security measures, and collaborating with law enforcement. We are also accelerating sleeper replacement and rehabilitation efforts. Additionally, our TSR mitigation plan focuses on minimizing both the duration and frequency of speed restrictions through proactive sleeper maintenance and streamlined management.

iv. **Collaborative Cross-Border Efficiency Enhancement:** Our dedication to improving cross-border efficiency includes a strong partnership with Uganda Railways Corporation (URC) to minimize disruptions during line rehabilitation. We have devised contingency plans to manage cargo congestion during temporary closures, including routing cargo through Kisumu for marine evacuation. Moreover, we are expanding capacity at the Malaba Logistics Hub and implementing streamlined customs and clearance procedures to facilitate smoother cross-border movements by rail and intermodal transport. These measures underscore our commitment to efficient cross-border operations.

v. **Meeting Steel Haulage Demand Efficiently:** To tackle the challenge of insufficient equipment for steel haulage, we are taking concrete steps that involves continuous saddle procurement and close collaboration with Uganda Railways Corporation to collectively address transit demand. Additionally, we are bolstering our cargo transportation capacity by expediting the delivery of 300 SGR wagons and 200 MGR wagons that we have recently acquired.

vi. **Implementing other Rail Service Enhancement Initiatives:** To achieve operational excellence and improve rail services, we are implementing multifaceted strategies. We are intensifying marketing efforts, collaborating closely with importers and shipping lines to promote rail services. Additionally, we are establishing a dedicated Freight Terminus at Miritini to streamline cargo handling and logistics operations, ensuring prompt and reliable service. In response to urban transportation demands, we are accelerating the acquisition of high-capacity Diesel Multiple Units (DMUs) through the World Bank Urban Mobility funding project. These efforts align with our commitment to efficient and reliable rail services, meeting evolving customer and stakeholder needs.

In conclusion, these challenges are being met with comprehensive strategies that encompass maintenance, investment, collaboration, and efficiency measures. By addressing these challenges head-on, we aim to improve service reliability, reduce operational disruptions, enhance customer satisfaction, and maintain a competitive edge.

RAILWAY TRAINING INSTITUTE

The institute offers both railway and commercial courses. The enrolment increased from **6083** to **8109**. However, there was a decline in revenue that affected RTI's performance from **Kes 336.6 Million** in the previous year, to **Kes 279.3 Million** in the period against the target of **Kes 435.6Million.**

This was mainly attributed to the non-generation of projected revenue form rail courses. These are niche courses that bring significant revenues. The low enrolment for these programs, was as a result of the non-absorption of rail graduates by the corporation, de - marketing the courses.

Non - Rail

Non-Rail business encompasses all other commercial engagements besides MGR, RTI and SGR. It includes revenue from leases, advertising, museum, wayleaves and fibre optic among other ancillary businesses.

The business unit generated **Kes 888.10 Million** achieving 73% of the targeted Kes **1,212.9 Million** during the period, further translating to an increase from **Kes 874.72 Million** collected in the FY2021/22 as illustrated in the table below.

Table 9.2 Non-Rail comparative performance

NON RAIL COMPARATIVES					
REVENUE AND EXPENSES	**FY2022-2023 ACTUAL**	**FY2022-2023 BUDGET**	**FY2021-2022 ACTUAL**	**FY2022-23 ACTUAL VS BUDGET VARIANCE**	**FY2022-23 VS FY2021-22 ACTUAL VARIANCE**
RENT	823,358,662	1,166,355,989	857,686,114	(342,997,327)	(34,327,452)
MUSEUM INCOME	3,616,425	1,846,465	2,417,753	1,769,960	1,198,672
OTHER INCOME	61,123,959	74,676,308	14,615,434	(13,552,349)	46,508,525
TOTAL INCOME	**888,099,046**	**1,242,878,763**	**874,719,300**	**(354,779,716)**	**13,379,746**
ADMINISTRATION EXPENSES	(290,808,201)	(280,713,803)	(504,715,861)	(10,094,398)	213,907,660
REPAIR & MAINTENANCE	(17,672,236)	(15,000,000)	(9,196,149)	(2,672,236)	(8,476,087)
STAFF COST	(331,285,441)	(312,700,224)	(277,723,858)	(18,585,217)	(53,561,583)
TOTAL COSTS	**(639,765,877)**	**(608,414,027)**	**(791,635,867)**	**(31,351,850)**	**151,869,990**
OPERATING PROFIT/ (LOSS)	**248,333,169**	**634,464,736**	**83,083,433**	**(386,131,567)**	**165,249,736**

However, the following challenges continue to derail achievement:

1. Insufficient funds to develop un-utilized prime areas as well as renovate and redevelop existing estates for rent placement at market value;
2. Inadequate staff capacity for intensive regional real estate's management;
3. Inadequate real estate management automated system; and,
4. Low collections attributed to tough economic conditions in the country.

The Corporation is undertaking the following initiatives to counter challenges experienced in the business unit.

1. Commence plans for renovation of Nyalenda Estate in Kisumu as well as re-development of Msaada Estate in Mombasa;
2. Expedited roll out of the Real Estate Management module of SAP for efficient properties management;
3. Hire additional staff to regional estates offices for enhanced collections and estates management;
4. Enhance marketing for KR Museums;
5. Engage auctioneers to assist in collection of long overdue rent arrears; and
6. Commenced campaign to lease unoccupied / bare KR land across the network.

Financial Performance

The overall financial performance is as per the table below;

Table 9.3 Segmental performance

	Note	SGR 30th June 2023 KES	MGR 30th June 2023 KES	Non Rail 30th June 2023 KES	RTI 30th June 2023 KES	TOTAL 30th June 2023 KES	TOTAL 30th June 2022 KES
REVENUES	-						
Main Income	6	17,112,107,140	1,972,841,122	823,358,662	279,301,552	20,187,608,477	18,650,546,585
Discount Allowed	6(a)	(1,065,177,532)	-	-	-	(1,065,177,532)	(1,106,314,171)
Other income	8	-	109,331,373	64,740,384	-	174,071,757	162,932,386
TOTAL REVENUES		**16,046,929,608**	**2,082,172,495**	**888,099,046**	**279,301,552**	**19,296,502,701**	**17,707,164,801**
OPERATING EXPENSES					-	-	-
Board expenses	9	(14,896,165)	(11,916,932)	(2,979,233)	(638,795)	(30,431,124)	(33,538,335)
Staff Cost	10(a)	(1,058,787,336)	(791,861,215)	(331,285,441)	(191,334,880)	(2,373,268,872)	(1,859,969,412)
Administration expenses	10	(388,042,172)	(348,826,241)	(305,501,203)	(130,077,423)	(1,172,447,039)	(939,683,469)
Rail Operational expenses	11	(15,935,360,521)	(2,182,882,617)	-	-	(18,168,243,138)	(19,752,329,449)
TOTAL OPERATING EXPENSES		**(17,447,086,193)**	**(3,335,487,005)**	**(639,765,877)**	**(322,051,098)**	**(21,744,390,173)**	**(22,585,520,665)**
TOTAL EXPENSES		**(17,447,086,193)**	**(3,335,487,005)**	**(639,765,877)**	**(322,051,098)**	**(21,744,390,173)**	**(22,585,520,665)**
OPERATING PROFIT/(LOSS)		**(1,400,156,584)**	**(1,253,314,511)**	**248,333,169**	**(42,749,546)**	**(2,447,887,472)**	**(4,878,355,864)**
Other comprehensive income							
Finance Income	14	-	-	368,755,675	-	368,755,675	271,662,973
Finance Expense	15	(25,468,906,816)	-	-	-	(25,468,906,816)	(22,723,783,487)
Penalties/Interests On Debt	16	(1,554,839,369)	-	-	-	(1,554,839,369)	(1,312,362,215)
Exchange Gain/Loss	14	1,319,491,579	-	-	-	1,319,491,579	1,755,761,432
Government Grants	7	16,045,447,610	-	-	-	16,045,447,610	30,929,966,797
Depreciation of property, plant and equipment	12	(21,170,688,019)	(128,154,062)	(265,027,424)	(15,095,713)	(21,578,965,217)	(21,547,488,287)
Amortisation of Intangible Assets	12(a)	-	(7,390,422)	(7,390,422)	-	(14,780,843)	(11,195,523)
Provision For Bad Debts	10(d)	-	-	-	-	(258,239,838)	(179,585,920)
PROFIT/(LOSS) BEFORE TAXATION		**(32,229,651,600)**	**(1,388,858,994)**	**344,670,998**	**(57,845,259)**	**(33,589,924,692)**	**(17,695,380,095)**
INCOME TAX EXPENSE	17	-	-	-	-	-	4,984,185,870
PROFIT/(LOSS) AFTER TAXATION		**(32,229,651,600)**	**(1,388,858,994)**	**344,670,998**	**(57,845,259)**	**(33,589,924,692)**	**(12,711,194,225)**

The Corporation's Operating revenue in FY2022/23 was **Kes 19.30 Billion**, net of discounts, against **Kes 17.71 Billion** the previous year. The total loss in the FY is **Kes 33.59 Billion** compared to **Kes 12.71 Billion** in the FY2021/22. The significant increase in loss is largely due to reduction in government grants of **Kes 16.05 Billion** received compared to **Kes 30.93 Billion** the previous FY. Also in the current year.

Operating expenses of **Kes 21.75 Billion** were incurred compared to **Kes 22.59 Billion** the previous year with the decrease by **Kes 834.76 Million** being attributed to the reduction of SGR operational cost as a result of operation takeover by the corporation. Interest on the lent loan and Depreciation. Costs incurred on SGR operational costs to the Operator, AfriStar, based on the direct Operational and Maintenance contract and other costs for the marketing of both the passenger and freight services were **Kes 15.99 Billion**. MGR rail Operation costs were at **Kes 3.34 Billion** including staff cost of **Kes 791 Million**

Table 9.4 Key Financial performance; Revenue

Revenue	2022 2023	2021 2022	Change	Percentage
RENT INCOME	823,358,662	909,564,999	86,206,337	-10%
SGR INCOME	16,046,929,608	15,018,360,424	(1,028,569,184)	6%
EQUIPMENT LEASE INCOME	47,391,914	80,787,895	33,395,981	-70%
MUSEUM INCOME	3,616,425	2,417,753	(1,198,672)	33%
INVESTMENT INCOME	1,688,247,254	2,027,424,405	339,177,151	-20%
OTHER INCOMES	123,063,417	27,847,853	(95,215,564)	77%
MGR REVENUES	1,972,841,122	1,331,556,754	(641,284,368)	33%
GOK GRANT	16,045,447,610	30,929,966,797	14,884,519,187	-93%
RTI Income	279,301,552	336,629,123	57,327,571	-21%
TOTAL REVENUE	**37,030,197,565**	**50,664,556,002**	**13,634,358,437**	**-37%**

SGR Income improved owing to higher volumes railed in the year. Equipment lease income declined as a result of decreased wagon leases for ballast to CRBC for rehabilitation of MGR lines as compared to previous FY2021/22. Investment income included foreign exchange gains on bank balances and assets. Museum income improved as a result of higher numbers in the year and increased corporate clients. During the year, RTI offered less premium rail courses as compared to FY2021/22

Table 9.5 Key Financial performance; Expenses

Cost	2022 2023	2021 2022	Change	Percentage
STAFF COSTS	(2,373,268,872)	(1,859,969,412)	513,299,460	-22%
RAIL OPERATIONS COSTS	(18,168,243,138)	(19,752,329,449)	(1,584,086,311)	9%
TRAINING	(15,830,560)	(25,247,849)	(9,417,289)	59%
TRAVEL & ACCOMODATION	(182,985,895)	(168,863,496)	14,122,399	-8%
LEGAL & PROFESSIONAL	(358,207,894)	(325,992,262)	32,215,632	-9%
BOARD EXPENSES TOTAL	(30,431,124)	(33,538,335)	(3,107,211)	10%
GENERAL OFFICE EXPENSES	(237,563,252)	(162,193,699)	75,369,553	-32%
PRINTING & STATIONERY	(7,887,572)	(10,306,145)	(2,418,573)	31%
MV RUNNING EXP	(119,739,467)	(73,304,030)	46,435,438	-39%
UTILITIES EXPENSES	(114,708,898)	(69,054,483)	45,654,415	-40%
COMMUNICATIONS COSTS	(27,870,542)	(17,313,943)	10,556,600	-38%
ADVERTISING & PROMOTION	(16,098,930)	(40,429,625)	(24,330,695)	151%
SUBSCRIPTION & DONATIONS	(1,551,232)	(4,063,007)	(2,511,775)	162%
INSURANCE EXPENSES	(53,030,188)	(13,618,725)	39,411,463	-74%
REPAIRS & MAINTENANCE	(36,972,610)	(29,296,206)	7,676,403	-21%
PROVISION FOR DOUBTFUL DEBT	(258,239,838)	(179,585,920)	78,653,918	-30%
TOTAL OPERATION COSTS	**(22,002,630,012)**	**(22,765,106,585)**	**(762,476,573)**	**3%**
FINANCE EXPENSES	(25,468,906,816)	(22,723,783,487)	2,745,123,328	-11%
PENALTIES/INTERESTS	(1,554,839,369)	(1,312,362,215)	242,477,154	-16%
DEPRECIATION EXP	(21,593,746,061)	(21,558,683,810)	35,062,251	0%
NON OPERATING COSTS	**(48,617,492,246)**	**(45,594,829,512)**	**3,022,662,734**	**-6%**
TOTAL EXPENSES	**(70,620,122,257)**	**(68,359,936,097)**	**2,260,186,160**	**-3%**

There was significant reduction in total operating costs owing to cost containment measures and reduced activity. This includes training, printing & stationery, board expenses, advertising, subscriptions & donations and rail operations costs. A number of costs increased due to increased levels of activity. This includes staff costs, travel & accommodation, legal fees, communication costs, utilities, insurance expenses, repairs & maintenance and general office. Finance expense increase resulted from the loan obligations falling due in the year.

The Corporation absorbed **Kes 12.19 Billion** (98%) of GoK allocated funds against a target of **Kes 24.21Billion.** The funds were used for rail operations, refurbishment of coaches and settlement of contractor fees in construction of Naivasha special economic zone Textile park- ICD Naivasha and continuing capacity enhancing projects for the Metre Gauge Railway. Likewise, **Kes 9.28Billion** (100%) of externally mobilised funds from development partners, EXIM Bank, were fully absorbed in settlement of SGR Phase 1 and Phase 2A contractor fees.

SGR Takeover

As at 30th June 2023, the management had taken over forty six (46) out the fifty-two (52) SGR Operation and Maintenance functions in the broad areas of transport, locomotive and rolling stock, track, and signalling, communication, Electricity, and Information (SCEI).

The Corporation has taken over the following function;

Table 9.6 SGR Take over Areas

S/No	Category/ Department	No of Functions taken over by KR	No. of Functions with Afristar
1	Transport	18	5
2	Locomotive	8	0
3	Rolling stock	3	0
4	Track	12	0
5	Signalling, Communication, Electricity, and Information	5	1
	Total	**46**	**6**

Key Projects and Investment Decisions

This section highlights projects implemented by the Corporation towards enhancing capacity and improving efficiency.

The ongoing projects include;

1. Construction of Marine Drive Road (2.64Km)
2. Revitalization of the Gilgil – Nyahururu MGR Branch Line (78 km)
3. Revitalization of the Leseru – Kitale MGR Branch Line (65 km)
4. Revitalization of the Kisumu – Butere MGR Line (69 km)
5. Rehabilitation of the Mombasa – Konza MGR Section (456 km) and the Nairobi (Kikuyu) – Longonot MGR Section (57 km)
6. Construction of Houses for Relocation Action Plan (RAP) in Kibera and Mukuru
7. Construction of a Cargo Handling Facility at Malaba and Associated Works
8. Construction of the Miritini MGR Station - Mombasa Terminus New MGR Link and Railway Bridge across Makupa Causeway
9. Rehabilitation and overhaul of 31 No. MGR Locomotives (rehabilitation of 6 No. mainline locomotives and 3 No. shunting locomotives)
10. Enterprise Resource Planning-ERP (SAP)
11. Re-manufacturing and rehabilitation of 13No. Diesel Electric Locomotives
12. Development of the Railway City (a transit-oriented urban development

Major Risks Facing KR

Enterprise Risk Management

KR has implemented a robust Enterprise Risk Management framework (ERM) to proactively identify and mitigate risks, in order to guarantee provision of a reliable, efficient and safe rail services. This has enabled the Corporation proactively recognize not only risk but also take advantage of opportunities.

The Corporation has adopted a risk management process based on ISO 3100:2018 standard for identification, analysis, mitigation, monitoring and reporting of all significant risks to strategic and operational objectives. The risk management process is based on the following risk management tools; risk control self-assessment (RCSA); compliance support; key risk indicators (KRIs); action point tracking; and incident management that has resulted in a standardized and structured approach to risk management and reporting across all business units.

Recognizing the complexity and dynamic nature of its business environment, the Corporation regularly scan for emerging risks as well review overall performance of its existing risk profile with an objective of managing risks within its appetite level. The Board has been instrumental to the continued improvement of positive risk management culture in the Corporation through its strategic leadership and by availing appropriate resources.

The Board is responsible for overseeing risk management in the Corporation and reviewing the effectiveness of the Corporations ERM approach. The Quality & Risk Division is responsible for driving ERM process while the Heads of Departments and Divisions are responsible for identifying and managing risks in their respective area of operations within approved risk appetite level.

Strategic risks

During the FY 2022-23, the Corporation identified and mitigated the following risks:

Service Disruption Risk: KR competitive edge comes from guaranteeing reliable, safe and efficient railway network. Critical failure of the supporting technology and infrastructure from either intentional or unintentional actions would have a huge ramification on service delivery to key customers and stakeholders. To guarantee service availability, the Corporation procured new MGR locomotives, rehabilitated and remanufactured locomotives in addition to maintaining SGR Track Quality Index below 10.

Competition & Market Share Risk:

KR faces competition in the logistic service associated with changes in consumer preference in terms of competitive pricing, quality of service, after sales support, and improvement in the road network. The Corporation is pursued the following strategies to safeguard its market share: customized of KR Service Charter, diversified cargo moved by MV Uhuru I; and increased cargo handling at the Malaba transshipment facility.

Financial Sustainability Risk:

Railway project implementation, operations and maintenance are capital intensive. The costs are incurred to ensure optimization of service delivery while sustaining quality of service and safety of customers and stakeholders. To ensure prudent financial management, a cost containment measures focusing on the bottom line, and implementation of SGR phased takeover by the Corporation led to increased financial performance. To sustain the financial performance achieved this year, the Corporation implemented a new ERP System and adopted a cashless system for payment of its services.

Environmental Risk:

Extreme climate conditions expose rail operations to disruptions. The Corporation sustained improved fuel efficiency in its rail operations. With the likelihood of flooding and wash away due to heavy rains, the Corporation is improving the MGR track by laying of track ballast and repair of tunnels, bridges and culverts, reconditioning and installation of steel sleepers.

Compliance Risk:

KR has a vast network passing through remote and isolated areas limiting surveillance. During the period, the Corporation intensified safety induction of all contracted staff and toolbox talks prior to commencement of any activity to reduce incidents of injury while on duty. In addition to this, there was enhanced multi- agency security surveillance reduced cases of rail assets vandalism and interference.

The Corporation has an On-Lent Loan from the GOK for the Loans signed with the China Exim Bank. For the period of construction, the interest on loan was to be capitalised as per on-lent agreement. However, after five years of the construction period lapse, the loan interest is repayable by the Corporation. The ability to pay is pegged on freight and passenger services performance from January 2020.The SGR operation expenses are more than the revenues generated hence not yet achieved a break-even position.

KR had also invested Kes 800 Million in Chase Bank, which has since gone into receivership. SBM Holdings Kenya Ltd acquired Chase Bank Kenya in August 2018. The agreement provided that there was to be a transfer of 75 percent of the value of deposits (Kes 600 Million) currently under moratorium at CBLR, into the accounts of the depositors whereas the 25 percent of the value of moratorium deposits(Kes 200 Million) was remain in CBLR until further directions from KDIC.

Kes 600 Million was transferred to SBM K Ltd. who have availed the full amount to the Corporation in August 2021. Kes 200 Million has remained in Chase bank (Under Receivership).The recoverability of the Kes 200 Million in Chase bank is doubtful and has been fully provided for under bad debts.

The Corporation depends largely on a Single Client, Kenya Ports Authority, being the single biggest contributor to revenues. For Conventional cargo uptake, the Corporation largely relies on third party infrastructure to be able to convey this category of Cargo.

The Corporation has a huge Foreign Exchange Exposure arising from Dollar denominated obligations majorly Operator, AfriStar Co Ltd, who invoices us in US Dollars.

KR has been taking over most of SGR operations from June 2022 and only few operational functions are remaining. There are uncertainties to the comfort of full knowledge transfer. Moreover, there are outstanding bills to the Operator, AfriStar, which are still outstanding

Material Arrears in Statutory and Financial Obligations

The Corporation has an on-lent loan from National Treasury of **Kes 617 Billion** from China Exim Bank for SGR Phase 1 and IIA development.

There are also outstanding payables and accrued charges as at 30.06.2023 **Kes 41.26 Billion** including dues to the Operator, Afristar of **Kes 14.60 Billion.**

Financial Probity and Serious Governance Issues

There was one case of financial misappropriation, which implicated a staff in finance. The case was forwarded to DCI and the staff involved was interdicted and there is a court proceeding on-going in accordance with human resource code of conduct.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

KRC endeavours to provide efficient and effective railway services to the citizens of Kenya. The Corporation continues to implement its sustainability strategies that aim for operational efficiency over the long-term. The strategies focus on reducing the environmental impact of its operations, promoting sustainable transport infrastructure, and support sustainable development in Kenya

This section highlights sustainability strategies and initiatives implemented that contribute to environmental improvement as well as employee welfare.

i. Sustainability strategy and profile

Kenya Railways Corporation (KRC) has made significant efforts towards sustainability in recent years. The corporation has implemented various initiatives aimed at reducing its environmental impact, such as reducing energy consumption, promoting the use of renewable energy, and implementing waste management practices. KRC has also invested in sustainable transport infrastructure, such as the acquisition of new MGR rolling stock, cargo handling facilities such as in Malaba, which are designed to enhance operational efficiency, reduce carbon emissions and promote sustainable transport.

The Kenyan Government has made a commitment to sustainable development, and KRC has aligned its sustainability efforts with national policies and strategies. KRC has responded by implementing measures to ensure the safety of its employees and customers while maintaining its sustainability goals.

KRC has also looked to international best practices and key achievements in sustainability to guide its efforts. The United Nations Sustainable Development Goals (SDGs) have provided a framework for KRC's sustainability initiatives, and the Corporation has made progress towards achieving several of these goals. For instance, KRC has implemented measures to reduce greenhouse gas emissions and promote sustainable transport through new assets and maintaining a high assets maintenance regime. However, there have also been challenges in sustainability efforts, such as adopting fast changing technologies and high cost of rehabilitation.

Overall, the Corporation has made significant efforts towards sustainability, aligning its initiatives with national policies and international best practices. While there have been challenges, KRC continues to make progress towards promoting sustainable development in Kenya.

In discharging our mandate, Kenya Railways (KR) is committed to reducing our negative environmental impact and continually improving our environmental performance; to operate in an environmentally responsible manner and to integrate environmental sustainability in all our services to the benefit of the environment, our stakeholders, customers and the community. This is applicable in all our activities from construction to maintenance and rail transport operation and in premises ranging from offices to estates, operational land, stations and workshop's.

At Kenya Railways, we are committed to operating our railway systems with a strong focus on environmental sustainability. We understand that the transportation sector plays a significant role in global emissions, resource consumption, and ecological impact. Therefore, we have taken proactive steps to minimize our environmental footprint, promote sustainable practices, and contribute to a greener future. To achieve this, KR has endeavoured to:

1. **Emission Reduction and Energy Efficiency:** Our institution is dedicated to reducing greenhouse gas emissions through various initiatives:
    - We have invested in modernising our fleet with energy-efficient locomotives and rolling stock, resulting in reduced carbon emissions per passenger mile and ton-mile.
    - Continuous monitoring and optimization of train schedules and routes to reduce idle times, thus enhancing energy efficiency.
2. **Waste Management and Recycling:** Minimising waste generation and promoting recycling are integral parts of our sustainability efforts:
    - Utilising recycled materials for railway infrastructure and maintenance wherever feasible.
    - Carrying out awareness campaigns and initiatives that promote responsible waste disposal among passengers and staff.
3. **Biodiversity and Habitat Conservation:** We recognize the importance of preserving local ecosystems and wildlife habitats along our railway lines:
    - Implementation of wildlife crossings, fencing, and corridors to mitigate wildlife collisions and preserve natural habitats.
    - Regular assessment of the impact of railway operations on local flora and fauna, with proactive measures to minimize disruptions.
    - Ensuring compliance with relevant environmental regulations and standards for example with the Environmental Management and Coordination Act (EMCA) 1999 revised 2015.

Kenya Railways remains committed to environmental stewardship and sustainability with an aim to create a greener and more sustainable service delivery. In this regard, the Corporation will

- Comply with all applicable environmental, legal and other obligations in our railway development and operation activities;
- Develop and implement environmental management system to assist in identifying and managing environmental risks and opportunities;
- Carry out appropriate project planning and designs in order to manage identified environmental impacts;
- Prevent or minimise pollution of the environment through reduction of waste generation;
- Foster employee environmental awareness and responsible culture at workplace;
- Monitor and evaluate environmental performance to enhance improvement;
- Engage with Government, community, customers, relevant stakeholders, contractors, suppliers and all business associates on environmental matters as our priority to promote environmental concern as our joint duty of care towards future generations.

iii) Employee welfare

The Corporation conducts quarterly performance appraisal and target setting. This identifies the gaps for employee welfare

Kenya Railways Corporation manages its employee welfare in line with the various laws and guidelines including the constitution, employment laws and the locally domesticated ILO conventions. Some of the key welfare policies adopted by the Corporation includes:

a) HIV and aids Policy
b) Gender Mainstreaming Policy
c) Disability Mainstreaming Policy
d) Alcohol and drug abuse Policy
e) Sexual harassment Policy
f) Employee wellness Policy

The Corporation recognises the importance of labour relations and the right to belong to the workers union. In this regard, the Corporation maintains a cordial relationship with various employee unions and representatives.

The Corporation observes gender mainstreaming and regional balance on appointment, promotion and ensures application of a third (1/3) gender rule. Annually, the Corporation ensures that as it prepares its Human Capital plan, all national values principals, equal opportunity guidelines are adhered to.

Recruitments and promotions are conducted in an open and transparent manner to give equal opportunity to all deserving staff as well as external candidates.

All job advertisements contain the following: -

a) A brief description of the Corporation's mandate;
b) Job title;
c) Main purpose of the job;
d) A brief description of the key responsibilities of the job;
e) Education, experience, skills and competencies required for the job;
f) Salary and benefits (optional);
g) Location of the job (where necessary);
h) Clear instructions on how to apply and information to be submitted in the application
i) Closing date for receipt of applications.

The Corporation conducts half-yearly performance appraisals and target setting. This identifies the gaps for purposes of capacity improvement and rewards for excellence. The Corporation is a non-discriminatory equal opportunity employer. It also has a robust drug and substance abuse policy. It is developing mental health policy to tackle the growing challenge of mental health in the workplace

With the growing number of staff, the Corporation continues to offer staff benefits including but not limited to:

- Medical insurance cover
- Mortgage
- Car loan
- Salary advances
- Life Insurance
- Accident insurance

The budget allocation for these staff benefits continues to be reviewed from time to time to ensure non-discrimination and equal allocation to all staff.

The Corporation commits to achieve and maintain the highest standards of health and safety in the workplace. This is through elimination and minimization of health and safety hazards and risks that may affect its employees. In compliance with the Occupational Safety and Health Act, 2007 and other laws, the Corporation through the Human Resource and Administration Department continues to implement policies and programs to ensure protection of employees against hazards and disasters.

The Corporation has initiated a Culture change program that will help build a healthy, professional and ethical work environment for all employees. The implementation of the Balance Score Card will ensure maximum employee performance.

The Corporation upholds fair practices in matters relating to employee discipline and as such, it has continued to apply the following principles while adjudicating employee disciplinary matters:

- The rules of natural justice;
- Procedural fairness, where an officer must be allowed adequate opportunity to prepare and present his/her case;
- Unbiased when hearing and making decisions;
- Decisions are based upon logical proof or evidential material.
- Fair administrative action, which is expeditious, efficient, lawful, reasonable and procedurally fair.
- Every officer to whom disciplinary action is taken has a right to: Written reasons for any disciplinary action that is taken against him; Prior and adequate notice of the nature and reasons for the intended disciplinary action;
- An opportunity to be heard and to make representations in that regard;
- An opportunity to attend proceedings in person or in the company of an expert of his choice, cross examine persons who give adverse evidence against him and request for adjournment of proceedings where necessary;
- Notice of a right to an appeal or review against a disciplinary decision;
- Provision of Information, materials and evidence to be relied upon in making a decision or taking a disciplinary action.

iv) Market place practices-

a) Responsible competition practice.

In the highly competitive arena of freight rail marketing, responsible business practices are not only a moral imperative but also a cornerstone of long-term success of Kenya Railways. To ensure that competition remains fair, ethical, and respectful, organizations operating in this sector must navigate various challenges. These challenges often revolve around issues such as anti-corruption, responsible political involvement, fair competition, and respect for competitors. Here is an exploration of how Kenya Railway ensures responsible competition practices in these key areas.

Anti-Corruption Measures: We are committed to maintaining the highest standards of integrity. They implement rigorous anti-corruption measures that include strict compliance to anti-corruption laws and regulations, both locally and internationally, is non-negotiable. This includes comprehensive training for employees on anti-corruption policies and procedures

Responsible Political Involvement: As required by law, Kenya Railways does not engage in politics. We however maintain a commitment to public accountability, sharing our position on policy matters openly and engaging in dialogue with stakeholders whenever we are called upon to do.

Fair Competition: Kenya Railways Corporation (KRC), acting as a common carrier, has a legal obligation, as stipulated in clause 45 of the KRC Act, to provide freight services to any party who has duly submitted the appropriate rates and charges and complied with the conditions specified for the acceptance of goods for carriage by the Corporation. Further, we exercise pricing transparency as our prices and tariffs are published, clear and consistent. Discounts and incentives are offered based on objective criteria, avoiding

discriminatory practices. Predatory behaviour such as unfair practices like predatory pricing or anti-competitive behaviour are strictly avoided, ensuring that competitors have a level playing field. Finally, we respect intellectual Property of our client including patents and trademarks, and contractual confidentially

Professionalism: Customers are treated with professionalism and courtesy in all interactions, including negotiations and disputes. Confidential and proprietary information of clients is handled with care, ensuring that it is not used to gain an unfair advantage.

b) Responsible supply chain and supplier relations

Kenya Railways being a State Corporation is governed by the Constitution of Kenya 2010 and the Public Procurement Law, which is enacted by the act of Parliament. The Supply Chain Department's mandate is to procure goods, works and services that encompasses procurement planning, processing, inventory and assets management, disposal of assets and contract management on behalf of the corporation through the Public Procurement Assets and Disposal Act, 2015 (enacted on 7th July 2016) and its subsequent Regulations 2020. The role of the Department is to ensure and promote transparency, fairness, equitability, competitiveness and cost- effectiveness in accordance with the Procurement Act and Article 227 of the Constitution of Kenya 2010..

v) Corporate Social Responsibility / Community Engagements

Kenya Railways always undertakes initiatives aimed at creating and sustaining good and positive relations with the society neighbouring our areas of operation and the railway corridor. The Corporate Social Responsibility (CSR) is the main tool utilized to achieve this goal.

The Corporation has continually impacted positively on the lives of those living around our areas of operation and along the railway corridor. KR's priority and thematic areas for engagement under CSR function are Education, Health, Environment and Sports.

During the year under review, the Corporation undertook the following CSR initiatives:

On June 30, 2023, the Corporation undertook a tree planting exercise at Bunyala Forest station in Kakamega County. The exercise was in line with the 'National Tree Planting programme' where Public Institutions are required to plant trees as part of their Performance Contracting obligations. During the exercise, the Corporation planted 4,000 assorted indigenous tree seedlings. The exercise was carried out in partnership with the Kenya Forest Service Kakamega Conservancy Office.

As part of the beautification and greening efforts for positive climate change, the Corporation also planted 500 seedlings at the upcoming Mtito Andei Health Centre, which is also a CSR project that the Corporation is in the process of completing before handover to the local community.

KR Golf Club - Chairman's Prize 2022

The Corporation sponsored the Chairman's Prize Golf Tournament and the Tana Hill League organized by the Kenya Railways Golf Club to a tune of Kes 700,000. Funds raised during the event are chaneled towards a humanitarian project of the Chairman's choice.

11. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023, which show the state of the Corporation affairs.

i) Principal activities

The Corporation's principal activity is to provide a coordinated and integrated system within Kenya of rail transport services and auxiliary road services in connection therewith.

ii) Results

The results of the Corporation for the year ended June 30, 2023 are set under the financial statements

Table 11.1 Changes in Board of Directors

S/ No	Name	Designation	Date of Appointment	Contract Period	End of Term	Term	Tribe
1	Capt. Mohamed M. Abdi	Chairman	10.02.2023	3 years	09.02.2026	1st	Somali
2	Maj. Gen. (Rtd) Pastor Awitta	Chairman Out-going	18.10.2019	3 years	09.02.2023	2nd	Luo
3	Ms Nancy Sang	Director	31.05.2023	3 years	30.05.2026	1st	Kalenjin
4	Ms Sumaiya S. Mohamed	Director	13.07.2022	3 years	12.07.2025	1st	Swahili Shirazi
5	Dr. John O. A. Nyerere	Director	07.08.2020	2 years 2 months	20.10.2022	1st	Luo
6	Mr. Martin Mogwanja	Director	07.08.2020	2 years 2 months	20.10.2022	1st	Kikuyu
7	Prof. Njuguna Ndung'u, CBS	CS - National Treasury		Statutory			Kikuyu
8	Hon. Amb. Ukur Yatani Kanacho, EGH	CS - National Treasury		Statutory			Borana
9	Mr. Mohamed Daghar	PS - State Department of Transport		Statutory			Mbajuni
10	Dr. Eng. Joseph K. Njoroge, CBS	PS - State Department of Transport		Statutory			Kikuyu
11	Capt. William Ruto	MD - KPA		Statutory			Kalenjin
12	Amb. John Mwangemi	MD - KPA		Statutory			Taita
13	Mr. Paul Bor	Alt Director-KPA		Statutory			Kalenjin
14	Mr. Sudi Mwasinago	Alt Director-KPA		Statutory			Digo

iii) Auditors

The Auditor-General is responsible for the statutory audit of the Kenya Railways in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the entity for the year ended June 30, 2023.

By Order of the Board

Mr Stanley Gitari

CORPORATE SECRETARY

Date 24/10/2023

12. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 and section 14 (1) of the State Corporations Act, 2012 require the Directors to prepare financial statements in respect of Kenya Railways, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Kenya Railways for that year/period. The Directors are also required to ensure that Kenya Railways keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of Kenya Railways.

The Directors are responsible for the preparation and presentation of the Kenya Railways financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2023. 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 Corporation;

iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;

iv) Safeguarding the assets of the Kenya Railways;

v) Selecting and applying appropriate accounting policies; and

vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for Kenya Railway's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and section 15 (1) of the State Corporations Act, 2012.

The Directors are of the opinion that Kenya Railway's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended June 30, 2023, and of the Kenya Railways financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Kenya Railways financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that Kenya Railways will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Kenya Railways financial statements were approved by the Board on _____September 2023 and signed on its behalf by:

.....

Capt. Mohamed M. Abdi
CHAIRPERSON OF THE BOARD

.....

Mr. Philip J. Mainga, EBS
MANAGING DIRECTOR

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE, 2023

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 that the Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Railways Corporation set out on pages 1 to 40, which comprise of the statement of financial position as at 30 June, 2023, statement of profit or loss and other comprehensive income, statement of

changes in equity, statement of cash flow 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, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Kenya Railways Corporation as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012 and the Kenya Railways Corporation Act, Cap 397 of the Laws of Kenya.

Basis for Adverse Opinion

1. Unsupported Discount Allowed Amount

As disclosed in Note 6(a) to the financial statements, the statement of profit or loss and other comprehensive income reflects discount allowed amount of Kshs.1,065,177,532 during the year under review. The balance comprised of amounts of Kshs.341,693,621 and Kshs.723,483,911 in respect of actual Standard Gauge Railway (SGR) volume discounts and the provision for SGR volume discounts for the year respectively. However, the supporting schedule provided reflects items totalling Kshs.1,065,177,532 without details of the amounts related to the actual discount and those related to the provision for discounts for the year.

In the circumstances, the accuracy and completeness of the discount allowed amount of Kshs.1,065,177,532 could not be confirmed.

2. Variances in Funds Received as Government Grants

The statement of profit or loss and other comprehensive income and as disclosed under Note 7 to the financial statements reflects Government grants amount of Kshs.16,045,447,610 representing funds disbursed to the Corporation from the National Government. Further, Note 35 to the financial statements on deferred income reflects opening and closing balance of Kshs.179,637,231,157 and Kshs.193,878,034,329 respectively, resulting to a movement of an amount Kshs.14,240,803,172 as capital grant during the year under review. The total grants received by the Corporation including both recurrent and capital amounts of Kshs.16,045,447,610 and Kshs.14,240,803,172 amounting to Kshs.30,286,250,782. However, review of records revealed that The National Treasury confirmed disbursement amount of Kshs.28,080,372,506 to the Corporation thus resulting to an unexplained variance of Kshs.2,205,878,276 which was expected to be deferred income on Government grants.

However, Note 7 to the financial statements reflects an amount of Kshs.2,317,248,988 in respect of SGR deferred income resulting in an unexplained variance of Kshs.111,370,712.

In the circumstances, the accuracy and completeness of the recurrent and capital grants balances received by the Corporation, could not be confirmed.

3. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.541,068,389,863 (2022-Kshs.562,397,012,335) which as disclosed in Note 19 to the financial statements includes an amount of Kshs.15,175,501,812 in respect of freehold land. However, review of lands records revealed the following unsatisfactory matters: -

3.1 Lack of Valuation for the Corporation's Land

As previously reported, land valuation has not been done for a long period and therefore the land balance of Kshs.15,175,501,812 could be significantly understated. Management has indicated that the valuation of the assets is in the process of being done. This was contrary to Paragraph 49 of the International Public Sector Accounting Standards IAS No.16 on property, plant and equipment, which provides for revaluation of property, plant and equipment every three to five years.

3.2 Illegal Allocation of Land

As previously reported, various parcels of land were allocated to private persons by the Commissioner of Lands without the consent of the Corporation. For instance, parcels of land adjacent to Mombasa Railway Station measuring approximately 0.75 to one (1) acre have been irregularly allocated to private persons with some having been developed.

Further, various parcels of land were allocated to third parties by the Commissioner of Lands or the defunct Local Authorities without the consent of the Corporation. For instance, land within Limuru Railway Station constituting nine (9) industrial plots measuring approximately three (3) acres; a piece of land within Kikuyu Railway Station measuring approximately two (2) acres, and parcels of land adjacent to it have been allocated to third parties. However, Management has sought court intervention to repossess twenty-seven (27) of the illegally allocated parcels. The Corporation has also sought the intervention of various Government agencies such as the Ethics and Anti-Corruption Commission, Ministry of Lands and Physical Planning, National Land Commission and the Director of Survey to assist in the recovery of irregularly allocated land.

In addition, another five hundred and twenty-nine (529) parcels of land have been illegally allocated across the country.

Although Management has put in place various measures to recover the irregularly allocated land, many pieces of land belonging to the Corporation are yet to be recovered.

3.3 Encroachment of the Corporations Land and Properties

3.3.1 Encroachment of Land (Ziwani Nakuru)

As previously reported, land measuring approximately seven (7) acres in Nakuru belonging to the Corporation has been encroached on by the County Government of Nakuru and currently used as a bus park. The land had been allocated to customers on

a long-term lease of twenty-five (25) years with an amount of Kshs.37,500,000 having been paid as premium attracting an annual rent of Kshs.13,300,002.

Although Management explained the steps being taken to revert the land to the tenants, the Corporation continues to lose the opportunity to collect the annual rent of Kshs.13,300,002 since the matter has not been resolved with the County Government of Nakuru.

3.3.2 Nakuru Station Area

Similarly, as previously reported, land measuring eighty (80) acres at Nakuru Railway Station had been leased on Temporary Occupation Lease (TOL) basis. However, the County Government of Nakuru has encroached on ten (10) acres from the parcel of land. The Corporation demolished the buildings on the remaining portion with a projected annual rental income of Kshs.5,655,688. However, Management has not explained the actions taken to remedy on the encroachment.

3.3.3 Malaba Apartments

The Corporation renovated twenty-four (24) units of two (2) bedroom apartments at Malaba but some of the apartments have remained unoccupied. Other than loss of revenue annually, the units are deteriorating due to non-occupancy. Further, four (4) buildings in Malaba have been encroached by informal settlers.

3.3.4 Residential Buildings in Kisumu

Further, review of records revealed that the Corporation owns two hundred and forty-seven (247) residential units in Kisumu. Management has indicated that a total of two hundred and thirty-three (233) units have been allocated to various Government agencies under a National Government directive relating to revitalization and upscaling of the Railway Port operations in Kisumu. However, no information was provided on the remaining fourteen (14) housing units. Further, Management did not explain why the Government agencies occupying the houses have not been paying rent or provided the respective lease agreements. The Corporation is therefore losing rent of approximately Kshs.27,435,600 annually.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.541,068,389,863 could not be confirmed.

4. Unconfirmed Capital Works-In-Progress Balance

4.1 Compensation Under the Standard Guage Railway (SGR) Phase 1 Project

As previously reported, included in capital works-in-progress balance of Kshs.131,167,759,183 and as disclosed in Note 22 to the financial statements is an amount of Kshs.12,000,000,000 being land compensation under the Standard Guage Railway (SGR) Phase 1 project. However, the matter of insufficient supporting documents for compensations amounting to Kshs.1,043,439,897 to Project Affected Persons (PAPS) including award letters, copies of national identity cards, Personal Identification Number (PIN) certificates and title deed surrenders from the National Land Commission had not been resolved at the Public Investments Committee as at the time of the audit in the month of March, 2024.

Further, overpayments amounting to Kshs.14,669,748 were made to PAPS who were paid Kshs.15,752,406 instead of the entitlement amount of Kshs.1,082,658. Although recovery of Kshs.5,698,770 has been subsequently made, a balance of Kshs.8,970,978 was still outstanding as of 30 June, 2023.

4.2 Long Outstanding Works - in - Progress

The statement of financial position reflects works-in-progress balance of Kshs.131,167,759,183 as disclosed in Note 22 to the financial statements. However, various assets with a total value of Kshs.126,953,174,324 were being used by the Corporation in generation of revenue but continue to be classified as works-in-progress instead of being reclassified under the relevant fixed assets as listed below:

Asset Under Works-In-Progress	Amount (Kshs.)
Upgrading RTI	659,215,995
Kisumu Port Rehabilitation	50,893,878
Locomotives/Wagons Refurbishment	188,608,133
RAP Kibera and Mukuru	3,782,599,345
Block A Refurbishment	70,881,208
Nanyuki Branch Line Project	2,419,158,726
Nairobi Commuter Railway	3,000,139,529
Konza Technopolis Line	103,051,420
Nakuru-Kisumu Rehabilitation Project	2,772,832,939
Longonot Malaba Line	2,014,986,597
Naivasha-Longonot Line	7,867,772,530
Kisumu Railway Station	95,649,774
Rehabilitation of Locomotives	2,434,681,181
Kisumu-Butere MGR Rev Project	405,591,421
MGR Diesel Electric/Locomotives	4,635,945,681
Remodelling of Kisumu Go Downs	65,268,925
Pate Road Parking	1,693,793
Cargo Handing Facility-Malaba	384,187,974
Karatina Business Units	13,272,365
Land Acquisition-Phase 2A	21,981,060,854
Naivasha ICD	6,868,286,494
Truck Marshaling Yard and Parking	236,036,830
Civil Works Phase 2B	16,076,677
Land Acquisition-Phase 2B	3,302,604
SGR Land Acquisition	38,892,220,949
Inland Container Deport	27,972,456,959
Facilities -Mombasa and Nairobi	17,301,543
Total	**126,953,174,324**

In the circumstances, the accuracy of capital work-in-progress balance of Kshs.131,167,759,183 could not be confirmed.

5. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.33,189,369,722 which as disclosed in Note 24 to the financial statements includes gross trade receivables balance of Kshs.9,096,847,537. However, review of records revealed the following:

5.1 Unsupported Balance

The statement of financial position reflects trade and other receivables balance of Kshs.33,189,369,722 as disclosed in Note 24 to the financial statements. Although the supporting schedule provided reflects an amount of Kshs.33,189,369,722, Management did not provide the respective supporting ledgers for the sub-items of the balance which agreed to the supporting schedule.

5.2 Unreconciled Debtor's Balance

The trade receivables balance includes a receivable amount due from Kenya Ports Authority (KPA) of Kshs.3,334,786,582. However, the amount differed with the creditors balance reported in the financial statements of KPA of Kshs.1,092,411,000 resulting to an unexplained variance of Kshs.2,242,375,582.

5.3 Prepayments, Tax Receivable, Staff Receivables and Other Receivables

The net trade and other receivables balance of Kshs.33,189,369,722 includes prepayments, tax receivable and staff receivables balances of Kshs.6,078,730,316, Kshs.24,430,546,532 and Kshs.65,717,518 respectively.

Review of records revealed the following observations: -

5.3.1 Unsupported Prepayments Balance

Included in the prepayments balance of Kshs.6,078,730,316 is an advance lumpsum amount of Kshs.11,813,898 included as a single entry in the general ledger and which occurred on 30 June, 2010. However, the collectability is highly doubtful. Further, an amount of prepaid tax of Kshs.130,734,828 included in the prepayments balance is duplicated from the tax receivables. In addition, included in the prepayments amount are unresolved balance sheet items totalling Kshs.43,321,431 which were not supported with the relevant documentation.

5.3.2 Variances in Tax Receivables Balances

Note 24 to the financial statements reflects tax receivables balance of Kshs.24,430,546,532 in relation to amounts receivable from Kenya Revenue Authority (KRA). However, review of the Corporation's I-Tax ledger balances for various tax heads revealed a balance of Kshs.150,526,906 resulting to an unexplained and unreconciled variance of Kshs.24,280,019,626.

5.3.3 Unconfirmed Staff Debtors

The staff debtors balance of Kshs.65,717,518 constitutes pensioners and staff debtors amounts of Kshs.42,162,069 and Kshs.12,472,490 respectively. Although Management provided the pensioners details, no explanation was provided for the failure to recover the long outstanding balance. Further, included in the balance of Kshs.12,472,490 is an amount of Kshs.10,265,952 for the year ended 30 June, 2020. However, the employee's details for the balances were not provided for audit.

5.4 Other Receivables

Note 24 to the financial statements reflects other receivables balance of Kshs.218,493,295. Review of records revealed the following;

5.4.1 Unreconciled Inter-Company Debtors

There were balances that arose in various transactions between Kenya Railways Corporation and Railway Training Institute (RTI) over the years. Kenya Railways Corporation had an intercompany balance of Kshs.657,951,970 (debtor balance) while the corresponding RTI balance (creditor balance) was Kshs.645,164,537 resulting to an unexplained and unreconciled variance of Kshs.12,787,433. Therefore, the intercompany debtors balance is overstated thus, distorting the other receivables balance.

5.4.2 Unsupported and Long Outstanding Imprest Debtors

Included in the other receivables balance is an imprest amount of Kshs.8,291,745 which further includes an amount of Kshs.4,039,920 related to imprests dating back from June, 2010 to 31 December, 2021. However, details of the employees with the imprest balances were not provided for audit.

5.4.3 Long Outstanding World Bank Receivables

Further, the other receivables balance of Kshs.218,493,295 includes a World Bank receivable balance of Kshs.131,899,050 which relates to the Corporation's staff pending bills from the Ministry of Transport, Infrastructure, Housing and Urban Development and Public Works. As previously reported, this balance arose during the pre-concession period and has been outstanding in the Corporation's books for a long time. It is however not clear how Management intends to recover the outstanding balance from the World Bank. The recoverability of the World Bank receivable balance of Kshs.131,899,050 is therefore doubtful.

5.4.4 Long Outstanding General Advances

Review of the general advances' ledger revealed that a transaction of Kshs.50,000 arose on 30 June, 2018 and was indicated as purchase of goods shed from Kenya Railway Staff Retirement Benefit Scheme-(KRSRBS). It was however not confirmed why the Corporation has not recovered the outstanding general advance balance from the KRSRBS considering that five (5) years have elapsed since the general advance was disbursed to the respective staff members.

In the circumstances, the accuracy, completeness and recoverability of the trade and other receivables balance of Kshs.33,189,369,722 could not be confirmed.

6. Unsupported Cash Deposits and Guarantees Balance

The statement of financial position reflects cash deposits and guarantees balance of Kshs.47,570,428,423 which as disclosed in Note 25 to the financial statements includes amounts held in four (4) escrow accounts held in a local bank totalling Kshs.46,914,095,735. However, the certificates of balances provided in support of these balances amounted to US Dollars 2,032,880,401. However, the reported balance in the certificates provided were converted and reported in Kenya shillings (Kshs) using system generated exchange rates of Kshs.123.43 which was far below the Central Bank of Kenya exchange rate of Kshs.140.52 to the US Dollar as at 30 June, 2023 resulting to understated exchange rate of Kshs.17.09

Further, review of records revealed that several account balances with a total amount of Kshs.226,084,818 were not supported with certificates of balances. Management did not provide other supporting documents such as the guarantees register to confirm that the Corporation is the named beneficial owner of the cash deposits and guarantees. In addition, Management did not provide the minutes of the Board or Senior Management meetings relating to cash deposits and guarantees during the year to confirm that they are in compliance with the provisions of the Government Policies and Regulations.

In the circumstances, the accuracy and completeness of the cash deposits and guarantees balance of Kshs.47,570,428,423 could not be confirmed.

7. Cash and Bank Balances

The statement of financial position reflects cash and bank balances totalling Kshs.4,996,255,495 as disclosed in Note 26 to the financial statements. Review of records revealed the following observations;

7.1 Understatement of Bank Balances

Included in the cash and bank balance of Kshs.4,996,255,495 are two (2) bank account balances held in local banks of Kshs.649,908,272 and Kshs.1,244,837 respectively. However, the supporting ledgers provided reflect equivalent amounts of USD 5,287,418.30 and USD 10,089.99 respectively thus resulting in exchange rates of Kshs.122.91 and Kshs.123.37 respectively, to the US Dollar.

Further, the Central Bank of Kenya exchange rate as at 30 June, 2023 was Kshs.140.52 to the US Dollar which would have translated to Kshs.742,988,019 and 1,417,845 respectively for the two accounts resulting to understatement of the balances by Kshs.93,079,747 and Kshs.173,008 respectively.

7.2 Use of Automated Debit Cards

Review of the imprest report provided for audit revealed the following observations;

(i). As previously reported, the Corporation was still using imprest 'debit cards' instead of imprest warrants as required by the Regulations.

(ii). There was unaccounted for cash against thirty-one (31) imprest cards amounting to Kshs.1,430,893 which could not be confirmed as cash in hand, un-surrendered vouchers/ cash receipts or partly paid vouchers.

(iii). Further, supporting documentation such as abstract and analysis of memorandum cash book, originals of the supporting payment vouchers to accounts for float replenishment from the imprest holders were not provided for audit.

(iv). There were double imprest cards transactions amounting to Kshs.3,080,000 issued to seven (7) staff of the Corporation an indication of weak internal control related to imprest management.

In the circumstances, the accuracy and completeness of the cash and bank balance of Kshs.4,996,255,495 could not be confirmed.

8. Variances in Stores Inventories

The statement of financial position and Note 23 to the financial statements reflects stores inventories balance of Kshs.3,903,072,060. However, physical stock take report reflects a balance of Kshs.1,173,918,409 resulting in an unexplained variance of Kshs.2,729,153,651.

Further, the monthly reports on stock movement and the quarterly reports on stores consumptions were not provided for audit. This is contrary to Section 162 (2) of the Public Procurement and Asset Disposal Act, 2015 which states that, the Head of Procurement function shall arrange for occasional visits of inspection to the stores, at least quarterly in each calendar year, and conduct quarterly and annual inventory and stock taking in order to ensure compliance with all respective governing laws and submit the report to the Accounting Officer.

Review of the stock reconciliation report and other records revealed that the following items were included in the stores inventories ledger which were not confirmed during the annual stock take exercise as shown below:

	Details	Amount (Kshs.)
1.	Amounts in the system ledger but not in stores records	(561,776,541.20)
2.	Materials issued/sold to Rift Valley Railways but not posted in the system ledger	(1,452,488,311.46)
3.	General stationery not knocked off from system ledger	(115,000,561.56)
4.	Computer stationery (Assets)	(84,213,063.05)
5.	Goods in Transit	482,494,860.26

Further, the goods in transit balance of Kshs.482,494,860 was included as part of the stock take reconciliation, however details for the existence of the goods in transit was not provided for audit.

In the circumstances, the accuracy and completeness of the stores' inventories balance of Kshs.3,903,072,060 could not be confirmed.

9. Trade and Other Payables

The statement of financial position reflects payables and accrued charges balance of Kshs.41,288,035,230 as disclosed in Note 34 to the financial statements. Review of payables records revealed the following observations;

9.1 Overstatement of Staff Creditors

Included in payables and accrued charges balance is an amount of Kshs.245,178,414 in respect of staff creditors balance which includes debit pay credit balance of Kshs.25,317,153 related to staff who were receiving a negative salary pay. The credit balance of Kshs.25,317,153 has however overstated the staff creditors thus overstating the overall payables balance.

9.2 Unsupported Customer Deposits

Further, included in payables and accrued charges balance is an amount of Kshs.1,099,673,143 in respect of customer deposits which further includes the unresolved issues balance of Kshs.348,300,417. However, Management did not provide detailed support documentation for the balance for audit.

9.3 Default Penalty Payable

In addition, included in payables and accrued charges balance is an amount of Kshs.3,511,544,881 in respect of outstanding penalties arising from non-settlement of maturing accrued SGR loan penalties obligations relating to the China Exim Bank loan. These penalties expose the Corporation to unnecessary expenditure which does not represent a proper charge to public funds.

In the circumstances, the accuracy and completeness of the payables and accrued charges balance of Kshs.41,288,035,230 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Railways Corporation 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 annual report and financial statements in Kenya. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my Adverse opinion.

Emphasis of Matter

Contingent Liabilities

Note 37 to the financial statements reflects contingent liabilities balance of Kshs.27,614,667,613. The balance comprises of law suits against the Corporation yet to be determined estimated at Kshs.27,447,834,803 and guarantees given on behalf of the Corporation amounting to Kshs.166,832,810. Review of records revealed that the contingent liabilities balance includes legal exposure from illegal demolition of leased properties by the Corporation amounting to Kshs.15,000,000,000. In the event that the liabilities crystalize, the Corporation will be highly financially exposed leading to lose of funds.

My opinion is however, not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were 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, the Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Board Expenses - Meetings Exceeding the Required Threshold

As disclosed in Note 9 to the financial statements, the statement of profit or loss and other comprehensive income reflects board expenses balance of Kshs.30,431,124 during the year under review.

Review of the boards attendance register and the corporate governance statement revealed that the board members attended a total of forty (40) full board meetings and other various Board Committees. However, the full board meetings had two (2) extra meetings while the Business Operation and Investment committee had one (1) extra meeting which were higher than the prescribed meetings thus contravening Circular No. OP/CAB.9/1A dated 11 March, 2020.

Further, review of the corporate governance statement disclosed in the financial statements revealed that various Board members attended full board meeting in excess of the statutory and the approved number of meetings.

In the circumstances, the Board was in breach of the law.

2. Irregular Procurement of Security Services

The statement of profit or loss and other comprehensive income reflects administration expenses of Kshs.1,172,447,039 which as disclosed in Note 10 to the financial statements includes an amount of Kshs.125,816,350 in respect of security services.

Review of records related to the security expenses revealed the following observations;

There were six (6) tenders with a total contract sum of Kshs.340,014,120 that had their contract commencement dates executed before the contract agreements were signed by the successful bidders. This was contrary to Section 135 (4) of the Public Procurement and Asset Disposal Act, 2015 which states that no contract is formed between the person submitting the successful tender and the Accounting Officer of a procuring entity until the written contract is signed by the parties.

2.1 Tender Evaluation Inconsistencies in Preliminary Evaluation/Mandatory Requirements

One of the mandatory requirements to be met by bidders for security services was that the bidders must have an annual turnover of Kshs.500,000,000 in each of the three (3) years' audited accounts of the respective bidders. Review of the records provided revealed that some bidders would have different turnover amounts depending on the tender they were bidding for. In some instances, a bidder would fail to meet the mandatory requirement of a turnover of Kshs.500,000,000 thus disqualifying them from the bid whereas in another different tender, the same bidder would meet the requirement by providing financial statements with a different turnover for the same year and would proceed to win and be awarded the new contract.

However, it is not clear why there were inconsistencies in the turnover amount yet the information being relied upon was from audited financial statements of the bidders which were required to be the same or similar in terms of financial statements balances. It was noted that the sampled tender evaluation reports were signed within a span of six (6) months in the same year and therefore it would not have been possible to have the differences observed in the turnover amounts. This was contrary to the tender document requirements that the bidder must have an annual turnover of Ksh.500,000,000 in each of the three years' audited accounts.

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

3. Officers in Acting Positions Beyond the Stipulated Period

The statement of profit or loss and other comprehensive income reflects staff costs amounting to Kshs.2,373,268,872 as disclosed in Note 10(a) to the financial statements.

Review of the human resource records provided for audit revealed that fifty (50) officers of the Corporation have been in acting positions for more than six (6) months. Further, Management did not provide the Board and Managing Director's (MD) approvals for the officers to continue serving in the acting capacities. In addition, Management did not provide satisfactory explanations why the positions have not been duly filled as expected.

Further, the Corporation's Human Resource Manual allows for extension of acting appointments beyond six months. However, this was contrary to Section 34 (3) of the Public Service Commission, 2017 which states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months.

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

4. Irregular Acting Allowance Paid to Officers

Review and analysis of the Corporation payroll revealed that Corporation paid an amount of Kshs.2,148,656 as acting allowances to ten (10) employees for more than six (6) months. This was contrary to Section of C.14 (1) Human Resource Policy and Procedures Manual for the Public Service, 2016 which states that when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary and acting allowance will not be payable to an officer for more than six (6) months.

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

5. Non-Compliance with the One Third of Basic Salary Rule

Review of the payroll records for the months of July, 2022 to June, 2023 revealed that various officers of the Corporation had their net pay below a third of their basic pay as detailed in the table below;

Month	Number of Staff with Salary below a Third of Basic Pay
July, 2022	24
August, 2022	25
September, 2022	25
October, 2022	32
November, 2022	24
December 2022	36

Month	Number of Staff with Salary below a Third of Basic Pay
January 2023	23
February 2023	17
March 2023	24
April 2023	12
May 2023	20
June, 2023	6

Management did not provide any explanation for the unsatisfactory situation.

This was contrary to the Human Resource Policies and Procedures Manual for the Public Service, 2016 and Section 19 (3) of the Public Service Commission Act, 2017.

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

6. Unabated Penalties/Interest on On-Lent Loan

The statement of profit or loss and other comprehensive income and Note 16 to the financial statements reflects an amount of Kshs.1,554,839,369 in respect of penalties/interest on On-Lent Loan. However, Management explained that the cashflows generated for the railway operations were not sufficient to meet the maturing loan obligations thus the occurrence of the penalties. The penalties arising from non-settlement of maturing loan obligations represent an avoidable charge to public funds and may lead to loss of public funds due to unnecessary costs to the public.

In the circumstances, effectiveness of the internal controls to safeguard proper utilization of public resources could not be confirmed.

7. Project Implementation Report

The statement of financial position reflects capital works-in-progress balance of Kshs.131,167,759,183 as disclosed in Note 22 to the financial statements. However, during an audit inspection exercise carried out in the month of February, 2024 on various projects, the following observations were made;

(i). Projects worth Kshs.1,053,481,996 did not have valid performance guarantees.

(ii). Projects worth Kshs.618,203,266 commenced without approval from The National Treasury but the approval was sought retrospectively.

(iii). Projects worth Kshs.367,244,560 were observed to have had poor workmanship.

(iv). Projects worth Kshs.72,127,057 had been terminated or on the verge of termination without enforcing the provision of performance guarantees. The Corporation received damages from one contractor by non-settlement of substantial amount from the certified works. However, after re-tendering, it is likely that the certified works will have experienced wear and tear due to abandonment and the new contractor may not consider the work already done. Therefore, it could have been more appropriate if the Corporation had enforced the performance guarantees.

(v). Projects worth Kshs.29,585,092 had no valid contracts with the approved Extension of Time (EoT) after the original contract period having expired.

This is contrary to Section 68 (1) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a National Government entity, Parliamentary Service Commission and the Judiciary shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the Accounting Officer are used in a way that is - lawful and authorized; and effective, efficient, economical and transparent.

In the circumstances, the Corporation and the public may not obtain value for money on the capital works-in-progress balance of Kshs.131,167,759,183 as at 30 June, 2023.

8. Procurement of Goods Works and Services

8.1 Irregular Procurement Processes

Review of the sampled procurement contracts, executed during the period under review, amounting to Kshs.2,073,201,489 was carried out with the view to ensure compliance with the procurement laws and regulations on the whole procurement process from initiation to completion.

However, it was observed that in some procurements, appointment of the inspection and acceptance committee was made several weeks after goods supplied were delivered and taken on charge in the Corporation's stores. In addition, there were some procurements where the actual inspection and acceptance certificates provided indicate that the actual inspections were done (3) months after delivery of goods having been made by the suppliers to the Corporation's stores and the same already taken on charge in stores records. This was an indication that the certificates issued by the Inspection and Acceptance Committees were just a formality to the whole procurement process.

8.2 Use of Inappropriate Procurement Methods

Review of procurement records revealed that the Corporation procured work-in-progress goods and services at a cost of Kshs.9,028,743,061 using either direct or restricted tendering methods of procurement prepared without justification. However, review of the procurement files indicated that the prevailing circumstances did not warrant use of the methods since open tendering was the most appropriate method. Management did not provide any explanations for the use of the direct or restricted tendering methods of procurement instead of the recommended open tendering method. This is contrary to Part IX - methods of procurement of goods, works and services of the Public Procurement and Asset Disposal Act, 2015.

8.3 Failure to Provide the Annual Procurement Plan in the Prescribed Format

Review of the abstract of the resolutions of the 486th Quarterly Board meeting held on 5th and 6 July, 2022 revealed that the Board deliberated on the report of the Finance, Human Resource & Administration Committee - Memo No. 100 - Procurement Plan for the financial year 2022/2023, among others. The Board subsequently approved the proposed consolidated Corporation Procurement Plan for the year under review with the planned procurement budgets of Kshs.15,892,447,806 as operating expenditure and

Kshs.21,223,172,704 as procurement spanning more than one (1) financial year and Kshs.17,037,590,370 as the planned procurement under the Capital expenditure.

However, the Board approved budgets were not supported with a detailed Annual Procurement Plan prepared in accordance with Regulation 41 (a) to (i) of the Public Procurement and Asset Disposal Regulations, 2020 and in the format specified in the Third Schedule to the procurement Regulations as required under Regulation 42.

8.4 Failure to Provide Reports on Contracts Monitoring

During the year under review, the monthly progress reports of all procurement contracts submitted by the head of the procurement function for the period under review were not provided for audit. Therefore, it was not possible to confirm the current status of all procurement contracts, amount of money paid, the expected completion dates and whether the provisions of this Law have been complied with. This was contrary to Regulation 140 (1) of the Pubic Procurement and Asset Disposal Regulations, 2020 which requires the head of procurement function to prepare a monthly progress report of all procurement contracts and submit the same to the accounting officer in accordance with Section 152 of the Act.

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

8.5 Non-Compliance With the Public Procurement and Asset Disposal Act, 2015

An internal purchase requisition for the cleaning services was raised on 5 November, 2021. The tender was advertised in the Government "My Gov" platform on 30 December, 2021 and the closing date was on 6 January, 2022. An addendum was drafted which extended the closing date to 7 February, 2022. An evaluation committee was appointed and it compiled a report on 30 March, 2022. The committee recommended award to a company at a contract sum of Kshs.16,668,000 inclusive of all taxes.

However, a senior member of staff wrote to the Managing Director on 7 May, 2022 advising for the re-advertisement of the tender because due diligence on four (4) bidders was not uniform and evaluators did not sign pages 60 of 62 of the evaluation reports. The tender was re-evaluated on 15 August, 2022 by the new evaluation committee which had been appointed and it drafted a report on 19 September, 2022 which recommended a local company for award. On 25 October, 2022, the procurement process was terminated since the subject procurement had been overtaken by operation of the law. Review of available documents revealed that another firm, had been receiving payments with tender references that was being used to evaluate the successful bidder. The process which was followed to award the second company despite the successful bidder being recommended by the earlier evaluation committees could not be confirmed.

It is not clear how the evaluation committee failed to apply uniform criteria and yet they had relevant expertise and blank tender documents to guide on the same. Further, it is not clear whether the first committee was procedurally disbanded before engaging a different evaluation committee on the evaluation of the tender and what criteria was used in determining that the procurement had been overtaken by operation.

This is contrary to Section 46 (4) (c) and (d) of the Public Procurement and Asset Disposal Act, 2015 which states that an evaluation committee established under subsection (1), shall - have as its secretary, the person in charge of the procurement function; and complete the procurement process for which it was appointed and no new committee shall be appointed on the same issue unless the one handling the issue has been procedurally disbanded.

8.6 Irregular Procurement of Cleaning Services

During the year under review two (2) contracts for cleaning services were commenced without valid binding contracts between the respective firms and the Corporation's Management. Tender for provision of cleaning services, sanitary bins, fumigation, gardening, garbage collection, sewer exhaustion services and disposal for KR estates and premises (Coast Region) with a contract date of 27 May, 2021 had commenced on 25 May, 2021. Similarly, tender for the provision of cleaning, sanitary, gardening, garbage collection and disposal, fumigation and sewer exhaustion services for KR estates and premises (Rift Region) with a contract date of 18 May, 2021 had commenced on 1 May, 2021.

This is contrary to Section 69 (2) of the Public Procurement and Asset Disposal Act, 2015 which states that no procurement approval shall be made to operate retrospectively to any date earlier than the date on which it is made except on procurements in response to an urgent need.

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

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, because of the significance of the matters discussed in the basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that the internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Long Outstanding Debtors' Balances

The statement of financial position reflects trade and other receivables balance of Kshs.33,189,369,722 as disclosed in Note 24 to the financial statements. This balance includes gross trade receivables balance of Kshs.9,096,847,537. However, review of the ageing analysis schedule revealed that a trade and other receivables balance of Kshs.7,837,999,088 were outstanding for more than 90 days thus reflecting inadequate debt collection mechanisms in place at the Corporation.

Further, review of the net receivables balance of Kshs.2,395,882,061 revealed that the amount was only 22% of the total gross trade receivables and rents debtors balance of Kshs.10,666,472,725. However, the provisions for bad debts and discounts all totalling Kshs.8,270,590,664 accounted for 78% of the gross trade receivable balance. This is an indication that trade receivables and rent collections in the Corporation continues to experience serious recoverability challenges which is likely to result in loss of funds.

In addition, the net trade receivables balance of Kshs.2,395,882,061 includes a net rent debtors balance of Kshs.1,569,625,188 exclusive of provisions of Kshs.1,252,368,588 on closed accounts. This is an indication that the Corporation has not put in place satisfactory controls in place to ensure collection of the rental incomes as and when they fall due.

Included in the rent debtors balance is a rent receivable amount of Kshs.53,210,865 for customers whose businesses were demolished by the Corporation despite the customers having valid leases. The recoverability of this balance is therefore doubtful and the possibility of litigations against the Corporation is very likely from the aggrieved parties.

In the circumstances, the effectiveness of recovery efforts by Management for the long outstanding debtors could not be confirmed.

2. Long Outstanding Land Compensation Balance

The statement of financial position reflects payables and accrued charges balance of Kshs.41,288,035,230 which as disclosed in Note 34 to the financial statements includes an amount of Kshs.8,307,857,507 in respect of land compensation. Although Management has provided reasons why the balance was not settled during the year, the balance has remained outstanding for a long time without being settled.

In the circumstances, Management may incur significant and avoidable costs of interest and penalties on the continued delay in settlement of the land compensation balance.

3. Non-Settlement of the Exim Bank Loan (On Lent)

As disclosed in Note 32 to the financial statements, the statement of financial position reflects an Exim Bank loan (on lent) balance of Kshs.617,215,835,910. However, the Corporation did not make any repayments during the year under review towards the On-lent loan. Further, as disclosed in Note 34 to the financial statements, the statement of

financial position reflects payables and accrued charges balance of Kshs.41,288,035,230 which includes a default penalty payable balance of Kshs.3,511,544,881. Loan records revealed that the Corporation incurred the penalties and interest on the on-lent loan due to non-settlement of the maturing obligations as and when they became due. Management did not provide an explanation for this unsatisfactory matter.

In the circumstances, the effectiveness of controls in relation to the settlement of the on-lent loans could not be confirmed.

4. Loss of Funds Through Employees

Review of internal audit reports and management reports revealed that the Corporation lost funds totalling Kshs.46,540,426 between 19 October, 2019 and 27 October, 2022 a period that partly fell within the year under review. The losses were occasioned by various forms of irregularities and misconduct by an employee of the Corporation and involved fraudulent transactions on two (2) debit cards.

Review of case records revealed that some actions are being recommended against the employee involved in the misappropriations as detailed in the table below: -

Details	Amount (Kshs.)	Action taken	Status of action taken
Misappropriation of Funds by an accountant.	45,945,197	Matter reported to the Managing Director. Recommendation was that disciplinary measures under Kenya Railways HR policies and procedures and code of conduct be taken against the officer. Management explained that the officer is currently on interdiction as criminal investigations are ongoing.	No evidence was provided to show that the officer faced any disciplinary action. No evidence provided to show any recovery efforts instituted by the Corporation.
Fraudulent transactions carried out at supermarkets and other merchant outlets	595,229	Matter reported to the Managing Director. Recommendation that disciplinary measures under Kenya Railways HR policies and procedures and code of conduct be taken against the officer. Management explained that the officer is currently on interdiction as criminal investigations are ongoing.	No evidence was provided to show that the officer faced any disciplinary action. No evidence provided to show any recovery efforts instituted by the Corporation.
Total	**46,540,426**		

However, from the analysis, Management did not provide for audit, evidence on the measures taken to recover or write-off the losses in line with Regulation 148 of the Public Finance Management (National Government) Regulations, 2015.

Further, Management did not maintain an updated loss register and did not provide any evidence of notification to the relevant institutions of the losses as required by Regulation 153 of the Public Finance Management (National Government) Regulations, 2015.

In addition, Management did not provide any information on the risk management strategies taken by the Corporation, including the enhancement of internal controls, to mitigate against fraudulent actions by employees of the Corporation.

In the circumstances, the existence of effective internal controls at the Corporation could not be confirmed.

5. Internal Control Weaknesses Related to Meter Gauge Railway (MGR) Revenue

5.1 Ruiru -Nairobi Commuter Train

The statement of profit or loss and other comprehensive income reflects main income amount of Kshs.20,187,608,477 as disclosed in Note 6 to the financial statements. Included in the balance is MGR revenue of Kshs.1,898,936,140 out of which Kshs.158,705,971 related to Nairobi Commuter Railway. Review of the records and audit carried out on the commuter rail from Ruiru to Nairobi, revealed the following audit observations;

(i). Payments through M-PESA was not well managed and coordinated. It was observed that cashier receipting cash-paying customers was not receipting the MPESA customers at the same time until he or she finishes all the cash customers in the coach. M-PESA customers were being receipted later after the cashier has gone round the two-line bench. Considering that the train has different boarding and alighting stations along the route, it was likely that there were MPESA customers who were alighting in between the journey before receipting. This could lead to revenue leakages or issues related to reconciliation of the actual M-PESA receipts and the revenues received through M-PESA platform.

(ii). Further, customers were boarding and alighting along the way and there was need for the cashier to physically confirm that all the customers were receipted. However, this was not the case and it was observed that the cashier normally make loud enquires on who has not paid instead of physically verifying the receipted customers. In addition, despite the corporation having employed inspectors, from the numerous trips made with the train as part of audit inspection, no inspectors were on board to independently confirm that all the passengers were receipted. This could have contributed to the scenario where cashiers were not physically verifying the receipted customers.

(iii). The internal controls on handling of the issued receipts at the main railway station exit were noted to be weak. The person in charge of the receipts was the

contracted security officer and the receipts were being dropped in an open tray. It was likely that the same used receipts could be collected from the open tray and be used at a later time of travel since the used receipts were not safeguarded against abuse despite the receipts having different codes for each day.

5.2 Embakasi Village-Nairobi Commuter Train

(i). Similarly, there were cases where the train attendants were not at the gate to give out tickets as passengers accessed the train station. The attendants did ticketing while the passengers were already in the train. Further, it was observed that the cashiers who give out tickets were the same people who walked around to check the tickets. Lack of segregation of duties can easily lead to collusion and loss of cash or revenue. It was observed that the inspectors/ supervisors were not in the train to check the tickets.

(ii). In addition, some passengers did not drop their tickets in the designated tray when exiting the train. The Corporation's restaurant has an entry and exit point which are sometimes not manned by security officers and some travellers may take advantage of this to access the train to get in/out without paying the required fare. Further, there are no signages to direct first-time train users that the tickets are dropped at the gate upon alighting.

In the circumstances, it was not possible to reconcile the physical receipts and the system receipts for the Corporation.

6. Lack of an Updated Fixed Assets Register

Review of the fixed assets register maintained by the Corporation revealed that it was not updated since its does not contain adequate description with serial numbers for various assets. Further, the Departments where the assets are located were not indicated and the asset life was not indicated in the asset register. In addition, the land reference numbers for various parcels of lands were not indicated in the assets register.

In the circumstances, the effectiveness of controls in relation to asset management could not be confirmed.

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.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern , disclosing, as applicable, matters related to going concern basis and using the applicable basis of accounting unless Management is aware of the intention to terminate the Corporation 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.

The Board of Directors is responsible for overseeing the Corporation'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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal 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 Management.

- Conclude on the appropriateness of 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 Corporation's ability to continue as a going concern. 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 Corporation to cease to continue as a going concern.

- 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 Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 May, 2024

14. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30th JUNE 2023.

	Note	30th June 2023 KES	30th June 2022 KES
REVENUES			
Main Income	6	20,187,608,477	18,650,546,585
Discount Allowed	6(a)	(1,065,177,532)	(1,106,314,171)
Government Grants	7	16,045,447,610	30,929,966,797
Other income	8	174,071,757	162,932,386
TOTAL REVENUES		**35,341,950,311**	**48,637,131,597**
OPERATING EXPENSES			
Board expenses	9	(30,431,124)	(33,538,335)
Administration expenses	10	(1,172,447,039)	(939,683,470)
Staff Cost	10(a)	(2,373,268,872)	(1,859,969,412)
Provision for bad Debts	10(d)	(258,239,838)	(179,585,920)
Rail Operational expenses	11	(18,168,243,138)	(19,752,329,449)
Depreciation of Property, Plant and Equipment	12	(21,578,965,217)	(21,547,488,287)
Amortisation of Intangible Assets	12(a)	(14,780,843)	(11,195,523)
TOTAL OPERATING EXPENSES		**(43,596,376,073)**	**(44,323,790,395)**
TOTAL EXPENSES		**(43,596,376,073)**	**(44,323,790,395)**
OPERATING PROFIT/(LOSS)		**(8,254,425,762)**	**4,313,341,203**
OTHER COMPREHENSIVE ITEMS			
Finance Income	14	1,688,247,254	2,027,424,405
Finance Expense	15	(25,468,906,816)	(22,723,783,487)
Penalties/Interest On On lent Loan	16	(1,554,839,369)	(1,312,362,215)
TOTAL OTHER COMPRENSIVE ITEMS		**(25,335,498,931)**	**(22,008,721,297)**
PROFIT/(LOSS) BEFORE TAXATION		**(33,589,924,692)**	**(17,695,380,095)**
Deferred tax Income	17	-	4,984,185,870
PROFIT/(LOSS) AFTER TAXATION		**(33,589,924,692)**	**(12,711,194,225)**

15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	30th June 2023 KES	30th of June 2022 KES
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	19	541,068,389,863	562,397,012,335
Investment property	20	21,284,160,765	21,236,002,367
Intangible assets	21	137,401,970	135,281,257
Capital Works-in-progress	22	131,167,759,183	118,974,681,727
Total Non-Current Assets		**693,657,711,781**	**702,742,977,686**
Current Assets			
Stores Inventories	23	3,903,072,060	3,837,946,376
Trade and other Receivables	24	33,189,369,722	28,644,051,354
Cash deposits & guarantees	25	47,570,428,423	44,164,837,552
Cash & Bank Balances	26	4,996,255,495	266,358,498
Total Current Assets		**89,659,125,701**	**76,913,193,780**
TOTAL ASSETS		**783,316,837,482**	**779,656,171,466**
EQUITY & LIABILITIES			
Equity			
Government , subventions & equity	27	40,474,007,122	40,474,007,122
GOK Grants	28	10,259,014,874	10,029,252,411
Restructuring reserves	29	20,235,986,427	20,481,488,245
Accumulated losses	30	(142,659,032,015)	(109,075,253,197)
Total Equity		**(71,690,023,593)**	**(38,090,505,420)**
LIABILITIES		-	-
Non-Current Liabilities			
East African Loan stocks	31	36,843,776	36,843,776
Exim bank loan (on lent)	32	617,215,835,910	591,746,929,094
Deferred Income	35	193,878,034,329	179,637,231,157
Provisions	33	270,862,842	258,949,827
Total Non current liabilities		**811,401,576,857**	**771,679,953,854**
Current Liabilities			
Payables & Accrued Charges	34	41,288,035,230	43,754,974,043
Deferred Income	35	2,317,248,988	2,311,748,989
Total Current Liabilities		**43,605,284,217**	**46,066,723,033**
Total liabilities		**855,006,861,074**	**817,746,676,886**
TOTAL EQUITY & LIABILITIES		**783,316,837,482**	**779,656,171,466**

The financial statements were approved by the Board on 29TH SEPTEMBER 2023 and signed on its behalf by:

.....	.....	.....
Philip J. Mainga, EBS	**Jemimah Matu**	**Capt. Mohamed M. Abdi**
MANAGING DIRECTOR	**Ag. GENERAL MANAGER FINANCE**	**CHAIRMAN OF THE BOARD**
	ICPAK M/NO: 10334	

16. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30th JUNE 2023

	(Govt. Subventions & Equity) KES	(GoK Grants) KES	(Net Appropr'tion a/c) KES	Reserves KES	Total KES
At 30th June 2022	40,474,007,122	10,029,252,411	(109,075,253,197)	20,481,488,245	**(38,090,505,420)**
Prior period adjustment*	-		6,145,874		**6,145,874**
Restated balance	**40,474,007,122**	**10,029,252,411**	**(109,069,107,323)**	**20,481,488,245**	**(38,084,359,546)**
Transfers to deferred income		229,762,463			**229,762,463**
Additions				(245,501,817)	**(245,501,817)**
Net income for the year			(33,589,924,692)		**(33,589,924,692)**
Dividends:					
At 30th June 2023	**40,474,007,122**	**10,259,014,874**	**(142,659,032,015)**	**20,235,986,427**	**(71,690,023,592)**
* The prior period adjustments on the accumulated losses brought forward are as follows:-					
	Forex Adjustment		(6,145,874)		
	Total Prior year adjustments Note 31		**(6,145,874)**		

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2022

	Share Capital (Govt. Subventions & Equity) KES	Share Capital (GoK Grants) KES	Accumulated Losses (Net Appropr'tion a/c) KES	Restructuring reserves KES	Total KES
At 30th June 2021	40,474,007,122	10,373,896,106	**(96,262,068,766)**	20,235,324,613	(25,178,840,926)
Prior period adjustment*	-		(101,990,206)		**(101,990,206)**
Restated balance	**40,474,007,122**	**10,373,896,106**	**(96,364,058,972)**	**20,235,324,613**	**(25,280,831,132)**
Transfers to deferred income		(344,643,695)			**(344,643,695)**
Additions				**246,163,631**	**246,163,631**
Net income for the year			(12,711,194,225)		**(12,711,194,225)**
At 30th June 2022	**40,474,007,122**	**10,029,252,411**	**(109,075,253,197)**	**20,481,488,245**	**(38,090,505,420)**
* The prior period adjustments on the accumulated losses brought forward are as follows:-					
	Forex Adjustment		(101,990,206)		
	Total Prior year adjustments		**101,990,206**		

17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Notes	30th June 2023		30th June 2022	
		KES	KES	KES	KES
Cash flows from operating activities					
Profit after income tax	**30**		(33,589,924,692)		(12,711,194,225)
Add : Items not Involving movement of Cash					
- Depreciation of PPE	**12**	21,578,965,217		21,547,488,287	
- Depreciation- Intangible assets	**12(a)**	14,780,843		11,195,523	
Provision for doubtful debt	**10(d)**			179,585,920	
Deferred income	**7**			(2,311,748,989)	
Interest Expense and Penalty Payable	**1516**			24,036,145,702	
Profit on sale of assets	**8**	(6,740,045)		-	
Prior year adjustment to accumulated losses	**30**	6,145,874		-	
Deferred Tax	**17**			(4,984,185,870)	
Finance Income	**14**			(2,027,424,405)	
Government Grant on SGR	**7**		21,593,151,890	28,618,217,808	
			(11,996,772,802)		**65,069,273,976**
Operating profit / (loss) before working capital changes					**52,358,079,751**
Add : Movement in Working capital					
Increase in stores inventories	**23**	(65,125,685)		(101,081,802)	
(Increase)/decrease in Receivables	**24**	(4,545,318,368)		(9,137,139,443)	
Increase/(decrease) in payables	**34**	(2,466,938,814)		(7,165,370,082)	
Deferred income	**35**	5,499,998		-	
Net Current Assets Movement			**(7,071,882,868)**		**(16,403,591,326)**
Net cash generated from / (used in) operating activities			**(19,068,655,670)**		**35,954,488,425**
Cash flow from Investing Activities					
Purchase of property, plant and equipment	**19**	(222,432,576)		(304,940,025)	
Purchase of intangible assets	**21**	(16,901,557)		(16,566,379)	
Proceeds from Sale of Assets	**8**	14,225,000		-	
Adjustment on fixed assets	**19**			662,034	
Capital works started during the period	**22**	(12,276,630,979)		(16,010,229,330)	
Net cash generated from / (used in) investing activities			**(12,501,740,112)**		**(16,331,073,699)**
Cash flow from Financing Activities:-					
Restructuring reserves movement	**29**	(245,501,817)		(246,163,631)	
Prior year adjustment to accumulated losses	**30**			101,990,206	
Other provisions	**33**	11,913,015		7,551,500	
Movement in Deposits	**25**			(15,886,140,628)	
Interest on loan Capitalized	**32**	25,468,906,816		22,723,783,487	
Movement in GOK Grant	**28**	229,762,463		324,168,372	
Deferred income	**35**	14,240,803,172		(14,038,835,617)	
Net cash generated from / (used in) financing activities			**39,705,883,649**		**(7,013,646,312)**
Increase in Cash and Cash Equivalents			**8,135,487,867**		**12,609,768,414**
Movement in Cash & Cash Equivalents					
Opening Balances			**44,431,196,051**		**31,821,427,636**
Add increase/(decrease) in cash & cash equivalent			**8,135,487,867**		**12,609,768,414**
Closing Cash and Cash equivalent			**52,566,683,917**		**44,431,196,050**
Less cash Guarantees	**25**		**(47,570,428,423)**		**(44,164,837,552)**
Closing balance of cash & cash equivalent note 36	**36**		**4,996,255,495**		**266,358,498**

18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation	
RENT INCOME	1,136,355,989	-	1,136,355,989	823,358,662	(312,997,327)	-28%	A
SGR INCOME	18,201,890,364	-	18,201,890,364	16,046,929,608	(2,154,960,756)	-12%	B
EQUIPMENT LEASE INCOME	56,414,880	-	56,414,880	47,391,914	(9,022,966)	-16%	C
MUSEUM INCOME	1,846,465	-	1,846,465	3,616,425	1,769,960	96%	D
INVESTMENT INCOME	180,000,000	-	180,000,000	1,688,247,254	1,508,247,254	838%	E
OTHER INCOMES	253,376,308	-	253,376,308	123,063,417	(130,312,890)	-51%	F
MGR REVENUES	2,367,516,897	-	2,367,516,897	1,972,841,122	(394,675,775)	-17%	G
GOK GRANT	18,589,491,673	-	18,589,491,673	16,045,447,610	(2,544,044,064)	-14%	H
RTI Income	435,639,750	-	435,639,750	279,301,552	(156,338,198)	-36%	I
TOTAL REVENUE	**41,222,532,327**	**-**	**41,222,532,327**	**37,030,197,565**	**(4,192,334,762)**	**-10%**	
STAFF COSTS	(3,305,556,351)	-	(3,305,556,351)	(2,373,268,872)	932,287,479	28%	J
RAIL OPERATIONS COSTS	(16,733,660,656)	-	(16,733,660,656)	(18,168,243,138)	(1,434,582,482)	-9%	
TRAINING	(92,489,964)	-	(92,489,964)	(15,830,560)	76,659,404	83%	K
TRAVEL & ACCOMODATION	(174,222,478)	-	(174,222,478)	(182,985,895)	(8,763,417)	-5%	
LEGAL & PROFESSIONAL	(962,070,000)	-	(962,070,000)	(358,207,894)	603,862,106	63%	L
BOARD EXPENSES TOTAL	(43,380,200)	-	(43,380,200)	(30,431,124)	12,949,076	30%	M
GENERAL OFFICE EXPENSES	(361,085,246)	-	(361,085,246)	(237,563,252)	123,521,993	34%	N
PRINTING & STATIONERY	(30,858,601)	-	(30,858,601)	(7,887,572)	22,971,029	74%	O
MV RUNNING EXP	(117,508,986)	-	(117,508,986)	(119,739,467)	(2,230,481)	-2%	
UTILITIES EXPENSES	(135,065,200)	-	(135,065,200)	(114,708,898)	20,356,302	15%	P
COMMUNICATIONS COSTS	(25,343,300)	-	(25,343,300)	(27,870,542)	(2,527,242)	-10%	Q
ADVERTISING & PROMOTION	(79,091,614)	-	(79,091,614)	(16,098,930)	62,992,685	80%	R
SUBSCRIPTION & DONATIONS	(10,778,150)	-	(10,778,150)	(1,551,232)	9,226,918	86%	S
INSURANCE EXPENSES	(53,097,713)	-	(53,097,713)	(53,030,188)	67,525	0%	
REPAIRS & MAINTENANCE	(203,864,800)	-	(203,864,800)	(36,972,610)	166,892,190	82%	T
PROVISION FOR DOUBTFUL DEBT	-	-	-	(258,239,838)	(258,239,838)	0%	
TOTAL OPERATION COSTS	**(22,328,073,260)**	**-**	**(22,328,073,260)**	**(22,002,630,012)**	**325,443,248**	**1%**	
PROFIT BEFORE NON OPERATIONAL COSTS	**18,894,459,067**	**-**	**18,894,459,067**	**15,027,567,553**	**(3,866,891,514)**	**20%**	
FINANCE EXPENSES	(20,845,895,181)		(20,845,895,181)	(25,468,906,816)	(4,623,011,635)	-22%	U
PENALTIES/INTERESTS ON DEBT	-		-	(1,554,839,369)	(1,554,839,369)	0%	
DEPRECIATION EXP	(21,708,424,255)		(21,708,424,255)	(21,593,746,061)	114,678,194	1%	
NON OPERATING COSTS	**(42,554,319,436)**	**-**	**(42,554,319,436)**	**(48,617,492,246)**	**(6,063,172,809)**	**-14%**	
TOTAL COSTS	**(64,882,392,696)**	**-**	**(64,882,392,696)**	**(70,620,122,257)**	**(5,737,729,561)**	**-9%**	

Note	Explanation
A - RENT INCOME	The Current economic recession that led to low ability of tenants to meet their rent obligations
B - SGR INCOME	Change in Containarised and conventional cargo mix transported as a result of customer liberty for preference on the mode of transport for cargo. This is after Government decision to rescind the direct nomination of cargo for transportation on the SGR.
C - EQUIPMENT LEASE INCOME	Leases of equipment was scaled down by customers
D - MUSEUM INCOME	High number of museum visitors in the year as a result of robust marketing
E - INVESTMENT INCOME	Movement in Foreign exchange gain in the year as KR bill freight services in dollars
F - OTHER INCOME	High wayleaves in the year 2022-2023
	New revenue stream - Nakuru Parking Fee
G - MGR REVENUES	Low asset reliability affecting client retention as a result of high transit and line blockage times, Low Locomotive availability, High number of incidents, Cargo evacuation delays at the Malaba yard due to Cross border operational challenges especially line closure .
H - GOK GRANT	The Government of Kenya has continued to support Kenya Railways and in the year, a grant of Kes 13.73 Billion was given to the Corporation and Kes 2.32 Billion in deferred income
I - RTI INCOME	Premium Railway courses planned in the year were not rolled out
	Indequate infrastructure which limits the number of students enrolled for programs including students hostels/accommodation
J - STAFF COSTS	Recruitment of senior position in the corporation budgeted didn't materialise and also the corporation has not fully implemented the approve establishment
K - TRAINING	Restricted Training due to cost cutting measures and governement directives
L - LEGAL&PROFFESIONAL	The budget included the consultancy services for Valuation of properties and Development of a marketing strategy which didn't materialise in the year
M - BOARD EXPENSES	Fewer Board meetings
N - GENERAL OFFICE EXPS	Cost Control Measures implemented arising from austerity measures
O - PRINTING & STATIONERY	Cost Control Measures implemented arising from austerity measures
P - UTILITIES EXPS	Budget that was based on anticipated completion of the new stations and review of Land rates charged by the various Counties and the expected increase in water and electricity consumption due to increased activities and leasing of go downs to support the transit shed business
Q - COMMUNICATION COSTS	Higher rates of communication cost
R - ADVERTISEMENT & PROMOTION	Digitization and cost containment measures
S - SUBSCRIPTION & DONATIONS	Scaled down donations in the financial year
T - REPAIR&MAINTAINACE	It was budgeted on anticipation with increased need for MGR ICT infrastructure maintenance and higher provision for repair and maintenance on SGR assets which are overdue for periodic maintenance.
U - FINANCE EXPENSES	Volatility of the major currency

NET SURPLUS / DEFICIT	**(23,659,860,369)**	**-**	**(23,659,860,369)**	**(33,589,924,692)**	**(9,930,064,323)**	**-42%**

19. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kenya Railways is established by and derives its authority and accountability from the Kenya Railways Act (Cap 397). The Corporation is wholly owned by the Government of Kenya and domiciled in Kenya. The Corporation's principal activity is to provide a coordinated and integrated system within Kenya of rail & inland waterways transport services, port facilities in relation to inland waterways transport services and Auxiliary road services in connection therewith.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the financial statements. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity, and all values are rounded off to the nearest Kenya shillings. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

Notes to the Financial Statements *(Continued)*

3. Application of New and Revised International Financial Reporting Standards (IFRS)

New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Corporation does not issue insurance contracts.	Effective for annual periods beginning on or after 1st January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their **material** accounting policy information rather than their **significant** accounting policies.	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

Notes to the Financial Statements *(Continued)*

Application of New and Revised International Financial Reporting Standards (IFRS)

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

(The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements).

Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year

4. Summary of Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

i) Revenue from the sale of goods and services is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Revenue streams include;

- Freight Income- Income from cargo haulage in SGR and MGR
- Passenger Income- fares for long distance passenger services on SGR
- Trackage Right- Flat rate given to Magadi for access of MGR Tracks Konza to Magadi
- Way-leaves- Grant of right of access over rail infrastructure
- Transit Sheds at Kenya Railway Transit Shed in Nairobi and Cargo Handling Facility in Malaba.

- Commercial works- External works undertaken in the worKesop
- Commuter fare- fares received from commuter services in Nairobi
- Railway Training Institute
- Real estate
- Others – Museum, parking and restaurant

ii) Grants from the National Government are recognized in the year in which the Corporation actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that have been acquired using such funds.

iii) Finance income comprises interest receivable from bank deposits, exchange gain and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

iv) Dividend income is recognized in the income statement in the year in which the right to receive the payment is established.

vi) Other income is recognized as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the Corporation 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 Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use, as guided by National Treasury policy on assets depreciation are:

19.1 Table of Depreciation rates

Asset	Rate (%)	Useful life (Years)
Permanent Way and Bridges	2.00%	50
Buildings	2.00%	50
Plant and Machinery	3.33%	30
Signalling Equipment	2.50%	40
Telecommunication Equipment	4.00%	25
Locomotives	2.50%	40
Coaches	2.50%	40
Wagons	2.50%	40
Wagon ferries	2.50%	40
Dry dock	2.50%	40
Ancillary vessels	2.50%	40
Ferry terminals	1.67%	60
Marine equipment	3.33%	30
Lorries - above 3 tonnes tare weight	37.50%	2.67
Motor Vehicles - 3 tonnes and below	25.00%	4
Office Equipment	12.50%	8
Furniture & fittings	12.50%	8
Computer, copiers & faxes	33.33%	3
Track Tools	20.00%	5
SGR Information System	12.50%	8
SGR Track Subcomponents	10.00%	10
SGR Interval Communication	8.33%	12
SGR Signalling	6.67%	15
SGR Intra-Stn Communication	5.00%	20
SGR Water & Drainage System	4.00%	25
Station Yards	3.33%	30
Station Buildings	2.00%	60
SGR Main Line Track	1.67%	60
SGR Sub-Grade	1.00%	100
Major Bridges	1.00%	100

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives . The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized

h) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. These bonds are measured at amortized cost/ at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL)

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value through profit or loss (FVTPL).

k) Unquoted investments

Unquoted investments are measured at fair value through profit or loss (FVTPL).

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method or First In First Out (FIFO). Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

m) Trade and other receivables

Trade and other receivables are recognized at amortized cost less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

n) Taxation

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q) 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 reporting period. 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.

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

s) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

T) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2022. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kes 1,080 per employee per month.

u) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

v) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 profit or loss.

w) Budget information

The original budget for FY2022/23 was approved by the National Treasury on 30.06.2022. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities. The approved budget was revised downwards as per the recommendations of The National Treasury in order to conclude the final budget. Accordingly, the entity revised the original budget for FY 2022-2023 downwards by Kes 551 Million

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under these financial statements.

a) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

b) Comparative figures

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

c) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2023.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made: e.g.

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in the Financial Statements.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

(include provisions applicable for your organization e.g. provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

6. Main Income

Main Income	30th June 2023 KES	30th June 2022 KES
SGR Revenues	17,112,107,140	16,071,017,819
MGR Revenues	1,898,936,140	1,269,625,350
Net rental income from investment property	823,358,662	909,564,999
Railway training institute	279,301,552	336,629,123
MGR Marine-MV Uhuru	73,904,982	63,709,294
	20,187,608,477	**18,650,546,585**

Main Income will record revenues accruing from the core activities of movement of freight cargo, passenger, property & investment and revenue from the center of excellence the Railway Training Institute. Revenue is recorded at Gross .

6(a) Discount Allowed

Discount Allowed	30th June 2023 KES	30th June 2022 KES
SGR Volume Disounts	(1,065,177,532)	(1,052,657,396)
MGR	-	(1,777,890)
Non -Rail related Discounts	-	(51,878,885)
Discount Allowed	**(1,065,177,532)**	**(1,106,314,171)**

The Corporation will record all deviations from the Standard Published tariff in form of concessions, special rates and waivers as discounts accruing to the various units. The corporation has also entered into long term freight agreements with key customers who have invested in rail infrastructure in order to enable the corporation uptake cargo requiring special facilities. These customers enjoy investment based contract spot rates.

7. Government Grants

Government Grants	30th June 2023 KES	30th June 2022 KES
SGR Operations Grant	13,728,198,622	28,618,217,808
SGR Deferred Income	2,317,248,988	2,311,748,989
	16,045,447,610	**30,929,966,797**

These are funds disbursed to the Corporation from the National government in support of specific aspects of the operation. Operational grants will record amounts received in Support of the Operation. Amortization is the systematic allocation of Capital grants in respect to Projects that is allocated proportionate to the design life of the project.

8. OTHER INCOME

	30th June 2023 KES	30th June 2022 KES
Sundry income	82,700	7,884,542
Wayleaves	61,939,459	65,111,305
Wagon lease	47,391,914	80,787,895

Profit on sale of assets	6,740,045	650,000
Museum Earnings	3,616,425	2,417,753
Commercial Rent	627,000	447,000
Sale of spares	-	113,452
Kenrail Parking Revenue	3,487,583	3,627,163
Kenrail Service Charge Income	24,828,320	1,893,276
NCR Restaurant Revenue	21,761,156	-
Nakuru Parking Revenue	3,597,155	-
	174,071,757	**162,932,386**

Other Incomes will record revenues from non core business. Rental Income records rent revenue from houses and land Properties leased to the public. Sale of tender documents records sale of printed tender documents . Biological assets sales records sale of Trees and other Biological assets. Sale of scrap records proceeds from disposal of unutilized assets approved for disposal. Profit on sale of assets records proceeds of the sale over the book value of the assets. MGR assets will record MGR revenues besides the core business this include Wayleave, workshop jobs and wagon leases. Commercial rent records the revenue specific to NCR station building . Wagon lease records lease of assets to Tata Chemicals.

9. BOARD EXPENSES

BOARD EXPENSES	30th June 2023 KES	30th June 2022 KES
Director's Fees	12,555,539	12,331,200
Directors' Sitting Allowances	9,961,350	10,609,000
Board training	300,000	988,580
Directors' Travel & Accommodation	7,614,235	9,609,555
TOTAL	**30,431,124**	**33,538,335**

Board expenses relate to compensation of Board members in respect to sitting allowances,fees, facilitations and trainings .

10	ADMINISTRATION EXPENSES	30th June 2023 KES	30th June 2022 KES
	Postages and telephones	27,870,542	17,313,943
	Vehicle running & generator maintenance	119,739,467	73,304,030
	Travel & Accommodation	182,985,895	168,863,496
	Printing and stationery	7,887,572	10,306,145
	Advertising and sales promotion	16,098,930	40,429,625
	Audit fees provision	1,494,253	2,000,000
	Legal and professional fees	220,040,578	201,380,718
	Bank charges and commissions	10,856,714	7,429,318
	General Office Expenses	254,945,045	191,504,555
	Occupancy & Utilities	114,708,898	69,054,483
	Insurance	53,030,188	13,618,725
	Security	125,816,350	115,182,226
	Repairs & Maintenance	36,972,610	29,296,206
	TOTAL	**1,172,447,039**	**939,683,470**

Administration expenses relates to both direct and indirect overheads. The categorization will be functional based .

10(a)	STAFF COSTS	30th June 2023 KES	30th June 2022 KES
	Salaries and wages	1,258,796,388	967,084,703
	Staff allowances	640,952,172	476,588,087
	Group life Insurance & group personal accident	17,000,800	4,417,446
	Other Staff costs	198,388,499	164,590,671
	Staff medical	258,131,014	247,288,506
		2,373,268,872	**1,859,969,412**

This relates to the human capital. Group life insurance expense relates to the total premium for the corporation group life policy.Other staff cost includes gratuities, internship allowances, extraneous allowances, Ex gratia expenses and staff welfare expenses. Salaries and wages relates to basic pay and employer pension contribution. Staff allowances relates to all allowances paid in course of engagement.

The average number of employees at the end of the year was:		
Permanent employees	2101	2,051
Fixed Term Contract	25	144
Temporary Contract	909	457
Casuals	1012	2,023
Total	**4,047**	**4,675**

In the year Temporary contract staff were engaged across the various departments in the corporation

10(b)	GENERAL OFFICE EXPENSES	30th June 2023 KES	30th June 2022 KES
	Office tea & beverages	6,516,479	11,745,400
	Cleaning services	89,396,636	50,957,987
	Office repairs & maintenance	1,126,495	3,985,623
	Students' food and essentials	44,806,997	17,215,497
	Other office expenses	95,716,645	78,289,192
	Training,Subscription & Donation	17,381,792	29,310,856
		254,945,045	**191,504,555**

Office tea and beverage records amounts utilized in provision of office tea. Cleaning services will record amounts in maintaining sanitation in offices and facilities including our buildings and leased properties. Repair and maintenance records expenses to remedy failure of asset and equipment and to provide minimal downtimes. Students food and Essentials records expenses to provide meals and other essentials for students in RTI trade debtors. Training, subscription and donations records staff training and subscription to professional bodies both by the Corporation and staff, it also records donations by the Corporation to various courses.

10(c)	OCCUPANCY & UTILITIES COSTS	30th June 2023 KES	30th June 2022 KES
	Land rates	80,287,534	38,708,442
	Electricity	20,839,672	25,156,146
	water	6,990,771	5,189,894
	Rent	6,590,920	-

	114,708,898	**69,054,483**

These relates to recurring utilities such as Water, Electricity and Land rates. Rent relates to leasing of Eastern block D and Basement

10(d)	PROVISION FOR BAD DEBTS	30th June 2023 KES	30th June 2022 KES
	Balance b/fwd	(5,943,793,160)	(5,764,207,240)
	Charge for the year- general provision on bad debts	(258,239,838)	(179,585,920)
	Balance carried forward	**(6,202,032,998)**	**(5,943,793,160)**
	The current provision is made up of the following items.		
	Category		
	Closed rent accounts	1,252,368,588	1,224,009,963
	Closed trade accounts	1,306,318,718	478,961,407
	Bad Debts On Intrst On Concesion	47,796,159	3,520,101,045
	Inactive MGR accounts	2,764,911,599	170,273,695
	General 5% Provision	445,501,620	165,310,735
	Amount in Chase Bank	200,000,000	200,000,000
	Student Debtors	5,550,394	5,550,394
	New Provisions	168,096,610	168,096,610
	RTI	11,489,310	11,489,310
	Total Reported Provision	**6,202,032,998**	**5,943,793,160**

Provision for bad debts is the change of provision between two successive years. As a policy , the Corporation provides fully for closed and inactive accounts for both trade and rent debtors. The balance of active accounts will have a general 5% provision. The new provisions include items classified under other receivables and there is also a first time provision for RTI for long outstanding debts

11	Rail Operational expenses		30th June 2023 KES	30th June 2022 KES
	MGR Operations & Maintenance Costs	10 (a)	2,182,882,617	1,812,700,675
	SGR -Operations & Maintenance	10 (b)	15,985,360,521	17,939,628,774
			18,168,243,138	**19,752,329,449**

11(a)	MGR Operation and Maintenance Costs		30th June 2023 KES	30th June 2022 KES
	MGR Security Expense		101,724,607	130,434,307
	MGR Direct Utilities		81,744,036	83,535,498
	MGR Other Expenses		202,702,205	229,244,515
	MGR Fuel & Lubricants		1,540,710,010	885,541,712
	MGR Operations & Maint Costs		256,001,758	483,944,642

	Total MGR Operation Cost	**2,182,882,617**	**1,812,700,675**

11(b)	SGR Operation and Maintenance Costs	30th June 2023 KES	30th June 2022 KES
	SGR Operations & Maint Costs	4,855,090,173	7,273,925,346
	SGR Freight	3,011,153,018	4,202,485,595
	SGR Security	297,601,146	255,178,984
	SGR Insurance Expense	337,626,137	186,641,938
	SGR Channel Occupancy	12,362,557	12,362,557
	SGR Fuel	4,968,548,140	3,978,230,389
	SGR Consumables And Other maintenance cost	1,064,789,300	739,581,839
	SGR Indexation	977,731,812	1,231,878,396
	SGR Other Expenses	99,148,405	36,239,774
	SGR Direct Utilities	361,309,832	23,103,955
	Total SGR Operation Cost	**15,985,360,521**	**17,939,628,774**

This relates to expenses incurred in train operations. In SGR this will include the fixed Operation and Maintenance contract , fuel , Loading and loading at the yards, Channel occupancy for frequencies for communication, Variable freight being amounts driven by the activity above the fixed charge and indexation which cushions arising from USD denominated Operator bills. MGR operation will record variable cost of fuel , maintenance and traffic related expenses. It also relates to specific overheads in respect to MGR operations

12	Depreciation of property, plant and equipment	30th June2023 KES	30th June 2022 KES
	Buildings	61,848,219	61,801,584
	Water Supplies & Transport equip.	6,769,552	7,826,031
	Plant & Machinery	64,606,160	56,268,273
	Permanent way	3,154,256	3,154,256
	Telecommunications Equipment	10,445,763	13,064,756
	Motor Vehicles	78,759,836	66,355,583
	Furniture & Fittings & Office Equipment	58,294,244	39,865,133
	Donated assets	48,802,505	48,532,131
	Computers	13,172,488	11,159,063
	Diesel Multiple Unit	62,424,175	54,907,026
	SGR Bridge	769,391,698	769,391,698
	SGR Culvert	307,531,281	307,531,281
	SGR Station Yard	428,889,236	428,889,236
	SGR Building	654,782,313	654,782,313
	SGR Track	5,742,960,160	5,742,960,159
	SGR Electric Supplies	1,090,725,733	1,092,120,558
	SGR Water & Drainage	213,256,164	213,243,524
	SGR Fence	1,051,819,600	1,051,618,708
	SGR Signalling	1,624,487,429	1,635,286,126
	SGR Telecommunication	2,299,964,000	2,301,134,435

	SGR Intangible Asset	254,067,545	254,067,546
	SGR Air & Fire Equipments	183,309,843	183,309,843
	SGR Integ Testing Equipments	14,865,365	16,216,760
	SGR Loco & Roll Stock	1,966,254,147	1,966,254,137
	SGR Loco Depot Equipments	634,267,584	634,267,585
	SGR Loco Information Equipments	84,424,700	84,424,700
	SGR Roll Stock Depot Equipments	545,698,914	545,698,912
	SGR Station Yard Equipments	281,544,254	281,544,252
	SGR Track Maintenance Equipments	221,995,338	221,995,332
	SGR Subgrade	2,554,708,576	2,554,708,577
	SGR Tunnel	245,744,138	245,108,770
		21,578,965,217	**21,547,488,287**

12(a)	ARMOTIZATION OF INTANGIBLE ASSETS	30th June 2023 KES	30th June 2022 KES
	Charge for the year	14,780,843	11,195,523
		14,780,843	**11,195,523**

The policy of the corporation is to depreciate items of non current assets by allocating the cost of acquisition over the useful life of the asset. The management makes judgement of the useful lives of items of Property Plant and Equipment.

13	RATES FOR DEPRECIATION	30th June 2023 KES	30th June 2022 KES

The corporation applies the straight line method of depreciation. The useful life for specific technical assets such as SGR and MGR assests , the engineering design life is used to allocate the cost.The schedule of rates and useful live is provided under note 4(d)

14	FINANCE INCOME	30th June 2023 KES	30th June 2022 KES
	Interest-short term deposit	368,645,645	271,617,539
	Interest- ordinary advances	110,030	45,434
	Unrealized gain (Loss)on foreign currency translation	1,319,491,579	1,755,761,432
		1,688,247,254	**2,027,424,405**

Finance income will include interest earned from investments in commercial banks . This is in form of Fixed Deposit Reserves from unutilized cash . The corporation also recognizes nominal interest in advances to staff. The exchange gain was due to currency movement affecting Escrow bank account and foreign dominated creditors and debtors

15	FINANCE EXPENSE	30th June 2023 KES	30th June 2022 KES
	SGR On Lent Loan Interest	(25,468,906,816)	(22,723,783,487)
		(25,468,906,816)	**(22,723,783,487)**

SGR on Lent interest relates to interest accruing from the On lent loan from the National treasury in respect to implementation of the SGR project . On Lent loan is the Exim bank loan of Kes 617 billion as per note 33

16	PENALTIES/ INTEREST ON ON-LENT LOAN	30th June 2023 KES	30th June 2022 KES
	Penalties/Interest	(1,554,839,369)	(1,312,362,215)
		(1,554,839,369)	**(1,312,362,215)**

This relates to penalties accruing from non-payment on-Lent loan obligations The interest is charged at 1% of the unremitted amounts as from July 2020

17	INCOME TAX EXPENSE	30th June 2023 KES	30th June 2022 KES
	The Current year's tax is just a provision. Final tax will be computed after the accounts have been audited		
	Profit as per financial statements	(33,589,924,692)	(17,689,006,052)
	Adjustments	21,320,725,379	21,367,902,366
	Taxable profit	(12,269,199,313)	3,678,896,314
	Tax @ 30%	**(3,680,759,794)**	**1,103,668,894**
	Current taxation based on the adjusted profit for the year at 30%	(3,680,759,794)	1,103,668,894
	Current year deferred tax charge	-	(4,984,185,870)

	Total	**(3,680,759,794)**	**(3,880,516,976)**

18	Operating Expenses	30th June 2023 KES	30th June 2022 KES
	The profit/(loss) is arrived at after charging/(crediting):		
	Staff Costs	(2,373,268,872)	(1,859,969,412)
	Rail Operations Costs	(18,168,243,138)	(19,752,329,449)
	Training	(15,830,560)	(25,247,849)
	Travel & Accommodation	(182,985,895)	(168,863,496)
	Legal & Professional	(358,207,894)	(325,992,262)
	Board Expenses Total	(30,431,124)	(33,538,335)
	General Office Expenses	(237,563,252)	(162,193,699)
	Printing & Stationery	(7,887,572)	(10,306,145)
	Mv Running Expenses	(119,739,467)	(73,304,030)
	Utilities Expenses	(114,708,898)	(69,054,483)
	Communications Costs	(27,870,542)	(17,313,943)
	Advertising & Promotion	(16,098,930)	(40,429,625)
	Subscription & Donations	(1,551,232)	(4,063,007)
	Insurance Expenses	(53,030,188)	(13,618,725)
	Repairs & Maintenance	(36,972,610)	(29,296,206)
	Provision For Doubtful Debt	(258,239,838)	(179,585,920)
	Finance Expenses	(25,468,906,816)	(22,723,783,487)
	Penalties/Interests On On-Lent Loan	(1,554,839,369)	(1,312,362,215)
	Depreciation Expenses	(21,593,746,061)	(21,558,683,810)
	Total	**(70,620,122,257)**	**(68,359,936,098)**

18 c	Prior year adjustment to accumulated losses	30th June 2023 KES	30th June 2022 KES
	Foreign exchange Adjustment	6,145,874	(101,990,206)
	Total Prior year adjustments	**6,145,874**	**(101,990,206)**

Prior Year adjustments are posted directly to retained earnings and relate to material item of the Income statement relating to a period other than the current . Foreign exchange adjustment relates to realised exchange gain and loss.

Table 19.A Property, Plant and Equipment - 2022-2023

	Freehold land	Buildings & civil works	Water Supplies	Plant and machinery	Telecomication Equipment	Motor vehicles, including, motor cycles
COST OR VALUATION						
At Jul 1, 2022	15,175,501,812	3,149,462,337	173,869,200	1,304,253,185	86,086,833	475,011,712
Additions	-	39,815,096	-	15,681,724	2,132,759	19,081,328
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	(38,879,014)
At June 30, 2023	**15,175,501,812**	**3,189,277,433**	**173,869,200**	**1,319,934,910**	**88,219,591**	**455,214,025**
DEPRECIATION						
As At Jul 1, 2022	-	655,358,067	85,533,217	550,783,841	52,222,411	215,345,214
Charge for the year	-	65,002,475	6,769,552	64,606,160	10,445,763	78,759,836.15
Impairment loss	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	(31,394,059)
Reclassification	-	-	-	-	-	-
At June 30, 2023	**-**	**720,360,542**	**92,302,769**	**615,390,001**	**62,668,174**	**262,710,991**
NET BOOK VALUE	**-**	**-**	**-**	**-**	**-**	**-**
At June 30, 2023	**15,175,501,812**	**2,468,916,890**	**81,566,431**	**704,544,908**	**25,551,417**	**192,503,035**

Table 19.B Property, Plant and Equipment - 2021 - 2022

	Freehold land	Buildings & civil works	Water Supplies	Plant and machinery	Telecomication Equipment	Motor vehicles, including, motor cycles
COST OR VALUATION						
At July 1, 2021	15,175,501,812	3,148,221,446	173,869,200	1,242,026,385	84,165,997	339,152,864
Additions	-	1,240,891	-	62,226,800	1,920,835	135,858,848
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At June 30, 2022	**15,175,501,812**	**3,149,462,337**	**173,869,200**	**1,304,253,185**	**86,086,833**	**475,011,712**
DEPRECIATION						
As At July 1, 2021	-	574,599,528	77,719,826	494,515,569	39,157,655	148,989,631
Charge for the year	-	61,801,584	7,826,031	56,268,273	13,064,756	66,355,583
Impairment loss	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-
Reclassification	-	18,956,954	(12,640)	-	-	-
At June 30, 2022	**-**	**655,358,067**	**85,533,217**	**550,783,841**	**52,222,411**	**215,345,214**
NET BOOK VALUE	**-**	**-**	**-**	**-**	**-**	**-**
At June 30, 2022	**15,175,501,812**	**2,494,104,269**	**88,335,983**	**753,469,344**	**33,864,422**	**259,666,498**

Office equipment, furniture & fittings	Computers & related equipment	Cash Generating Assets	Donated assets	SGR Assets (Note 15C)	DMU	Total
1,010,056,071	160,751,045	3,755,282,119	2,454,632,288	610,684,169,155	1,561,925,109	639,991,000,866
162,776,093	18,340,701	-	-	-	-	257,827,700.33
-	-	-	-	-	-	-
-	-	-	-	-	-	(38,879,014)
1,172,832,164	**179,091,746**	**3,755,282,119**	**2,454,632,288**	**610,684,169,155**	**1,561,925,109**	**640,209,949,552**
840,913,464	134,816,634	363,471,579	313,092,505	74,308,037,906	74,413,692	77,593,988,531
58,294,244	13,172,488	-	48,802,505	21,170,688,019	62,424,175	21,578,965,217
-	-	-	-	-	-	-
-	-	-	-	-	-	(31,394,059)
-	-	-	-	-	-	-
899,207,709	**147,989,122**	**363,471,579**	**361,895,010**	**95,478,725,926**	**136,837,866**	**99,141,559,689**
-	-	-	-	-	-	-
273,624,455	**31,102,624**	**3,391,810,540**	**2,092,737,278**	**515,205,443,229**	**1,425,087,243**	**541,068,389,863**

Office equipment, furniture & fittings	Computers & related equipment	Cash Generating Assets	Donated assets	SGR Assets (Note 15C)	DMU	Total
911,319,304	155,795,163	3,755,282,119	2,454,589,676	610,612,117,326	731,499,955	638,783,541,245
98,736,767	4,955,883	-	42,612	3,951,958		308,934,595
-	-	-	-	68,099,871	830,425,154	898,525,026
-	-	-	-	-	-	-
1,010,056,071	**160,751,045**	**3,755,282,119**	**2,454,632,288**	**610,684,169,155**	**1,561,925,109**	**639,991,000,866**
801,048,331	123,657,571	379,274,277	264,560,374	53,123,470,817	19,506,665	56,046,500,246
39,865,133	11,159,063	3,154,256	48,532,131	21,184,554,450	54,907,026	21,547,488,287
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	(18,956,954)	-	12,639	-	(1)
840,913,464	**134,816,634**	**363,471,579**	**313,092,505**	**74,308,037,906**	**74,413,692**	**77,593,988,531**
-	-	-	-	-	-	-
169,142,607	**25,934,411**	**3,391,810,540**	**2,141,539,783**	**536,376,131,249**	**1,487,511,418**	**562,397,012,335**

Table 19.C Property, Plant and Equipment SGR- 2022 - 2023

	Civil Works	SGR Track	Building	Signalling and Communication	SGR Intangible Asset	SGR Loco & Roll Stock	Equipment	Total
COST OR VALUATION								
At Jul 1, 2022	348,265,732,994	65,847,809,628	56,255,040,419	69,020,149,921	3,034,188,466	48,992,497,589	19,268,750,139	610,684,169,155
Additions	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
At June 30, 2023	**348,265,732,994**	**65,847,809,628**	**56,255,040,419**	**69,020,149,921**	**3,034,188,466**	**48,992,497,589**	**19,268,750,139**	**610,684,169,155**
DEPRECIATION								
As At Jul 1, 2022	17,743,487,880	19,951,109,994	2,310,974,335	14,323,139,732	832,864,436	7,865,016,387	11,281,445,141	74,308,037,905
Charge for the year	5,583,977,606	5,742,960,160	642,145,401	3,924,451,429	254,067,545	1,966,254,147.34	3,056,831,731	21,170,688,019
Disposals								-
At June 30, 2023	**23,327,465,486**	**25,694,070,154**	**2,953,119,735**	**18,247,591,161**	**1,086,931,981**	**9,831,270,534**	**14,338,276,873**	**95,478,725,924**
NET BOOK VALUE	-	-	-	-	-	-	-	-
At June 30, 2023	**324,938,267,509**	**40,153,739,473**	**53,301,920,684**	**50,772,558,759**	**1,947,256,485**	**39,161,227,055**	**4,930,473,267**	**515,205,443,231**

20. INVESTMENT PROPERTY

INVESTMENT PROPERTY	30th June 2023 KES	30th June 2022 KES
Balance b/fwd	21,236,002,367	21,236,002,367
Addtions	48,158,398	-
Balance c/fwd	**21,284,160,765**	**21,236,002,367**

Investment Property relates to Kenrail Towers.

21. INTANGIBLE ASSETS

INTANGIBLE ASSETS	30th June 2023 KES	30th June 2023 KES
Cost		
Balance b/fwd	196,573,579	180,007,200
Additions	16,901,557	16,566,379
Cost c/fwd	**213,475,136**	**196,573,579**
Amortisation		
Balance b/fwd	61,292,322	50,096,799
Charge for the Year	14,780,843	11,195,523
Balance c/fwd	**76,073,165**	**61,292,322**
Net Carrying amount	**137,401,970**	**135,281,257**

ntangible assets relates to System Softwares for Navision ERP, Ticketing Sytems , PBX telephone exchange and other Operations Softwares.

22. CAPITAL WORKS-IN-PROGRESS

CAPITAL WORKS-IN-PROGRESS	30th June 2023 KES	30th June 2023 KES
Balance b/fwd	118,974,681,727	103,794,877,552
Amount during the Year	12,276,669,269	16,010,229,330
Capitalization	(83,591,813)	(830,425,154)
Balance c/fwd	**131,167,759,183**	**118,974,681,727**

Capital Works In progress Relates to projects that are currently on on going in the various divisions of the Corporation. The details of the Current WIP is contained in Note 44 of the Financial statements.

23. STORES INVENTORIES

STORES INVENTORIES	30th June 2023 KES	30th June 2023 KES
Capital stores	3,430,747,817	3,414,632,028
Stationery stores	251,635,233	197,325,588
Fuel Stores	204,778,885	204,778,885
Foodstuffs	1,384,338	1,073,687
Workshop Stores	14,525,787	20,136,187
Net stores inventories	**3,903,072,060**	**3,837,946,376**

Stock Capital stores records the stock values of Spares for Rollling stock and Permanent way . Stationery Stocks record stock values of Stationeries . Fuel Store records the residual value of fuel that must be retained in the tanks at the point of change of Suppliers . Food stuffs record food items in RTI .SGR Spares have been relocated to Prepayment in line with the O&M terms.

24. TRADE AND OTHER RECEIVABLES

TRADE AND OTHER RECEIVABLES	30th June 2023 KES	30th June 2022 KES
Trade receivables	9,096,847,537	7,222,374,198
Rent Debtors	1,569,625,188	2,384,340,759
Less: provision for bad debts	(6,202,032,998)	(5,943,793,160)
Less: provision for discounts	(2,068,557,666)	(1,345,073,755)
Net trade receivables	**2,395,882,061**	**2,317,848,042**
Prepayments	6,078,730,316	4,164,889,015
Tax Receivable	24,430,546,532	21,388,538,546
Staff	65,717,518	64,613,544
Other receivables	218,493,295	708,162,206
Net Receivables	**33,189,369,722**	**28,644,051,354**

Trade receivables are dues to the Corporation from customers and trading partners. Trade Receivables records dues from trade transactions other than rent. Rent Debtors records dues from Tenants in variuos properties . Provision will include specific provision for inactive and closed accounts. There is a general Provision of 5% . Discounts Provision relates to discounts as per the Tarrif of which the customers have not been awarded. Prepayments are monies received in advance for services. In particular it records also amounts received in respect to projects that have not ben absorbed. Tax Receivable relates to the tax credit balance with KRA that arises from the nature of the Corporations Transactions. During the year, the Corporation has recognized a deferred tax asset of Kes 4.9 Billion being the temporal tax shield arising from difference between the depreciated value of SGR assets and the Tax Allowable wear and tear allowance. Staff Debtors Relates to legacy staff obligations , salary advances and outstanding surrenders .

25. CASH DEPOSITS AND GUARANTEES

	CASH DEPOSITS AND GUARANTEES		30th June 2023 KES	30th June 2022 KES
i	KSH 12M FDR KCB @ 3%		(1)	15,648,911
ii	KPLC GUARANTEE-(SGR POWER CONNECTION) AT 6%		-	83,733,433
iii	FDR SAVINGS & LOANS (MORTGAGE A/C)		29,628,131	29,628,131
iv	ESCROW RETRENCHMENT	1108981968	83,735	83,729
v	KCB CAR LOAN LIEN		29,991,057	29,991,057
vi	S&L - MORTGAGE BACK UP		196,372,952	78,149,477
vii	FUEL DEPOSIT GUARANTEE		200,000,000	4,449,900
viii	KCB- MORTGAGE DRAWDOWN A/C	1146951868	2,032	2,032
ix	KCB-Land compensation a/c	1162575387	-	5,145,558,756
x	KCB-SGR ESCROW PAYMENT A/C-USD	1162573333	4,650,385	4,383,137
xi	KCB-SGR ESCROW REVENUE A/C-KES	1162575077	1,668,613,181	233,705,775
xii	KCB-SGR ESCROW REVENUE A/C-USD	1162574615	33,183,346,805	30,081,006,378
xiii	KCB- SGR NBI -NVS ESCROW A/C	1203286473	12,057,485,364	8,149,823,173
xiv	ESCROW ENVIROMENT DEPOSIT AT 6%		-	45,862,683
xv	ESC. RETRENCHMT DEPOSIT AT 6%		-	62,056,199
xvi	FDR WITH CHASE BANK		200,254,780	200,254,780
xvii	KPA GUARANTEE		-	500,000
	TOTAL		**47,570,428,423**	**44,164,837,552**

Guarantees records cash that though is with the Corporation is not available for use owing to the conditions in the creating instruments.

26. CASH & BANK BALANCES

26	CASH & BANK BALANCES		30th June 2023 KES	30th June 2022 KES
i)	**Cash in hand**			
	Cash on hand - RTI		-	79,795
	Sub total		**-**	**79,795**
ii).	**Bank balances**			
		Account no.		
	KCB Rent Collections A/c	1108981917	63,364,821	9,872,367
	KCB USD account (USD)	1101706872	649,908,272	43,089,019
	RTI - KCB main a/c	1102590363	24,346,897	20,386,715
	RTI - KCB imprest a/c	1102587699	1,900,202	2,385,108
	KCB - project account	1107161487	13,551,347	1,888,804
	Citibank a/c	300045003	3,118,930	3,155,686
	Citibank a/c USD (USD)	300045014	1,244,837	1,188,928
	Operational account	1107161398	24,908,854	35,490,653
	KCB STAFF MORTGAGE A/C	1109889216	38,339	3,624,378
	Equity bank	0470298041416	17,303,026	18,777,327
	NIC Bank NUTRIP-KES A/C	1001004049	129,505	128,137
	KCB-Land compensation a/c	1162575387	4,063,420,917	-
	SBM SAVINGS A/C	0081019078063	60,995,773	57,724,487
	SBM Liquidation account	0081019078001	72,452,834	68,567,552
	SBM Current account	0082019078064	-	(456)
	NCR PAYBILL 4062323		(429,057)	-
	Sub total		**4,996,255,495**	**266,278,703**
	TOTAL CASH & BANK BALANCES		**4,996,255,495**	**266,358,498**

27. Government , subventions & equity

Government , subventions & equity	30th June 2023 KES	30th June 2022 KES
GOK equipment loan, 1974	50,000,000	50,000,000
GOK Equity for the Purchase of new equipment	468,000,000	468,000,000
Conversion of loan to equity	39,956,007,122	39,956,007,122
TOTAL	**40,474,007,122**	**40,474,007,122**

Government Subventions and Equity denotes the Government Shareholding contribution to the Corporation.

28. GOK GRANTS

GOK GRANTS	30th June 2023 KES	30th June 2022 KES
Balance B/forward	10,029,252,411	10,373,896,105
Relocation to defered Income	229,762,463	(344,643,695)
Balance c/fwd	**10,259,014,874**	**10,029,252,411**

29. RESTRUCTURING RESERVES

RESTRUCTURING RESERVES	30th June 2023 KES	30th June 2022 KES
Balance b/fwd	20,481,488,245	20,235,324,613
Addittions	(245,501,817)	246,163,631
Balance c/fwd	**20,235,986,427**	**20,481,488,245**
Restructuring Reserves relates to legacy transactions.		

30. ACCUMULATED LOSSES

ACCUMULATED LOSSES	30th June 2023 KES	30th June 2022 KES
Balance b/fwd	(109,075,253,197)	(96,262,068,766)
Prior period Adjustments	6,145,874	(101,990,206)
Restated balance	(109,069,107,323)	(96,364,058,972)
Profit for the Year	(33,596,298,735)	(12,711,194,225)
Balance c/fwd	**(142,665,406,058)**	**(109,075,253,197)**

31. EAST AFRICAN LOAN STOCKS

EAST AFRICAN LOAN STOCKS	30th June 2023 KES	30th June 2022 KES
1954 STG PD 5.0M	90,000	90,000
1957 STG PD 8.5M	20,000	20,000
1975 STG PD 5.9M	24,918,842	24,918,842
1970 KENYA PD 1.0	513,100	513,100
1971 KENYA PD 3.4	11,301,834	11,301,834
	36,843,776	**36,843,776**

32. EXIM BANK LOAN

EXIM BANK LOAN	30th June 2023 KES	30th June 2022 KES
Balance b/fwd	591,746,929,094	569,023,145,606
Amount disbursed during the year	-	-
Interest On loan Capitalized	25,468,906,816	22,723,783,487
Balance c/fwd	**617,215,835,910**	**591,746,929,094**

33. PROVISIONS

PROVISIONS	30th June 2023 KES	30th June 2022 KES
Leave	19,711,120	2,511,863
Municipal rates	175,591,048	175,591,048
Insurances refundable to former staff	29,441,666	29,441,666
Gratuities	46,119,007	51,405,249
	270,862,842	**258,949,827**
* County rates relates to legacy land rates with county governments		

34. Payables & accrued charges

Payables & accrued charges	30th June 2023 KES	30th June 2022 KES
Trade creditors	27,700,904,397	31,235,263,783
Land Compensation	8,307,857,507	8,307,857,507
Staff creditors	245,178,414	149,320,096
Customer deposits	1,099,673,143	1,774,570,494
Accruals	422,876,888	331,256,652
Default Penalty Payable	3,511,544,881	1,956,705,512
TOTAL	**41,288,035,230**	**43,754,974,043**

Payables records dues from the Corpoartion to suppliers and other partners.Land Compensation is amount outstanding to activities leading to acquisition of the Corridor . Staff creditors relates to outstanding payroll deductions. Deposits Relates to rent deposits. SGR On Lent loan Interest records outstanding Interest . Default Penalty will record the penalty arising from non payment of obligations.

35. DEFERRED INCOME

DEFERRED INCOME	30th June 2023 KES	30th June 2022 KES
STANDARD GAUGE CONSULTANCY GRA	47,199,472	-
GOK GRANT - SGR	114,356,898,625	113,958,931,603
GOK GRANT - ESCROW	3,840,485,158	3,470,943,695
STAND PREMIUMS/REVENUES	726,785,314	679,948,503
RELOCATION ACTION PLAN	5,712,831,897	5,712,831,897
LAND SALES	323,652,907	323,652,907
RTI	1,079,932,379	1,079,932,379
GOK GRANT - NAIROBI COMMUTER RAIL	5,321,100,000	5,321,100,000
GOK GRANT- KONZA LINE	478,000,000	478,000,000
GOK GRANT- NANYUKI LINE	2,413,000,000	1,800,000,000
GOK- NAIVASHA SEZ	8,236,000,000	8,000,000,000
GOK- NKR - KSM MGR	3,400,000,000	3,400,000,000
GOK NAIVASHA - MLB MGR	8,991,270,675	7,500,000,000
ICD NAIROBI GRANT	28,346,592,768	24,900,387,589
GOK GRANT- KISUMU PORT	97,957,310	97,957,310
MGR RS REHABILITATION	1,650,000,000	1,650,000,000
SGR- GOK GRANT USMS PROJECT	352,230,383	352,230,383
GILGIL - NAIVASHA	1,000,000,000	1,000,000,000
MGR LOCOMTIVE GRANT	5,251,212,552	2,099,848,495
BOMA LINE CUSTOM FACILITY	123,215,385	123,215,385
METRO LINE EKS-RUAI	80,000,000	-
KISUMU -BUTERE	528,000,000	-
LESERU -KITALE	370,000,000	-
MGR -SGR PASSENGER LINK	608,682,776	-
MAKUPA CAUSEWAY BRIDGE CONSTRUCTION	1,896,310,510	-

CARGO HANDLING FACILITY - MALABA	443,240,917	-
ACCESS ROADS - MAIMAHIU-SUSWA SGR STATIONS	191,682,704	-
SAP ERP PROJECT	204,001,584	-
RIRUTA NGONG PROJECT	125,000,000	-
TOTAL	**196,195,283,317**	**181,948,980,147**
Amount To be amortised (Current)	**2,317,248,988**	**2,311,748,989**
	2,317,248,988	**2,311,748,989**
Amount Deferredto Future	**193,878,034,329**	**179,637,231,157**

This will record portion of Capital assets Contributed by Grants that will be amortised over the life of the asset.

36. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	30th June 2023 KES	30th June 2022 KES
For the purpose of the cash flow statement, cash and cash equivalents comprise the following:		
CASH IN HAND	-	79,795
CASH AT BANK	4,996,255,495	266,278,703
TOTAL	**4,996,255,495**	**266,358,498**

37. CONTINGENT LIABILITIES

CONTINGENT LIABILITIES.	30th June 2023 KES	30th June 2022 KES
The Corporation had contingent liabilities amounting to **KES 27,614,667,613** detailed as follows:-		
Law suits against the Corporation yet to be determined	27,447,834,803	12,281,001,993
Guarantees given on behalf of the Corporation	166,832,810	166,832,810
Total contingent liabilities	27,614,667,613	12,447,834,803

This will record the exposures in form of pending cases that are currently ongoing against the Corporation. The management makes a disclosure based on the strength of the case and the resultant exposure.

38. Related Party Disclosures

Government of Kenya

The Government of Kenya is the principal shareholder of the Corporation, holding 100% of the entity's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

i) Ministry of Roads and Transport

ii) County Government of Nairobi - NCR

iii) The National Treasury

iv) Board of directors

v) Key management

vi) Numerical Machining Complex - The Corporation own 51% shareholding in Numerical Machining Complex (NMC) which is a private company incorporated under the Companies Act. As per IFRS 12 NMC reports as an independent entity. There is no financial implication in terms of funds flow as the total shareholding is under institutions owned by GoK.

39. Financial Risk Management

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

40. Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

41 Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

42 Fair Value Adjustment Reserve

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

43 Retained Earnings

The retained earnings represent amounts available for distribution to the Corporation's shareholders. Undistributed retained earnings are utilised to finance the Corporation's business activities

44 Capital Works in Progress

No.	Name	Balance as at 1st July 2022	Change	Balance as at 30th June 2023
1-302-001	WIP- OLD BUILDINGS PAINT WORKS	805,700	-	805,700
1-302-002	WIP - UPGRADING RTI- CRBC	659,215,995	-	659,215,995
1-302-003	WIP - KISUMU PORT REHABILITATION	50,893,878	-	50,893,878
1-302-004	WIP - MARINE SCHOOL	476,063,927	21,225,422	497,289,349
1-302-005	WIP -WESTLANDS OFFICE BLOCKS	35,940,541	(35,940,541)	-
1-302-011	WIP - MUSEUM RENOVATIONS	-	3,789,405	3,789,405
1-302-019	WIP - LOCOMOTIVES / WAGONS/COACHES REFURB	188,608,133	-	188,608,133
1-302-030	WIP - RAP KIBERA & MUKURU	3,781,087,505	1,511,840	3,782,599,345
1-302-031	WIP - DOC MGT SYSTEM	53,232,527	(1,592)	53,230,935
1-302-033	WIP - RAILWAY CITIES	32,228,831	(32,228,831)	-
1-302-048	WIP - BLOCK A REFURBISHMENT	19,484,371	51,396,838	70,881,208
1-302-049	WIP - LAPPSET	2,766,933	-	2,766,933
1-302-050	WIP - CONSTRUCTION OF MSAADA ESTATE	685,143	-	685,143
1-302-053	WIP - NANYUKI BRANCH LINE PROJECT	2,128,618,305	290,540,420	2,419,158,726
1-302-054	WIP - NAIROBI COMMUTER RAIL	2,175,295,775	824,843,754	3,000,139,529
1-302-055	WIP - KONZA TECHNOPOLIS LINE	98,273,923	4,777,496	103,051,420
1-302-056	WIP - NAKURU- KISUMU REHABILITATION PROJECT	2,420,859,092	351,973,847	2,772,832,939
1-302-057	WIP - LONGONOT MALABA LINE	1,655,986,034	359,000,563	2,014,986,597
1-302-058	WIP - BRT SYSTEM	-	569,379	569,379
1-302-059	WIP - GILGIL NYAHURURU	124,123,193	257,492,033	381,615,226
1-302-062	WIP - RTI UPGRADE OF BIOMETRIC SOLUTION	-	8,652,600	8,652,600
1-302-063	WIP - NAIVASHA -LONGONOT LINE	5,823,884,182	2,043,888,348	7,867,772,530
1-302-064	WIP- LESERU KITALE LINE	112,308,914	39,499,996	151,808,910
1-302-065	WIP - KISUMU RAILWAY STATION	95,621,774	28,000	95,649,774
1-302-068	WIP - REHABILITATION OF LOCOMOTIVES	1,164,228,527	1,270,452,654	2,434,681,181
1-302-069	WIP - KISUMU- BUTERE MGR REV. PROJECT	298,429,470	107,161,951	405,591,421
1-302-070	WIP - MGR DIESEL ELECTRIC/ LOCOMOTIVES	2,291,248,703	2,344,696,978	4,635,945,681
1-302-072	WIP - ESTATES REHABILITATION WORKS	18,844,973	(82,693)	18,762,280
1-302-073	WIP - CHANGAMWE YARD BOUNDARY WALL	35,395,125	(35,395,125)	-
1-302-074	WIP - UNIFIED SECURITY MANAGEMENT SYSTEM	307,474,291	357,540	307,831,831
1-302-075	WIP - REMODELLING OF KISUMU GODOWNS	26,328,834	38,940,091	65,268,925
1-302-509	WIP-SAP RECONFIGUATION	-	180,235,269	180,235,269
1-302-510	WIP-VOI TAVETA REHABILITATION	-	78,400	78,400
1-302-513	WIP-MAKUPA BRIDGE	-	2,046,851,940	2,046,851,940
1-302-515	WIP-ACCESS ROADS-MAIMAHIU-SUSWA SGR STN	-	481,961,069	481,961,069

1-302-516	WIP-PATE ROAD PARKING	-	1,693,793	1,693,793
1-302-517	WIP - CARGO HANDLING FACILITY - MALABA	-	384,187,974	384,187,974
1-302-518	WIP - KARATINA BUSINESS UNITS	-	13,272,365	13,272,365
1-302-519	WIP-NAIROBI RAILWAY CITY	-	77,650,489	77,650,489
1-303-002	LAND ACQUISITION - PHASE 2A	21,968,887,189	12,173,665	21,981,060,854
1-303-003	NAIVASHA ICD	6,866,953,047	1,333,447	6,868,286,494
1-303-004	TRUCK MARSHALING YARD AND PARKING	166,453,830	69,583,000	236,036,830
1-304-001	CIVIL WORKS PHSE 2B	11,022,085	5,054,592	16,076,677
1-304-002	LAND ACQUISITION PHSE 2B	3,271,104	31,500	3,302,604
1-305-002	WIP - SGR LAND AQUISITION	38,554,760,751	337,460,199	38,892,220,949
1-305-005	INLAND CONTAINER DEPOT	27,321,776,103	650,680,856	27,972,456,959
1-305-006	FACILITIES - MSA & NRB	3,623,017	13,678,526	17,301,543
	TOTAL	**118,974,681,727**	**12,193,077,456**	**131,167,759,183**

20. APPENDICES

Appendix 1: Implementation Status of Auditor-General prior year recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

No	Audit Item	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
1	Inaccuracies in the Financial Statements	The statement of comparison of budget actual and amounts reflects general expense of Kshs.286,805,243, while Note 9 and (9b) to the financial statements reflects general office expense of Kshs.191,504,555 resulting to a variance of Kshs.95,300,688 which was not explained or reconciled.Further, the following variances were noted in the financial statements and the ledgers provided for audit review;	The variance was explained and statement of comparison of budget and actual revised and shared with the auditors	Resolved	30th June,2023
2	Main Income	The statement of profit or loss and other comprehensive income and as disclosed in Note 5 to the financial statements reflects main income of Kshs.18,650,546,585 .Included in the main income is SGR rental income of Kshs.33,484,197 with a billing adjustment of Kshs.9,383,379 which related to waiver of rental fees for NAS Airport Services which was not supported by board approval.In the circumstances, the accuracy of main income of Kshs.18,650,546,585 could not be confirmed.	As per contract with NAS Airport Services billing is on each train moved hence reversal of billings done during for Covid 19 period when after the Government directive to curb the pandemic and the customer was not operating since passenger trains were not in operations	Resolved	30th June 2023
3	Government Grants	The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects Government grants of Kshs.30,929,966,797 from The National Treasury which differed with the confirmed balance from The National Treasury of Kshs.35,129,256,804 resulting in unexplained variance of Kshs.4,199,290,007. Further, Management did not provide exchequer issue notifications or exchequer receipt vouchers to support the transfers from National Treasury.In the circumstances, the accuracy and completeness of Government grants of Kshs.30,929,966,797 could not be confirmed.	Reconciliation are now available	Resolved	30th June, 2023
4	Land Valuation	The statement of financial position reflects land balance of Kshs.15,175,501,812 as at 30 June, 2022. However, land valuation has not been done over the years and therefore the land balance could be significantly understated. This is contrary to Paragraph 49 of the International Public Sector Accounting Standard (IPSAS) No.17 on property, plant and equipment, which provides for revaluation of property plant and equipment every three to five years.	KR is planning to undertake the valuation of the land and landed assets within the fiscal year 2023/2024. The same shall be phased out based on the budgetary allocation to facilitate the process.	NOT Resolved	30th June, 2024

No	Audit Item	Issue / Observations from Auditor	Management comments	Status	Timeframe:
5	Illegal Allocation of Land	As previously reported, various parcels of land were allocated to third parties without the consent of the Corporation by either the Commissioner of Lands or the defunct local Authorities. The Corporation has also sought the intervention of various Government agencies such as the Ethics and Anti-Corruption Commission, Ministry of Lands and Physical Planning, National Land Commission and the Director of Survey to assist in the recovery of irregularly allocated land.	KR in efforts to fully repossess the irregularly acquired land by third parties is undertaking surveying and registration of its land in order to obtain title documents that will facilitate the cancellation of the overlapping surveys and irregular titles on the KR land through Ministry Of Lands and Physical Planning and National Land Commission (NLC). Further, KR through the court process, with the support of the Ethics and Anti-Corruption Commission (EACC), has continued and will continue to obtain revocation of irregular and illegal titles such as in Kisumu, Bungoma, Eldoret, Kitale and Nairobi areas.	NOT Resolved	30th June, 2024
6	Trade and Other Receivables	Long Outstanding and Inaccuracies in Trade Receivables, Inaccuracies and Credit Balance Under Rent Receivable, long Outstanding Prepayments, long Outstanding Staff Receivables, long Outstanding World Bank Receivable,Unreconciled Inter-Company Debtors ,Long Outstanding Imprest Debtors ,General advances,Unreconciled Kenya Ports Authority Balance,Inaccuracy in Tax Receivable Balance	We are in the process of engaging a tax consultant to follow up refunds of tax receivable with KRA and a consultant to clean-up the balance sheet on legacy issues	NOT Resolved	30th June 2024
7	Store Inventories	The statement of financial position and as disclosed in Note 23 to the financial statements reflects stores inventories balance of Kshs.3,837,946,375, while the ledger provided for audit review indicated a balance of Kshs.3,414,632,027 resulting to a variance of Kshs.423,314,348 which was not reconciled or explained, further the inventories balance was not supported by stock taking sheets as at 30th June, 2022. In the circumstances, the accuracy and faisr statement on inventories valued at Kshs. 3,837,946,375. could not be confirmed.	A comprehensive stock take is being undertaken and once completed the issues raised by the auditors will be adequately addressed	NOT Resolved	30th June, 2024

No	Audit Item	Issue / Observations from Auditor	Management comments	Status	Timeframe:
8	Cash and Bank Balances	The statement of financial position and as disclosed in Note 27 to the financial statements reflects cash and bank balance of Kshs.266,358,498. Included in the balance is operational account balance of Kshs.35,490,653 which is net of imprest debit cards expenditure totaling to Kshs.70,299,005 for various goods and services whose support documents were not provided for audit verification. Further, included in the cash and bank balance is KCB Staff Mortgage account with a balance of Kshs.3,624,378. Management did not however prepare separate financial statements for the Mortgage scheme.	The debit cards were utilised to disburse/ dispense the imprest floats instead of disbursing in cash. The petty cash floats administration are guided by the Finance Manual There was no recoupment processed above the approved float amount. All recoupments were processed through the surrender documents in Navision. These documents were fully supported as per the law with receipts and approvals.	Resolved	30th June 2023
9	Cash Deposits and Guarantees	The statement of financial position and as disclosed in No 26 to the financial statements reflects cash deposits and guarantees balance of Kshs.44,164,837,552. However, and as previously reported, the cash deposits and guarantees balance includes 200,254,780 being FDR with Chase Bank (Under Receivership) that has been outstanding since August, 2018 whose recoverability could not be confirmed. However, the balance has been fully provided for as bad and doubtful debt. In the circumstances, the accuracy and completeness of the cash deposit and guarantees of balances totaling to Kshs.550,274,571 could not be confirmed.	The matter is still under KDIC and management has been making followup awaiting the outcome	NOT Resolved	30th June 2024
10	Payables and Accrued Charges	The statement of financial position and as disclosed in Note 35 to the financial statements reflects payables and accrued charges balance of Kshs.43,754,974,043. Included in the balance is penalties/interest on lent loan of Kshs.1,956,705,512 that has accrued due to nonpayment of the Exim Bank loan. In the circumstances, the corporation continues being exposed to increasing interest on loan which may affect the cashflow status of the corporation in future.	KR has written to the National treasury with a view of loan Restructuring and the same is expected that the two institutions are enganging to agree on the way forward	NOT Resolved	30th June, 2024
11	Administration Expenses	Included in the amount is security expenditure of Shs.115,182,226 for which, review of records revealed that the service providers with a total contract sum of Kshs.276,731,640 started provision of the services before the signing of the contracts. Review of records revealed that the corporation incurred Kshs.20,982,647 paid to a cleaning company whose contract was extended after the expiry without adhering to the laid down rules and regulations on procurement.	All the supporting documents are now availed for review	Resolved	30th June, 2024

No	Audit Item	Issue / Observations from Auditor	Management comments	Status	Timeframe:
12	Capital Works-In-Progress	included in capital works-in-progress balance of Kshs.118,974,681,727 and as disclosed in Note 22 to the financial statements is an amount of Kshs.12,000,000,000 being land compensation under SGR Phase 1. However, supporting documents for compensations amounting to Kshs.1,043,439,897 to Project Affected Persons (PAPS) including list of the beneficiaries; copies of national identity cards, Personal Identification Number (PIN) certificates and title deed surrenders from the National Land Commission were not provided for audit review. In addition, overpayments of Kshs.14,669,748 were made to PAPS who were paid Kshs.15,752,406 instead of the entitlement of Kshs.1,082,658. Although recovery of Kshs.5,698,770 has been subsequently made, a balance of Kshs.8,970,978 was still outstanding as of 30 June, 2022.In the circumstances, the accuracy and validity of work-in-progress balance of Kshs.118,974,681,727 could not be confirmed.	Based on the NLC instructions, the role of KR was limited to disbursement of funds which is at the tail end of the process of the overall land valuation and compensation exercise. The role of valuation and further awarding of project affected persons (PAPs) rested solely with the NLC as per their Constitutional mandate. All records for the undertaking were to be kept by NLC including the letters of award.	NOT Resolved	30th June, 2024
13	Contingent Liabilities	Note 38 to the financial statements reflect contingent liabilities of 12,447,834,803 made up of law suits against the Corporation yet to be determined estimated at Kshs.12,281,001,983 and guarantees given on behalf of the Corporation of Kshs.166,832,810. Further, review of correspondences from the legal department to the Board indicate that as at February, 2023, the total estimated legal exposure had increased to Kshs.250 billion made up of exposure from illegal demolition of leased properties by the Corporation of Kshs.15 billion and RVR arbitration cost of Kshs.235 billion.In the event that the liabilities crystalize, the Corporation will be highly exposed financially.	Management brought the issue to the attention of the Board informing the Board of Directors of the contingent liability and estimated legal costs for defending the suits that arose from demolitions undertaken by the Government multi-agency team to clear the Metre Gauge Railway corridor. The Corporation does not have funds from its internal resources that can be used to either settle or negotiate settlements for claims arising from the demolitions. Management has written to the Government through the Ministry of Roads and Transport requesting for budgetary support to facilitate out of court settlements in appropriate cases, subject to approval by the Board of Directors and compliance with any directions that may be given by the Government.		30th June, 2024

No	Audit Item	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
14	Use of Inappropriate Procurement Method	Review of procurement records indicate that the Corporation procured work in progress at a cost of Kshs.2,216,155,686 using either direct or restricted methods of tendering as detailed in Appendix I. However, review of the procurements indicated that the prevailing circumstances did not warrant use of the methods as open tendering was the most appropriate. This is contrary to Section 96(2) of the Public Procurement and Asset Disposal Act, 2015 which require advertisement of tenders in dedicated Government totals or own website or a notice in at least two daily newspapers of nation-wide circulation.	Management has regularilised procurement processes in FY 2022/23 and explanations for prior year are available for review	Resolved	30th June, 2023
15	Project Status Report	Physical inspection of various projects under capital works in progress revealed that there was a delay in completion of projects, poor workmanship and lacked support documentation as shown. in Appendix II. In the circumstances, value for money on the projects under implementation could not be confirmed.	Management has regularilised all contract management issues to ensure value for money and timely completion of projects with an exception to unique projects where necessary explanations can be availed	Resolved	30th June, 2023

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Philip J. Mainga, EBS
MANAGING DIRECTOR
Date .....

Appendix 2: On-going and planned projects

Table of On Going Projects

S/N	Description	Contract Sum/Estimated Cost (KES)	Status (as at August 31,2023)	Remarks
A	ONGOING PROJECTS			
1	Construction of Marine Drive Road (2.64Km)	KES 373,600,000.00	Road construction works were abandoned by the Main Contractor NYS who was to undertake earthworks Culverts and Drainage works in progress. Progress at 35%. Management through a meeting informed NYS of the need to have the Project completed.	Budget available from KR internal resources.
2	Revitalization of the Gilgil – Nyahururu MGR Branch Line (78Km)	KES 1,132,750,000.00 initial budget had rolling stock. (this includes KES 499 Million for locomotive, wagons KES 40.5 million, and coaches KES 77.4 million)	Funds received KES 1,000,000,000 Project progress at 64%	Implementation is ongoing.
3	Revitalization of the Leseru – Kitale MGR Branch Line (65km)	KES 537,422,704.00	Funds received KES 370,000,000.00. Project progress at 80%	Implementation is ongoing.
4	Revitalization of the Kisumu – Butere MGR Line (69km)	KES 575,960,376.00	Funds received KES 480,000,000.00	Progress is at 79%.
5	Rehabilitation of the Mombasa - Konza MGR Section (456Km) and the Nairobi (Kikuyu) – Longonot MGR Section (57Km)	KES 2,051,230,798.25 for a span of 5 years to restore the design speeds. This translates to KES 410,246,160.00 annually.	Works in progress. Overall progress at 40%. Out of 52 Km with Temporary Speed Restrictions of below 30 Kph, a total of 14 km (27%) has been lifted. Tender for new steel sleepers (20,000 No) awarded on November 2022.	Budget available. Financed yearly under MGR Operations and Maintenance budget. Performance affected by lack of steel sleepers and fittings.
6	Construction of Houses for Relocation Action Plan (RAP) in Kibera and Mukuru	KES 13,091,598,164.98 (combined contract sum for five (contracts i.e. Lot A, Lot B, Lot C, Lot D and Supervising Consultant)	Projects stalled due to lack of budgetary allocation from GoK. Project stalled at weighted average of 85%	Funds required to complete and pay the pending bills is KES 5,354,364,185.00. KR has requested budgetary allocation in the FY 23/24
7	Construction of a Cargo Handling Facility at Malaba and Associated Works	KES 886,481,832.03	Project at 95% completion.	Project funded from RDLF.

S/N	Description	Contract Sum/Estimated Cost (KES)	Status (as at August 31,2023)	Remarks
8	Construction of Access Roads to Maai Mahiu SGR (5.6Km) station and Suswa SGR station (1.0Km)	Contract Sum KES 1,199,903,846.45	Project at 30% progress	Project under implementation by Kenya Urban Roads Authority (KURA).
9	Construction of the Miritini MGR Station - Mombasa Terminus New MGR Link and Railway Bridge across Makupa Causeway	Contractors contract Sum KES 4,214,023,356.37 Consultancy contract KES 204,700,074.66	Progress at 75.84%	Project funded from RDLF.
10	Rehabilitation and overhaul of 31 No. MGR Locomotives (rehabilitation of 6 No. mainline locomotives and 3 No. shunting locomotives)	Contract sum KES 4,058,839,486.12	Progress at 40%.	TNT&P approved KES 5.983 Billion.
			Four (4 No.) Main line Locomotives rehabilitated and released-9307, 9308, 9312 and 9403.	KR Letter to TNT&P was submitted at the same time with Memo to the Board, who approved KES 3.8 Billion.
	Overhaul of 22 No. Mainline locomotives		Rehabilitation of the other two locomotives in progress	The Contract with the Kenya Shipyard Limited (KSL) has been reviewed, and the scope of works varied to cover Re-engineering of locomotives.
			Rehabilitation of 1No. Shunting locomotive is complete and the other two at 95% awaiting supply and installation of air compressors.	
11				
(a)	Lot I: Two (2 No.) 12.5 tons/axle Locomotives -From CHINA (CRBC)	Contract Sum KES 620,000,000.00	Lot I: Two (2) delivered and in operations	Delivered and operational.
(b)	Lot II: Two (2 No.) 12.5 tons/axle Locomotives-From CHINA (CRBC)	KES 620,000,000.00	Lot II: Two (2) delivered on July 5, 2022	Delivered and operational
(c)	Lot III: Two (2 No.) 12.5 tons/axle, six (6 No.) 14 tons/axle and four (4 No.) 18 tons/axle Locomotives-From CHINA (CRBC)	Contract sum: KES 4,199,696,989.84	All locomotives delivered and operational.	Delivered and operational
12	Re-manufacturing and rehabilitation of 13No. Diesel Electric Locomotives	Contract sum KES 2,538,326,836.49	Progress at 40%	Project on course.
13	Enterprise Resource Planning-ERP (SAP)	Estimated total project cost KES 857,200,000.00 Two contracts signed at a combined cost of Kes 277,701,584.30	Two contracts signed (1st contract- Reconfiguration of SAP modules and implementation of payroll and transport modules, 2nd Contract - support, maintenance and supply of licenses)	Project at 48% progress. The project is financed by RDLF

S/N	Description	Contract Sum/Estimated Cost (KES)	Status (as at August 31,2023)	Remarks
14	Development of the Railway City (a transit-oriented urban development)	Approved budget of KES 3.5 Billion for the reduced scope to be implemented in two phases	Contract for Early Works (Foot bridge, public realm, loco depot signed at KES 853,951,363.14	Construction works for the proposed footbridge across Nairobi Railways Yard is at 10 %.
		Phase 1: KES 1.35 billion	Consultancy contract for design of station building at tendering stage.	
		Phase 2 : KES 1.95 billion	At design stage by UK Company.	
			KR has submitted a Project Concept Note to TNT&P on the Project.	
B	PLANNED PROJECTS			
1	Construction of Transshipment SGR/MGR Facility at Konza	KES 2,740,000,000.00	At initiation stage(conception stage)	No budget Tata chemical indicated they don't have funds to finance the project vide a letter dated April 2021. They requested KR/GoK to finance the project. Management is in discussion with Tata Chemicals to get a way forward.
2	Installation of Infrastructural Facilities for Athi River Logistics Hub		Project at initiation stage.	Survey has been undertaken by Director of Survey and deed plan produced (Deed Plan No. 455300 L.R No. 10424/2) pending registration and issuance of title deed and transfer to Kenya Railways Corporation.
		Land purchase at KES 5.2 Billion to be paid to East Africa Portland Cement		
			A total of KES 3.9 Billion has been paid to EAPC.	
		Basic infrastructure is projected to cost KES 1,125,000,000.00		
3	Construction of the Riruta/ Lenana – Ngong Commuter MGR Line	KES 11,505,806,368.00	KR received the initial approval for the project concept note in July 2022. However, a revised project concept note has been re-submitted to the Ministry of Roads and Transport as the project scope has been increased to include the Ngong-Kiserian-Ongata Rongai link. The project is to be finance by RDLF. KR is awaiting approval of the revised concept note by TNT	KES 250 Million on the printed budget estimates for FY 22/23

S/N	Description	Contract Sum/Estimated Cost (KES)	Status (as at August 31,2023)	Remarks
4	Validation of the Master Plan Findings and Preliminary Design for the Embakasi Village – Ruai Commuter MGR Line	Estimated cost is KES 850 million	At initiation stage. Concept note to the TNT& P has been done seeking project approval. KR has also listed the project under the UK Export finance (UKEF)	Awaiting approval of concept note by The National Treasury
5	Access Road to Rongai and Ngong Stations	N/A	Access road to Rongai under implementation by KURA Access Road to Ngong station is yet to commence. However, it is under jurisdiction of KeRRA/ KURA	Construction of Access Road to Rongai Station is under implementation by KURA.
6	Development of the Nairobi Central Station – JKIA MGR line (21km)	128,000,000.00 (Euro)	At design stage. The National Treasury & Planning have directed for KR to revert to the original scope and Phasing for the Project.	Direction on Budget availability awaited from TNT&P after signing of Loan Agreement.
7	Modernization and Equipping of select KR WorKesops	Euro 24,249,309.42	Project to be implemented by FOMENTO an entity from Spain using funds provided under the French Internationalization Fund (FIEM). TNT&P is to negotiate the Terms of the Financing Agreement with the Spanish Authorities, and has granted KR approval to progress with the Commercial Contract.	The workshop's covered are Nairobi, Mombasa and Nakuru. Awaiting clearance from Attorney General and TNT
8	Construction of the Naivasha – Kisumu Standard Gauge Railway (262km) including a new port at Kisumu	USD 3,803,261,820.35	Feasibility study done. Identification for financing is ongoing.	No budget for construction. Commercial Contract signed.
9	Construction of the Kisumu – Malaba Standard Gauge Railway (107km)	USD 1,229,000,000.00	Feasibility study done. Identification for financing is ongoing.	No budget. Commercial Contract signed.
10	Lamu – Mariakani SGR Project	Estimated cost USD 2,572,706,931.41.	Feasibility study done.	No funds and no Commercial Contract.
10 (a)	LAPSSET SGR PROJECT Lamu - Isiolo SGR main line is 544.4km single track, Railway Class I	Civil works USD 3,346,363,100 purchase of Rolling Stock USD 165,647,300.00	Feasibility study done.	Commercial Contract between Kenya Railways Corporation and China Civil Engineering Construction Corporation.

S/N	Description	Contract Sum/Estimated Cost (KES)	Status (as at August 31,2023)	Remarks
10 (b)	LAPSSET SGR PROJECT Isiolo - Nairobi SGR main line is 278.6km single track, Railway Class I	Isiolo- Nairobi: civil works USD 2,391,673,300 & purchase cost of Rolling Stock USD 103,698,000.	Feasibility study done but needs validation	Feasibility study done but needs validation
10(c)	LAPSSET SGR PROJECT Isiolo - Nakodok SGR main line is 753.2km single track, Railway Class II	Isiolo - Nakodok: civil works USD 4,211,476,900 & Rolling Stock USD 220,353,700.	Feasibility study done.	Feasibility study done but needs validation
10(d)	LAPSSET SGR PROJECT Isiolo - Moyale SGR main line is 475.9km single track, Railway Class II	Isiolo - Moyale: civil works USD 2,957,218,800 & purchase cost of Rolling Stock USD 221,347,500.	Feasibility study done.	Feasibility study done but needs validation
11	Reconstruction of Mariakani SGR freight yard and reconstruction of drainage channel at port reitz marshalling yard	Estimated project cost KES 626,986,960.00	Project approved by KR Board and RDLF advisory Council. KR has submitted a concept note for the project to the Ministry of Roads and Transport for forwarding to TNT for approval. KR is awaiting feedback.	-
12	Rehabilitation of the Mombasa MGR station – Miritini Mgr station section and construction of railway stations at Mombasa, Shimanzi, Changamwe east and Changamwe west	Estimated project cost KES 3,455,817,233.50	Project approved by KR Board and RDLF advisory Council. KR has submitted a concept note for the project to the Ministry of Roads and Transport for forwarding to TNT for approval. KR is awaiting feedback.	-
13	Rehabilitation of the Longonot – Malaba MGR section (phase II)	KES 3,717,378,000.00	Project approved by KR Board and RDLF advisory Council. KR has submitted a concept note for the project to the Ministry of Roads and Transport for forwarding to TNT for approval. KR is awaiting feedback.	-
14	Upgrade of Railway Training Institute (RTI) infrastructure and capacity building	KES 714,570,000.00	Project approved by KR Board and RDLF advisory Council. KR has submitted a concept note for the project to the Ministry of Roads and Transport for forwarding to TNT for approval. KR is awaiting feedback.	-
15	Purchase of 3 No. (18 tonnes per axle) locomotive	Estimated cost is KES 1,297,303,010.16	Awaiting presentation of the paper to the board	Board paper prepared to be presented in the next SPC committee of the Board

21. Pictorial

Makupa Causeway Bridge, Mombasa

SGR Passenger service

SGR Nairobi Terminus

Emali SGR Passenger service station

SGR Passenger service

SGR Mombasa Terminus

Kenrail Tower

President William Ruto leading Kenyan and UK delegation

Signing of Nairobi Railway City Design Contract

President William Ruto accompanied by Mr. Kipchumba Murkomen, CS MoRT (Second Left), Mr. Philip J. Mainga, Kenya Railways MD (Left) and UK Delegation during the ground breaking of Nairobi Railway City project

Nairobi Central Commuters Railway Station

Syokimau Commuter Railway Station

SGR Freight Train

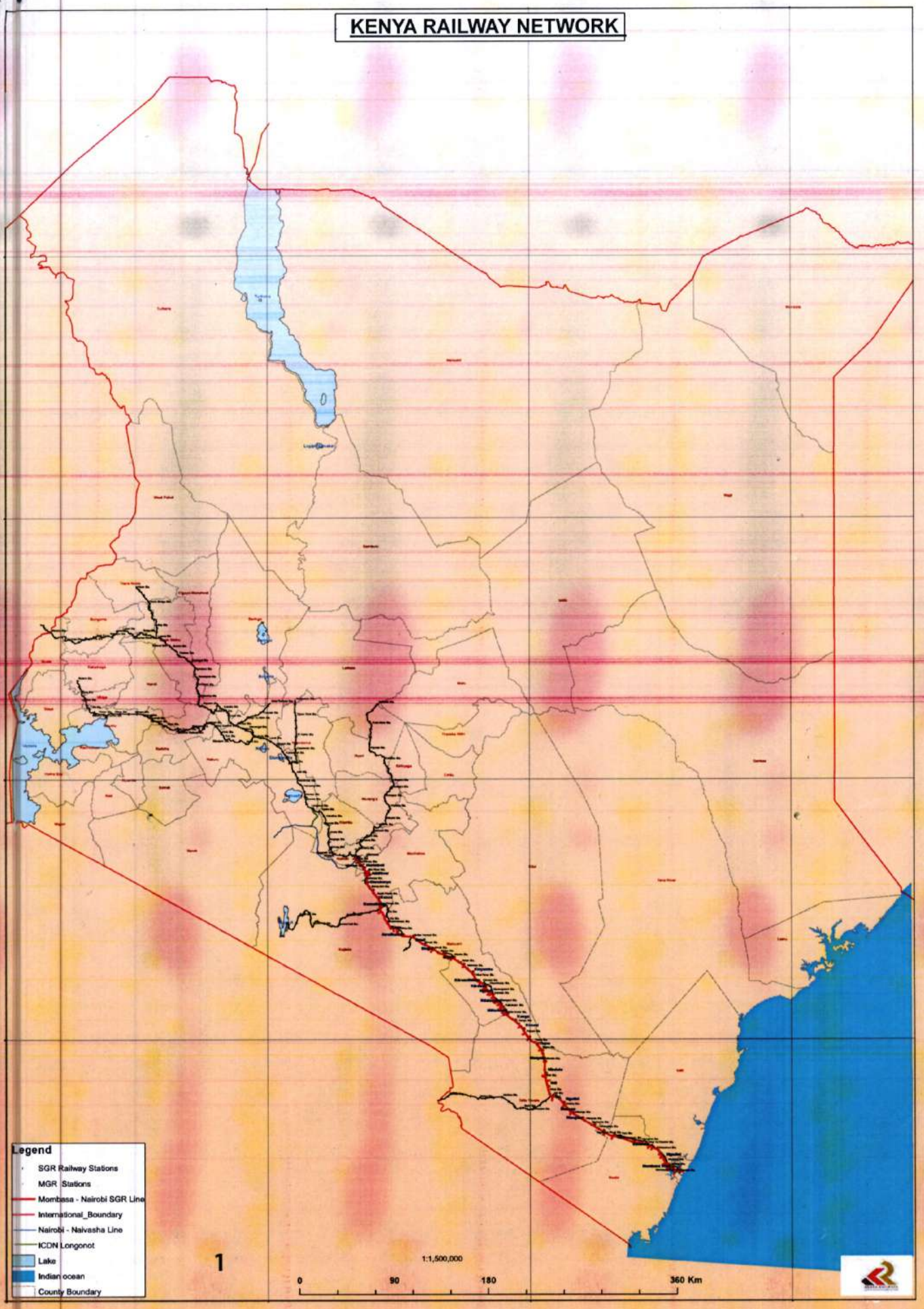
#TBT

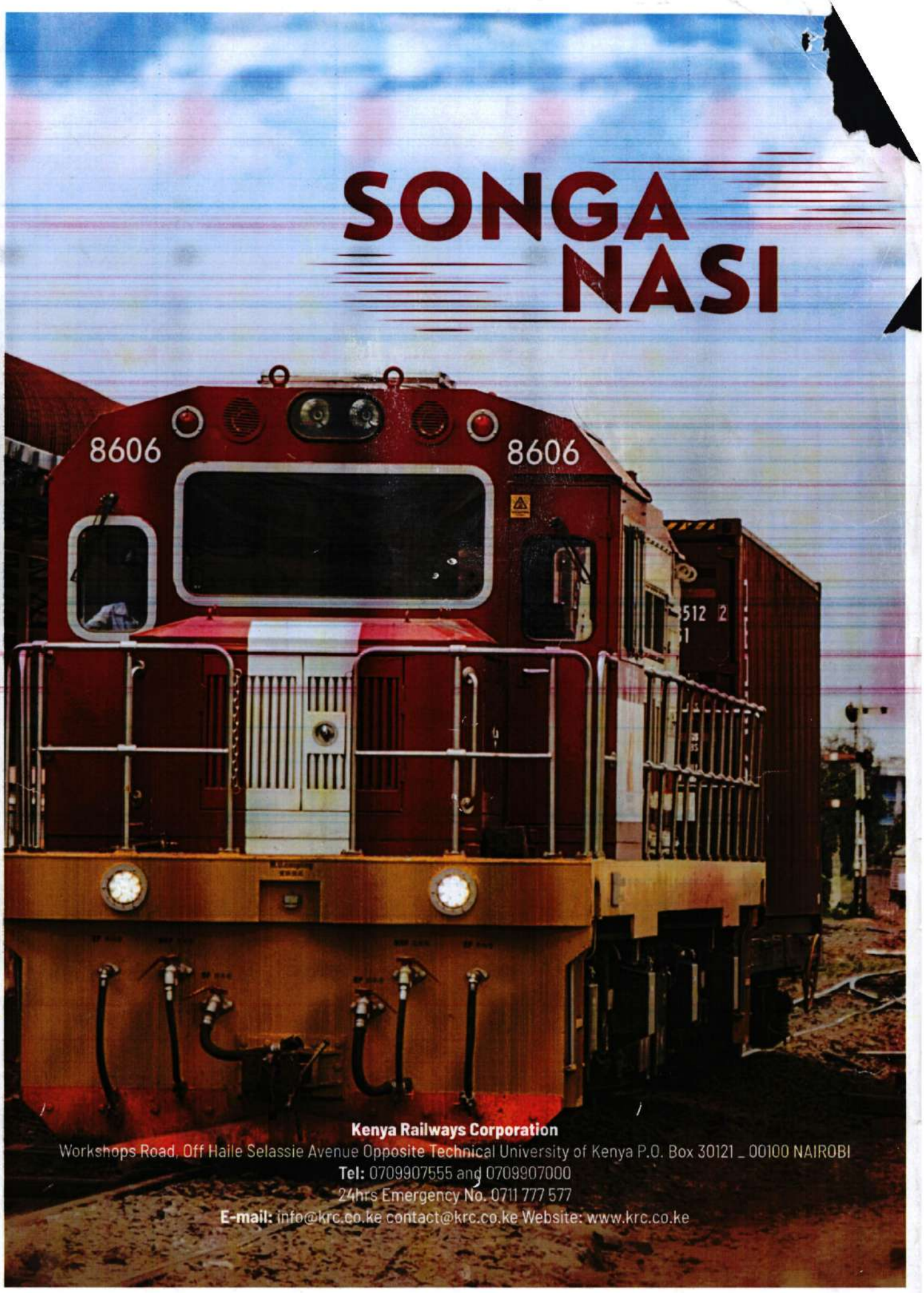
Mazeras Railway Bridge

#1897

Evolution of Railway Bridges: The Viaduct at Mazeras, a testament to the past when imported timber built the railway infrastructure. Today, steel and concrete reign supreme, connecting our world with strength and sustainability. Let's celebrate progress while preserving the stories of our railway heritage as we move from a great past to a greater future. For more information, visit the

KENYA RAILWAY NETWORK





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