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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA ROADS BOARD FUND**

**FOR THE YEAR  
ENDED 30 JUNE 2018**





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**KENYA ROADS BOARD FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2018**

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

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**Our Vision:**

*An efficient road network for a prosperous nation*

**Our Mission:**

*To fund, oversee and coordinate road maintenance, rehabilitation and development through optimal utilization of resources for a sustainable road network*

**Our Core Values:**

*Professionalism  
Passion for Quality  
Customer Service Excellence  
Integrity  
Inclusiveness  
Innovation*

**KEY ENTITY INFORMATION AND MANAGEMENT**

**a) Background Information:**

Kenya Roads Board (KRB) is a state body corporate established under Chapter 408 of the Laws of Kenya 'Kenya Roads Board Act' which came into effect under Legal Notice No. 7 of 1999. The Board was established in accordance with the Chapter 446 (State Corporations Act) of the Laws of Kenya, which is 'An Act of Parliament to make provision for the establishment of state corporations: for control and regulation of state corporations; and for connected purposes'.

The Board is domiciled and operates within the Republic of Kenya. The registered office is as set out on page 5.

**b) Principle Activity:**

As stipulated in the Kenya Roads Board Act, 1999 "The object and purpose for which the Board is established is to oversee the road network in Kenya and coordinate the maintenance, rehabilitation and development funded by the fund and to advise the Minister responsible for matters pertaining to roads on all matters related thereto."

**Specific Mandates:**

The mandates of KRB are provided for in the Kenya Roads Board Act, No. 7 of 1999 as hereunder:

- a) 'coordinate the optimal utilization of the Fund in implementation of programmes relating to the maintenance, rehabilitation and development of the road network;
- b) seek to achieve optimal efficiency and cost effectiveness in roadworks funded by the Fund;
- c) manage the Fund;
- d) based on a five year road investment programme approved by the Minister and the Minister for Finance, determine the allocation of financial resources from any other source available to the Board required by road agencies for the maintenance, rehabilitation and development of the road network to ensure that the allocation of funds is pegged to specific categories of roads and that not less than
  - (i) twenty two percent (22%), which shall be deposited into a special bank account to be called Constituency Road Fund Account to be maintained by every constituency of monies from the Fund is allocated equally to all Constituencies in the country to be administered by the Rural Roads Authority;
  - (ii) ten percent (10%) of the monies from the Fund is allocated for the maintenance or development of link roads between constituencies and to serve as Government counterpart funds in funding works on rural roads, to be administered by the Kenya Rural Roads Authority and that the said per centum shall be equally distributed to the constituencies where Kenya Rural Roads Authority has the mandate.
  - (iii) forty percent (40%) of the monies from the Fund is allocated in respect of the national roads to be administered by the National Highways Authority;
  - (iv) fifteen percent (15%) of the monies from the Fund is allocated in respect of the Urban Roads Authority;
  - (v) one percent (1%) of the monies from the Fund is allocated in respect of roads in national parks and reserves to be administered by the Kenya Wildlife Service, and

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- (vi) a maximum of two percent (2%) of the monies from the Fund is allocated in respect of recurrent expenditure of the Board under section 31(5).
- e) ensure that the remainder of the monies from the Fund (10%) described in paragraph (d) shall be allocated annually by the Board with the approval of the Minister to road investment programme derived from the five-year road investment programme approved by the Minister responsible for roads and the Minister for Finance.
- f) ensure that a maximum of ten percent (10%) of all monies allocated to each road agency is utilized for development purposes by the said agency
- g) monitor and evaluate, by means of technical, financial and performance audits, the delivery of goods, works and services funded by the Fund;
- h) in implementing paragraph (g), pay due regard to public procurement and disposal regulations and additional guidelines issued or approved by the Minister;
- i) recommend to the Minister appropriate levels of road user charges, fines, penalties, levies or any sums required to be collected under the Road Maintenance Levy Fund Act, 1993 and paid into the Fund;
- j) recommend to the Minister such periodic reviews of the Fuel Levy as are necessary for the purposes of the Fund, and
- k) identify, quantify and recommend to the Minister such other potential sources of revenue as may be available to the Fund for the development, rehabilitation and maintenance of roads.'

**c) Key Management:**

The entity's day-to-day management is under the following key organs:

- Board of Directors
- Accounting officer/ Executive Director
- Management

**d) Fiduciary Management:**

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

1. Executive Director - Eng. Jacob Z. Ruwa, OGW
2. General Manager, Finance - CPA Rashid K. Mohamed, MBS
3. General Manager, Technical Compliance - Eng. David O. Orwenyo
4. General Manager, Planning and Programming - Eng. Hudson W. Kihumba (Retired: 31<sup>st</sup> May 2018)
5. General Manager, Legal and Corporate Affairs - Ms. Lucy K. Gathika
6. Senior Manager, Human Resources and Administration - Mr. Hamoud M. Mguza

**e) Fiduciary Oversight Arrangements:**

The following committees provide fiduciary oversight over the management and activities of the Board;

- Audit and Risk Management Committee of the Board
- Finance Committee of the Board
- Technical Committee of the Board
- Human Resources and Management Committee of the Board

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f) **Registered Office/Headquarters:**

Kenya Re-Towers, 3rd Floor  
Off Ragati Road, Upper Hill  
P.O. Box 73718- 00200, City Square  
NAIROBI, KENYA

g) **Contacts:**

Tel. No.: 4980000, 2722865/6  
Fax No.: 254-020-2723161  
Website: [www.krb.go.ke](http://www.krb.go.ke)  
E-mail address: [info@krb.go.ke](mailto:info@krb.go.ke)

h) **Principal Bankers:**

Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya

i) **Independent Auditors:**

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

j) **Principal Legal Adviser:**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112, City Square 00200  
Nairobi, Kenya



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**THE BOARD OF DIRECTORS**

The Board draws representatives from public and private stakeholders as set out in Section 7 of the Kenya Roads Board Act, 1999. Board members in FY 2017/2018 include the following:-

<b>Representative</b>	<b>Organization</b>
Eng. Jacob Ruwa, OGW (Executive Director)	Kenya Roads Board
Ms. Rita Kavashe (Chairperson) Appointed: 6 <sup>th</sup> June, 2018	Automobile Association of Kenya
Mr. Julius Korir	PS, State Department of Infrastructure - Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works
Dr. Kamau Thugge, CBS	PS, The National Treasury
Mr. Nelson Marwa, EBS	PS, Ministry of Devolution & the ASALS
Mr. Micah Powon	
Ms. Betty Maina, MBS	PS, Ministry of East African Community and Regional Development
Prof. Arch. Paul Maringa, CBS	PS, State Department of Transport - Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works
Eng. John Nyaguti	Institution of Engineers of Kenya
Mr. Wilson Ndirangu Kamau	Institute of Surveyors of Kenya
CPA Charles Tirok	Institute of Certified Public Accountants of Kenya
Ms. Monika Solanki	Kenya Association of Tour Operators
Mr. Michael Karanja	Kenya Association of Manufacturers
Mrs. Mary W. Wambugu	League of Kenya Women Voters
<b>Alternate Representative</b>	<b>Organization</b>
Mr. Nemwel Motanya	State Department of Transport - Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works
Mr. Ontweka Onderi Naftali	The National Treasury
Mr. James Mwanzia	State Department for Devolution - Ministry of Devolution & the ASALS
Mr. Edward M. Irungu	
Mr. Alfred M. Kitolo	Ministry of East African Community and Regional Development
Mr. Paul King'ori	State Department of Transport - Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works

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MANAGEMENT TEAM

Executive Director	-	Eng. Jacob Z. Ruwa, OGW
General Manager, Finance	-	CPA Rashid K. Mohamed, MBS
General Manager, Technical Compliance	-	Eng. David O. Orwenyo
General Manager, Planning and Programming	-	Eng. Hudson W. Kihumba (Retired: 31 <sup>st</sup> May 2018)
General Manager, Legal and Corporate Affairs	-	Ms. Lucy K. Gathika
Senior Manager, Human Resources and Administration	-	Mr. Hamoud M. Mguza

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**CHAIRPERSON'S STATEMENT**

On behalf of the Members of the Board, it is my pleasure to present the Annual Report and Financial Statements for Kenya Roads Board Fund for the year ended 30<sup>th</sup> June 2018.

**General Economic Environment**

Economic growth decelerated to a 5-year low of an estimated 4.8 percent in 2017 from 5.8 percent in 2016. Poor rains, slowdown in credit growth to the private sector and election-induced uncertainty weighed down on economic activity in 2017. This is according to the World Bank's Kenya Economic Update released in April 2018.

GDP growth is projected to recover to 5.5 percent in 2018, and steadily rise to 6.1 percent by 2020 when output gaps in the economy would have closed. On the upside, the rebound in economic activity is predicated on favorable rains which should be supportive of the ongoing recovery in the agriculture sector, the dissipation of political tension and the strengthening of the global economy.

However, partially mitigating the lift from the upside drivers are the rise in oil prices; down-sizing of the fiscal stimulus from earlier years; and the still weak credit growth in the private sector. Regarding the latter, the baseline assumes that the ongoing discourse to repeal the interest rate cap will be successful in 2018, thereby supporting a robust recovery in private sector credit growth in 2019 and beyond.

**National Agenda**

The Country is now gearing up to implement the Third Mid-Term Plan (MTP III). The Sectoral Plans are ready and the MTP III is set to be rolled out at the beginning of 2018/19 financial year. During this period, the country will also be implementing strategies that will help it realize the Sustainable Development Goals and the aspiration of Africa Agenda 2063.

Specifically, the Government has outlined four big priority areas (Big 4 Agenda) for the next five years. These are agricultural and food security, affordable housing, increased share of manufacturing, and universal health coverage. The attainment of these goals should help advance the Vision 2030 agenda - helping Kenya to move forward towards a middle-income economy with a high standard of living.

**Strategy**

The Board has continued to implement its five-year Strategic Plan. The Board formulated a Business Plan for FY 2017/18 which was extracted from the five year strategic plan. The deliverables that were set out in the business plan and performance contract for FY 2017/18 were achieved.

Specifically, the Kenya Roads Board Fund collections exceeded the estimates, the APRP was approved and implemented during the year, the Board carried out monitoring and evaluation of utilization of the KRB Fund, and the internal capacity was strengthened to ensure effective delivery of the Board's mandates.

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**Corporate Governance**

Strong Corporate Governance is integral to the Board's long-term success and is essential in delivering the KRB's strategy. The Statement of Corporate Governance, included in this report, details the measures that the Board has undertaken to ensure a robust corporate governance environment.

**Future Outlook**

Kenya Roads Board shall also work closely with other sectors to improve the social and economic well-being of Kenyans. Accessibility across the country shall improve connectivity, efficiency, safety of road transport and regional integration. These among others will momentarily lead to the realization of government development agenda.

Kenya Roads Board shall provide world class services in Road Fund management to make Kenya globally competitive and a prosperous nation.

**Acknowledgement**

On behalf of KRB directors and staff, I express my sincere gratitude to the Government of Kenya, Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works, Road Agencies, taxpayers and other stakeholders for their continued support. This has gone a long way towards building a solid institution that is responsive to its mandates and stakeholders' expectations.

I also wish to thank my fellow directors for dedicating their time and effort to steer the Board. Their advice and guidance has played a key role in the attainment of the impressive results. Our management and staff have risen to the challenges with a great deal of resourcefulness, diligence, resilience and determination. We are proud of the team and greatly appreciate their ability and commitment towards achieving the Board's vision, mission and objectives.

I look forward to a promising financial year 2018/19. God Bless you all.

  
\_\_\_\_\_  
Ms. RITA KAVASHE  
CHAIRPERSON

11/9/2018  
\_\_\_\_\_  
DATE

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**REPORT OF THE EXECUTIVE DIRECTOR**

**Overview**

Kenya Roads Board has continued to carry out its mandate of effectively and efficiently managing the Kenya Roads Board Fund. We are happy to note that the Board has achieved its ambitious performance targets set in the annual business plan for FY 2017/2018.

**Funding Requirements in the Road Sub-Sector**

The general condition of the main trunk and urban road networks have improved since Road Maintenance Levy Fund was established, but a lot still needs to be done to bring most of the network to good condition. According to the Road Sector Investment Programme 1, RSIP1 (2010 - 2014), it was estimated that about Kshs. 70 billion was required for the annual maintenance of the entire road network. This did not however include the backlog maintenance.

Following the increase of the fuel levy rate from Kshs. 12 to Kshs. 18 per litre of fuel in June 2016, the annual fuel levy collections have increased by approximately 30%. The projected annual collection for FY 2018/2019, excluding Road Annuity Fund is Kshs. 57 billion. This collection is however still inadequate for road maintenance given that backlog maintenance has not been addressed fully.

In order therefore to generate additional funds for maintenance, the Government through KRB is considering alternative road maintenance financing mechanisms such as incorporating long-term infrastructure bonds and public private partnerships, introducing levies on motor vehicle insurance and annual licenses, and other road user charges.

Further, KRB is currently undertaking a detailed review of road construction materials with the view of recommending cost-effective materials for road development and maintenance. Other potential savings are expected to be realized from revised road construction specifications.

**General Condition of Roads**

According to the latest data from the Road Inventory and Condition Survey (RICS) of 2009 and that of 2017, the road network in Kenya is generally in good and fair condition.

The road network condition has improved from 44% (fair) in 2009 to 57% (good/fair) in 2017. The improvement in general road condition over the years is attributed to the increase in RMLF allocated to the Road Agencies and the surveillance carried out by KRB on the use of the RMLF.

**Road Reclassification**

A new road classification system based on road function and covering the entire road network was adopted and gazetted in January 2016. The new road classification broadly defined National Trunk Roads and County Roads. This inventory covers roads with way-leaves greater than 9.0 m and was based on road inventory and condition survey carried out between the year 2007 and 2009.

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The road network was inventoried at 161,451.50 kilometres long, comprising of 39,995.10 kilometres of National roads and 121,456.40 kilometres of County roads – as shown in the table below;

Road Class	Length (in Kilometers)	Classification
A	7,698.20	
B	10,851.40	
C	21,445.50	
<b>Sub-total</b>	<b>39,995.10</b>	<b>National Roads</b>
D	11,123.30	
E	14,047.70	
F	9,625.60	
G	89,598.80	
<b>Sub-total</b>	<b>121,456.40</b>	<b>County Roads</b>
<b>Sum-total</b>	<b>161,451.50</b>	<b>Entire Network</b>

#### Roads Inventory and Condition Survey (RICS) for the narrow roads

Kenya Roads Board obtained funds from the World Bank through the Kenya Transport Sector Support Project (KTSSP) and is undertaking a Roads Inventory and Condition Survey (RICS) for the narrow roads.

This study commenced in August 2016 and is substantially complete. Key outputs from the Consultancy include:

- i. A total of approximately 230,000 km of roads have been inventoried.
- ii. The road conditions for the paved and unpaved road network have been established.
- iii. The percentage of rural population living within 2km of good and fair roads has been determined.

#### The Annual Public Roads Programme (APRP)

As per the Kenya Roads Board Act No. 7 of 1999, KRB has a mandate to oversee the road network in Kenya and coordinate the maintenance, rehabilitation and development funded by RMLF and to advise the Minister on all matters related thereto.

Section 19 (4) of the KRB Act requires KRB to review, individually, the Annual Road Works Programmes (ARWPs) submitted by Road Agencies and consolidate these ARWPs into an Annual Public Roads Programme (APRP). During the year, the Board allocated and released funds in accordance with the Annual Public Roads Programme (APRP).

The APRP FY 2017/2018 was fully funded and the APRP FY 2018/2019 has been compiled. The APRP funding reports for FY 2017/2018 have been published and publicized.

In addition to funding the APRP, Technical, Performance and Financial audits for FY 2016/2017 and half year FY 2017/2018 have been conducted. The terms of reference for

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audits have been reviewed to include value for money audits and staff sensitized on value for money audits and expressions of interest received.

The procurement of the next series of Technical, Performance and Financial Audits is ongoing.

#### Axle Load Control

The establishment of axle load limits is an important aspect in the management of the road network. The Board is dedicated to ensure compliance with axle load limits.

During the year under review, the Board conducted monitoring of axle load control and submitted the reports to PS State Department of Infrastructure.

#### Roads 2000 (R2000) Strategy

The R2000 strategy was developed based on previous labour-based programmes such as the Rural Roads Access Programme (RARP) in the mid 1970's and Minor Roads Programme (MRP) of the 1980 - 1990. The Roads 2000 strategy was established in 1994 with the aim of implementing a new approach to rapidly bring roads to a maintainable standard and place them under effective maintenance with the optimum use of local resources. The development of the Sessional Paper of 2006 on the Development and Management of the Roads Sub-Sector for Sustainable Economic Growth saw the integration of the R2000 programme in both the 1st and the 2nd Medium Term Plans as a key government programmes.

The 1st five year R2000 Strategic plan (2005-2010) was developed in 2004. The interventions of this strategic plan improved 7,392 kilometers of rural roads to gravel standards at a cost of Kshs. 5.8 billion, generated 4.7 million person days of employment and trained 5,600 labour based contractors. More than Kshs. 1.0 billion was injected to the rural economy with minimum 25% of beneficiaries being women.

The 2nd five year R2000 Strategic plan (2013-2017) built on the successes of the 1st strategic plan. The achievements of the 2nd strategic plan included improvement of over 79,175 kilometers of rural roads to gravel standards at a cost of over Kshs. 16.58 billion; over 6.76 million person days of employment generated; research on alternative surfacing methods; and creation of opportunities for emerging small scale contractors/entrepreneurs.

Despite the longevity of the R2000 programme, the strategy still faces a number of challenges revolving around technical and administrative procedures, weak implementation framework, lack of competent delivery partners such as small and medium enterprises, suppliers, artisans, contractors and skilled personnel in a locality and preference to machine over labour-based construction methods.

It is against this background that KRB has engaged a consultancy firm to develop a R2000 Policy aimed at addressing these challenges. Part of the objectives of this consultancy is to develop Terms of Reference for the preparation of the 3rd R2000 Strategic Plan which will cover the next 5-year implementation period of 2018 to 2022.

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### Performance Contracting

Kenya Roads Board signed the FY 2017/2018 performance contract with the Government of Kenya through the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works.

The Key Performance Indicators outlined in the Performance Contract include financial & stewardship, service delivery, operational and qualitative indicators derived from the Medium Term Expenditure Framework, Vision 2030 and Sector Performance standards.

### Human Capital

At Kenya Roads Board, we believe that human capital is a key pillar to the successful execution of the Board's Strategic Plan. The input of members of staff is the most critical element guaranteeing the attainment of targets set in the Performance Contracts.

The Board's members of staff have received high quality training both locally and overseas through an elaborate training plan for all staff. There exists a performance management system that sets key performance benchmarks which when attained result in achievement of the Board's goals and reward of staff.

### ISO Certification

The Board has been ISO 9001:2008 - Quality Management System (QMS) certified. The Board was certified in June 2010, and re-certified in August 2013 and June 2016 respectively.

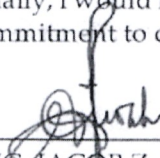
The Board and Staff of KRB endeavor to maintain and continuously improve the effectiveness of its quality management systems that meet the stakeholders' expectations in accordance with ISO 9001:2015 requirements.

Following the revision of the ISO Standard from 9001:2008 to 9001:2015, the Board is in the process of seeking certification under the new Standard. This process is expected to be completed in the 1<sup>st</sup> quarter of Financial Year 2018/2019.

### Appreciation

I would like to thank the Board of Directors, Management and Staff of Kenya Roads Board for their continued support and dedication, without which our ambitious objectives could not have been achieved. I would also wish to extend our gratitude to the Government of Kenya, the Ministry of Transport, Infrastructure, Housing and Urban Development & Public Works, the National Treasury and Road Agencies for their co-operation and support.

Finally, I would like to thank all taxpayers and stakeholders, and assure them of our strong commitment to deliver outstanding value to Kenyans as a whole.

  
\_\_\_\_\_  
ENG. JACOB Z. RUWA, OGW  
EXECUTIVE DIRECTOR

11/9/2018  
\_\_\_\_\_  
DATE



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**CORPORATE GOVERNANCE STATEMENT**

**1. Introduction**

The Board of Directors recognizes the importance of applying the highest standards of corporate governance as a key contributor to its long term success, long term value and prosperity.

This enables effective and efficient decision making and gives a structural aid for the Directors to discharge their duty to promote the success of KRB while taking into account the interest of stakeholders.

Effective governance is achieved through a combination of strong process and structures, underpinned by the right values and culture. The principles of corporate governance are contained in the Mwongozo Code of Conduct & Ethics.

**2. The Board**

**Board Size and Composition**

The size, composition and appointments of the Members of the Board are prescribed in the Kenya Roads Board Act. Kenya Roads Board comprises of thirteen (13) independent non-executives board of directors of which eight (8) are from the private sector institutions and five (5) members representing the public sector. Each private member serves for a maximum of two terms of three (3) years each.

The Chairman of the Board is appointed by the President from among the eight members from the private sector. Names of all Board members and changes thereto are published in the Kenya Gazette.

The public sector representatives are the principal secretaries or designated alternates not below the level of deputy secretary from the ministries responsible for matters relating to roads, finance, local authorities, regional co-operation, transport & communications.

The representatives from the private sector are appointed by the Minister responsible for roads from among the three persons nominated by each organization specified in the First Schedule to the Kenya Roads Board Act.

The Board is well composed in terms of range and diversity of skills, knowledge, age and experience in various sectors which makes it effective and provides an appropriate balance for the oversight of the Board's mandate. On gender, the Board has three (3) women out of eight (8) members from the private sector.

The Executive Director's position is filled through public advertisement. The Executive Director is appointed by the Board in consultation with the Minister.

The Executive Director is an ex-official member of the Board but has no voting right at any meeting of the Board and is the secretary to the Board.

**Independence and Separation of Roles & Responsibilities**

The roles and responsibilities of the Chairman of the Board, the Executive Director and non-executive directors' remain distinct and separate which ensures a balance of power of authority and provides for checks and balances such that no one individual has unfettered powers of decision making. Their roles have been documented and are expected to be independent and free from conflict upon appointment.

The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board's decisions. The Chairman builds an effective board and sets the board agenda in consultation with the Secretary/Executive Director and ensures effective communication to stakeholders.

The Executive Director is responsible to the Board and takes the overall responsibility for the management of the Kenya Roads Board Fund and takes responsibility for effective and efficient day to day running of the affairs of the Board. The Executive Director recommends the strategy to the Board and implements it and makes operational decisions. Noting that the position also doubles as the secretary to the Board, the Executive Director ensures appropriate and timely information flows within the Board, its committees and management.

The non-executive directors are independent of management, they appoint the Executive Director and establish a framework for the delegation of authority and ensure succession planning for the executive director and senior management is in place. Their role is to advise, constructively challenge and monitor the success the management is delivering the agreed strategy within the risk appetite and control framework that is set out by the Board.

**Board Responsibilities**

The Board's responsibility is to promote the long term success of the Board. The Board provides leadership and concentrates its efforts on the strategic and governance issues. The Kenya Roads Board Act, the Board Charter and the Mwongozo Code of Ethics defines the governance parameters within which the Board exists and operates, the specific responsibilities to be discharged and powers of the Board, its committees and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.

The Board is charged with the following responsibilities:-

- a) Defining the purpose of the Kenya Roads Board, that is, its strategic intent and objectives, and its values which should be clear, concise and achievable;
- b) Strategy formulation and ensuring there are appropriate policies, systems and structures to effectively and successfully implement the strategies;
- c) Provide leadership within a framework of prudent and effective structures which enable risks to be assessed;
- d) Identify the opportunities as well as the principle risks in its operating environment including the preparation of the risk policy plans/risk management policies and

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implementation of appropriate measures to manage such risks or anticipated impact on the corporate business;

e) Review on a regular basis the adequacy and integrity of the internal controls, acquisition and divestures, management information systems including compliance with applicable laws and regulations;

f) In stewardship and in discharging its obligations, the Board assumes responsibility in the following areas:

- *Retaining full and effective control over KRB, and monitoring management in implementing Board plans and strategies;*
- *Ensuring ethical behavior and compliance with relevant laws and regulations, audit and accounting principles, and KRB's own governing documents and Code of Ethics; and*
- *Defining levels of materiality, reserving specific powers to the Board and delegating other matters with the necessary written authority to management and instituting effective mechanisms that ensure Board responsibility for management performance of its functions; among other mandates and responsibilities as stipulated in the Kenya Roads Board Act.*

**Meetings Attended by Board Members**

Kenya Roads Board Act provides that the Board holds meeting at least once every month. The Board therefore holds regular scheduled meetings throughout the year and supplementary meetings are held as and when necessary. In case of non-attendance due to other commitments, such information was communicated to the chair prior to the date of the scheduled meeting.

REGULAR BOARD MEETINGS	FY 2017/2018	
	Meetings Attended	% Attendance
Ms. Monika Solanki	14	100%
CPA. Charles Tirok	6	43%
Eng. John Nyaguti	11	79%
Ms. Theodora Gichana (Inspectorate)	7	50%
Mrs. Mary Wambugu	11	79%
Mr. Michael Karanja	14	100%
Mr. Wilson N. Kamau	14	100%
Mr. Alfred Kitolo	11	79%
Mr. Onderi Ontweka	5	36%
Mr. Paul King'ori	10	71%
Ms. Rita Kavashe	2	14%
Mr. Nemwel Motanya	10	71%
Mr. James Mwanzia/Mr. Edward M. Irungu	8	57%
<b>Total Number of Meetings held during the year</b>	<b>14</b>	

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

	FY 2017/2018	
HUMAN RESOURCES & MANAGEMENT COMMITTEE	Meetings Attended	% Attendance
Ms. Monika Solanki	7	100%
Mr. Alfred Kitolo	6	86%
CPA. Charles Tirok	1	14%
Mr. Michael Karanja	7	100%
Mr. James Mwanzia	4	57%
Ms. Rita Kavashe	1	14%
Ms. Theodora Gichana	1	14%
Mr. Edward M. Irungu	1	14%
Mr. Nemwel Motanya	1	14%
<b>Total Number of Meetings held during the year</b>	<b>7</b>	

	FY 2017/2018	
FINANCE COMMITTEE	Meetings Attended	% Attendance
CPA Charles Tirok	4	100%
Mr. James Mwanzia	3	75%
Eng. John Nyaguti	2	50%
Mr. Alfred Kitolo	2	50%
Mr. Onderi Ontweka	3	75%
Mrs. Mary Wambugu	2	50%
Mr. Nemwel Motanya	2	50%
Mr. Paul Kingori	2	50%
<b>Total Number of Meetings held during the year</b>	<b>4</b>	

	FY 2017/2018	
AUDIT & RISK MANAGEMENT COMMITTEE	Meetings Attended	% Attendance
Mrs. Mary Wambugu	2	67%
Ms. Rita Kavashe	1	33%
Ms. Monika Solanki	3	100%
Mr. Onderi Ontweka	3	100%
Mr. Nemwel Motanya	2	67%
Mr. Wilson Kamau	2	67%
<b>Total Number of Meetings held during the year</b>	<b>3</b>	

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

	FY 2017/2018	
TECHNICAL COMMITTEE	Meetings Attended	% Attendance
Mr. Paul Kingori	3	75%
Mrs. Mary Wambugu	2	50%
Eng. John Nyaguti	3	75%
Mr. Michael Karanja	4	100%
Mr. Wilson Kamau	4	100%
<b>Total Number of Meetings held during the year</b>	<b>4</b>	

**Board Committees and Responsibilities**

The Board delegates certain functions to well-structured committees but without abdicating its own responsibilities. The Board has developed a committee structure that assists in the execution of its duties, powers and authorities. Each Committee is guided by a Committee Charter/Terms of Reference, which outlines its responsibilities as mandated by the Board and is reviewed on a yearly basis. The Committees are appropriately constituted drawing membership from amongst the board members with appropriate skills and experience.

The Chairman of the Board and external parties/advisors are required to attend the committee meetings only by invitation.

The committees are expected to operate transparently and full disclosure to the Board and also to conduct themselves within the rules and procedures set out by the board. Matters deliberated by the Committees are presented to the board by the respective chairman during the next board meeting.

The Board Committees are Audit & Risk Management, Finance, Human Resources and Management and Technical. The responsibilities and attendance of meetings during the year is as summarized below:-

**Finance Committee**

The Finance Committee assists the board in fulfilling its oversight responsibilities for funds collection and sourcing, funds allocation & disbursements, review of budgets and APRP and the implementation reports.

The responsibilities of the committee are as follows:-

- (a) Management of KRB Fund (Funds allocation, collections and disbursements)
- (b) Budgeting and Planning (Review of KRB Operations Budget and the APRP)
- (c) Identification and recommending other potential sources of Revenue
- (d) Recommending periodic reviews of the fuel levy
- (e) Recommending appropriate levels of road user charges
- (f) Financial Reporting
- (g) Compliance with Public Finance Management (PFM) Act and other related legislation

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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- (h) Review of funds utilization and absorption

**Audit & Risk Management Committee**

The Audit and Risk Management Committee assists the board in fulfilling its oversight responsibilities for the work's programming and monitoring as well as the advisory role to the Minister for Roads. The Audit and Risk Management committee has authority to conduct or authorize investigations into any matters within its scope of responsibility.

The committee has the following responsibilities:-

- (i) Ensures external audit recommendations are fully addressed; and
- (ii) Ensures that the quality of internal audit is of appropriate standard and that line management has full regard to internal audit recommendations.

In particular, the Audit and Risk Management Committee shall be responsible for the review of the following areas:-

- (a) Risk Management and Compliance
- (b) Internal Audit
- (c) External Audit

**Human Resources and Management Committee**

The Management Committee oversees strategic planning, staff matters, performance contracting and general management oversight.

Specifically the committee is responsible for the following:-

- (a) Setting the policies and strategic direction of the organization;
- (b) Review the Strategic Plan and the Business Plan for approval by the Board;
- (c) Monitoring the implementation of the Strategic Plan;
- (d) Evaluation of the performance of the organization, Executive Director, staff and departments;
- (e) Negotiating the annual performance Contract between KRB and the Ministry of Roads;
- (f) Reviewing of the organization structure of KRB;
- (g) Reviewing KRB's staff terms and conditions of service;
- (h) Reviewing the various management policies aimed at enhancing staff performance;

**Technical Committee**

The Technical committee oversees the optimal utilization of the fund by Roads Agencies.

Specifically the committee is responsible for the following:-

- a) Coordinating the optimal utilization to achieve efficiency and cost effectiveness in road works;
- b) Monitor and evaluate by means of Technical, financial and performance audits the delivery of road works;
- c) Coordinate/Monitor implementation of road maintenance programmes;
- d) Implementation of the Road Sector Investment Programme;

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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- e) Research and Development in Roads sub sector;
- f) R2000 Strategy;
- g) Road Maintenance Management System(RMMS); and
- h) Advising the Cabinet Secretary on Road maintenance policies.

3. Remuneration of the Board

The non-ex-official Board members are paid taxable sitting allowance as approved by the Minister responsible for Roads following guidelines from the State Corporations Advisory Committee. The Chairman is paid honoraria at a rate approved by the Government.

Transport expenses are reimbursed on travel for Board business at the prevailing AA rates. The members are also entitled to outpatient and inpatient medical cover and a personal accident cover as applicable.

4. Directors Induction and Training

The Board develops induction and training programs designed to introduce new directors to the operations of the Board and related governance matters.

The programs are also aimed at deepening the understanding of the changes in risks, laws and business and political environment in which the Board operates.

5. Board Effectiveness and Evaluation

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees, an annual evaluation is undertaken in accordance with the widely accepted principles of corporate governance.

The self-evaluation reviews the capacity, functionality and effectiveness of its performance in the achievement of its goals and objectives. It assesses the performance and independence of the Board and committees jointly, individual members of the Board and the Executive Director.

The Executive Director is assessed in his roles as the CEO and the secretary to the Board. The Chairman's ability to add value, his performance against what is expected of his role and function, is also assessed.

The results of the evaluation form the basis on which action/work plans for the preceding year are formulated, assists to identify the training needs for directors and it also forms the basis of re-appointment.

6. Conflict of Interest, Code of Conduct and Ethics

The directors and employees of the Board have a fiduciary duty to act honestly and in the best interest of the Board. Business transactions with all parties must be carried out at arm's length and with integrity. The Board provides effective leadership based on ethical foundation and ensures all deliberations, decisions and actions are based on the Boards' core values underpinning good governance.

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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The Board has developed a Code of Conduct and Ethics Manual whose aim is to enhance relationships and fostering teamwork among board members and staff and to build respect, confidence and credibility with its citizens. The Code provides guidance to its members regarding ethical and behavioral considerations as they address their duties and obligations during their appointment and their term in KRB.

The Board has put various measures in place to ensure that there is no conflict of interest amongst its directors and staff. The Board has put in place Corruption Prevention and Code of Conduct & Ethics Policies that binds both the directors and the employees.

At the beginning of the financial year, all directors and employees signed a declaration of interest form declaring that they will disclose any interest that conflicts or possibly may conflict with the interests of the Board. At the commencement of any business to be transacted, all directors/staff are required to declare their interest, if any.

All staff and directors declared their wealth as required to the Public Service Commission.

During the year, the directors and employees demonstrated their commitment to the public service through professionalism, integrity, moral and ethical requirements, conflict of interest, and political neutrality through compliance with relevant laws as evident from the legal audit, internal audit, and external audit reports presented to the Board.



KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

**Introduction**

The Board works with its staff and stakeholders to enrich public/community life and participate in charitable projects. The main activities carried out during the year were as follows:-

**Research and Development**

KRB is committed to promoting research and development with the aim of improving road works delivery in the country and thus optimizing utilization of funds. To effectively advise the Cabinet Secretary on the impact of road development programmes there is need for such advice to be continuously informed by research.

As a result, the Board support road related research in the application of emerging technologies such as cobblestones and low volume seals roads (LVS).

A baseline survey on research undertaken in the road sector was recently undertaken, the outcome of which was an in-depth analysis of the researches undertaken and an identification of research gaps in the road sub-sector.

KRB in collaboration with Material Testing & Research Department (MTRD) and Africa Community Access Partnership (AFCAP) supported the 2<sup>nd</sup> International Conference on Transport and Road Research (iTRARR) in June 2018 with the overall aim to enhance coordination of transport related research efforts within the region.

**Roads 2000 (R2000) Strategy**

The Roads 2000 strategy is a method of road development and management that ensures optimum utilization and development of locally available resources where technically, economically feasible and in a socially responsive manner.

KRB coordinates the R2000 strategy in the country to promote the use of the local resources and labour-based methods in road maintenance

The strategy aims to create short-term employment through the rehabilitation of rural access roads and other labour intensive projects. The strategy has been in place for approximately two decades during which it has had great impact in providing part-time employment opportunities to the marginalized groups such as women, youth and people living with disabilities. The strategy has also facilitated the training of several small to medium scale contractors on local resource-based methods.

**Standard Chartered Marathon**

KRB staff and families participated in the 2017 Standard Chartered Marathon. The Marathon is the flagship project for the Standard Chartered Banks' "Seeing is Believing" community initiative that aims to raise funds for the needy in the community.

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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To ensure sustainability, the annual Standard Chartered Marathon now forms an important part of the Board's calendar as the Board 'shares vision' with needy and disadvantaged persons.

**Protecting the Environment**

Environmental Conservation is one of the enablers to the Social Pillar in the country's economic blue print 'Vision 2030'. Road projects have the potential of damaging the natural resources upon which economies are based. The environment is the resource base for materials used in road construction. It assimilates road construction waste, hence affecting the lifespan of roads.

To minimize the negative environmental impact, the Board requires the Road Agencies to factor in mitigation measures at the planning stage, during and after construction for all rehabilitation and periodic maintenance projects. These measures include control of soil erosion through construction of gabions, tree planting, covering and enhancing borrow pits to provide water catchment areas for use by local residents.

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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**REPORT OF THE DIRECTORS**

The Directors have the pleasure of presenting their report together with the audited financial statements for the year ended 30th June 2018 which show the state of the Board's affairs.

**PRINCIPAL ACTIVITIES**

The Board is primarily engaged in management of the Kenya Roads Board Fund together with other mandates specified in the Kenya Roads Board Act, 1999.

**RESULTS**

The results for the year ended 30th June 2018 are set out on page 28 to 32.

**DIRECTORS**

The Board of Directors who held office during the year is shown on pages 6.

In accordance with Section 7(4) of the Kenya Roads Board Act, 1999 *'the Chairman and members of the Board, other than ex-official members shall hold office for a period of three years from the date of appointment but shall be eligible for re-appointment for one further term of a period not exceeding three years.'* The appointment and vacation of office of any member of the Board shall be in accordance with Section 2 of the Second Schedule to the Kenya Roads Board Act, 1999.

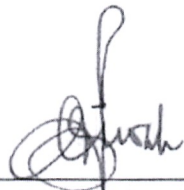
**FINANCIAL STATEMENTS**

At the date of this report, the Board was not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

**AUDITORS**

The Auditor General is responsible for the statutory audit of the Board's books of account in accordance with Sections 14 and 39 (i) of Chapter 12 of the Laws of Kenya, Public Audit Act, 2015.

**BY ORDER OF THE BOARD**



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ENG. JACOB RUWA, OGW  
SECRETARY TO THE BOARD  
NAIROBI

11/9/2018  
DATE

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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**STATEMENT OF THE BOARD'S RESPONSIBILITIES**


The Kenya Roads Board Act, 1999 requires the Board to prepare financial statements of each financial year which give a true and fair view of the state of affairs of the Roads Board as at the end of the financial year and of the Board's operating results for that year. It also requires the Board to ensure that the Roads Board keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board and to ensure that the Financial Statements comply with the enabling Act. They are also responsible for safeguarding the assets of the Roads Board and taking reasonable steps for prevention and detection of fraud and other irregularities.

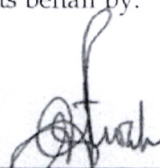
The Board accepts responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and the requirements of the Kenya Roads Board Act. The Board is of the opinion that the financial statements give a true and fair view of the state of affairs of the Roads Board and of its financial performance. The Board further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements.

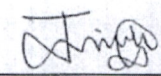
The Board is required to prepare the financial statements on a going concern basis unless it is determined that after the reporting period, the Board intends to liquidate or cease its activities, or that it has no realistic alternative but to do so. Nothing has come to the attention of the Board to indicate that Kenya Roads Board will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the Financial Statements**

The Financial Statements of Kenya Roads Board Fund were approved by the Board on 4<sup>th</sup> September 2018 and signed on its behalf by:

  
\_\_\_\_\_  
Ms. RITA KAVASHE  
CHAIRPERSON  
DATE: 11/9/2018

  
\_\_\_\_\_  
ENG. JACOB RUWA, OGW  
EXECUTIVE DIRECTOR  
DATE: 11/9/2018

  
\_\_\_\_\_  
CPA CHARLES TIROK  
DIRECTOR  
DATE: 14/9/18

# REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR GENERAL ON KENYA ROADS BOARD FUND FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Opinion

I have audited the accompanying financial statements of Kenya Roads Board Fund set out on pages 28 to 50 which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, the statement of cash flows, the statement of changes in net assets and the statement of comparison of budget and actual amount for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with provisions of Article 229 of the Constitution of Kenya, and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, the financial position of Kenya Roads Board Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Kenya Roads Board Act, Cap 408 of Laws of Kenya.

##### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Roads Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements. I have determined that there are no Key Audit Matters to communicate in my report.

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*Report of the Auditor-General on the Financial Statements of Kenya Roads Board Fund for the year ended  
30 June 2018*

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with 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 material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual basis) and for such 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue sustaining services, disclosing as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations of the Fund, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor General's Responsibilities for the Audit of the Financial Statements**

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern 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 ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**03 May 2019**



KENYA ROADS BOARD FUND  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

**STATEMENT OF FINANCIAL PERFORMANCE  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

		2017/18	2016/17
	Note	KShs'000	KShs'000
Receipts	8	73,744,832	69,113,788
Disbursements	9	(63,473,600)	(60,468,600)
<b>Surplus Available for Distribution</b>		<b>10,271,232</b>	<b>8,645,188</b>

The notes on pages 33 to 49 form an integral part of these financial statements.

KENYA ROADS BOARD FUND  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

STATEMENT OF FINANCIAL POSITION  
 AS AT 30<sup>TH</sup> JUNE 2018


ASSETS	Note	2017/18	2016/17
		KShs'000	KShs'000
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	10	31,324,284	40,814,525
<b>TOTAL ASSETS</b>		<b>31,324,284</b>	<b>40,814,525</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payables	11	1,883,059	21,644,533
<b>TOTAL LIABILITIES</b>		<b>1,883,059</b>	<b>21,644,533</b>
<b>TOTAL NET ASSETS</b>		<b>29,441,224</b>	<b>19,169,992</b>
<b>NET ASSETS</b>			
Net Assets Available for Distribution	12	29,441,224	19,169,992
<b>TOTAL NET ASSETS</b>		<b>29,441,224</b>	<b>19,169,992</b>

The notes on pages 33 to 49 form an integral part of these financial statements.

The financial statements on pages 28 to 49 were approved and authorized by the Board of Directors and signed on its behalf by:

  
 \_\_\_\_\_  
 ENG. JACOB RUWA, OGW  
 EXECUTIVE DIRECTOR

11/9/2018  
 DATE

  
 \_\_\_\_\_  
 CPA RASHID MOHAMED, MBS (ICPAK No. 4801)  
 GENERAL MANAGER FINANCE

11/9/2018  
 DATE

  
 \_\_\_\_\_  
 Ms. RITA KAVASHE  
 CHAIRPERSON

11/9/2018  
 DATE

KENYA ROADS BOARD FUND  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

STATEMENT OF CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

	Note	2017/18 KShs'000	2016/17 KShs'000
Net Assets, as at 1 <sup>st</sup> July	12	19,169,992	10,626,601
<i>Collections in the year:</i>			
Road Maintenance Levy	8	73,744,832	69,113,788
<i>Funds available</i>		92,914,824	79,740,389
Disbursements of Funds	9	(63,473,600)	(60,570,397)
Net Assets, as at 30 <sup>th</sup> June	12	29,441,224	19,169,992

The notes on pages 33 to 49 form an integral part of these financial statements.

KENYA ROADS BOARD FUND  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

	Note	2017/18 KShs'000	2016/17 KShs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash flows (to)/ from operations	13	(9,490,241)	21,250,615
Disbursements of prior year funds		-	(101,797)
Net cash (to)/from operating activities		(9,490,241)	21,148,817
Net (Decrease)/Increase in Cash and Cash Equivalents		(9,490,241)	21,148,817
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS:</b>			
At the beginning of the year		40,814,525	19,665,708
Net (decrease)/ increase in cash and cash equivalents		(9,490,241)	21,148,817
At the end of the year	10	31,324,284	40,814,525

The notes on pages 33 to 49 form an integral part of these financial statements.

KENYA ROADS BOARD FUND  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	BUDGET	ACTUAL	VARIANCE	VARIANCE
	2017/18	2017/18		
	KShs'000	KShs'000	KShs'000	%
<b>Receipts</b>				
Road Maintenance Levy	63,473,600	73,744,832	10,271,232	16%
<b>Total Receipts</b>	<b>63,473,600</b>	<b>73,744,832</b>	<b>10,271,232</b>	<b>16%</b>
<b>Disbursements</b>	<b>(63,473,600)</b>	<b>(63,473,600)</b>	<b>-</b>	<b>-</b>
<b>Net Assets</b>	<b>-</b>	<b>10,271,232</b>	<b>10,271,232</b>	

**Budget Notes:**

The variance in receipts of Kshs 10.27 billion (16%) is attributed to improved performance of the Kenyan economy, following the slump that was witnessed in 2017 due to drought and the prolonged electioneering period.

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**NOTES TO THE FINANCIAL STATEMENTS**

**1.0 GENERAL INFORMATION**

Kenya Roads Board (KRB) is a state body corporate established under Chapter 408 of the Laws of Kenya 'Kenya Roads Board Act' which came into effect under Legal Notice No. 7 of 1999. The Board is domiciled and operates within the Republic of Kenya.

As stipulated in the Kenya Roads Board Act, 1999 "*The object and purpose for which the Board is established is to oversee the road network in Kenya and coordinate the maintenance, rehabilitation and development funded by the fund and to advise the Minister responsible for matters pertaining to roads on all matters related thereto.*"

**2.0 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

***(a) Statement of Compliance***

The financial statements for the year ended 30<sup>th</sup> June 2018 have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) as issued by International Public Sector Accounting Standards Board (IPSASB), the Public Finance Management Act, 2012, Public Audit Act, 2015 and Kenya Roads Board Act.

For the Public Finance Management Act, 2012, Public Audit Act, 2015 and Kenya Roads Board Act reporting purposes, in these financial statements the "balance sheet" / "statement of assets and liabilities" is represented by and is equivalent to the statement of "financial position" and the "profit and loss account" / "statement of income and expenditure" is presented in the statement of "financial performance".

***(b) Basis of Preparation***

The financial statements have been prepared under the historical cost convention, unless otherwise stated. The financial statements are presented in the functional currency, Kenya Shillings (Kshs.), and all values are rounded to the nearest thousands (Kshs. '000) except when otherwise indicated.

The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 ADOPTION OF NEW AND REVISED STANDARDS

- (i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
<p>IPSAS 33: First time adoption of Accrual Basis IPSAS</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b>                      In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p><i>The entity adopted IPSAS in the year ended 30 June 2012 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</i></p>
<p>IPSAS 34: Separate Financial Statements</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b>                      In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p><i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 35: Consolidated Financial Statements</p>	<p><b>Effective for annual periods beginning on or January 1, 2017)</b>                      In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> <li>- Its power over the other entity</li> <li>- Its exposure or rights to variable benefits from involvement with the other entity</li> <li>- Its ability to control the nature, timing and amount of benefits from the other entity.</li> </ul>

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Standard	Impact
	<p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p><i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting of associates and joint ventures and set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p><i>The entity does not have any investments in associates or joint ventures and therefore the standard does not apply.</i></p>
<p>IPSAS 37: Joint Arrangements</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p><i>The entity does not have an interest in a joint arrangement and therefore the standard does not apply.</i></p>
<p>IPSAS 38: Disclosure of Interests in Other Entities</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p><i>The entity does not have an interests in other entities and therefore the standard does not apply.</i></p>



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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- (ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

- (iii) Early adoption of standards

The entity did not early - adopt any new or amended standards in year 2017/2018.

#### 4.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

##### *(a) Presentation of Financial Statements*

The financial statements comprise of statement of financial performance, statement of financial position, statement of changes in net assets/equity and the statement of cash flows and the notes to the financial statements.

The Board classifies its expenditure by the nature of expense methodology.

The disclosure on risks are presented in the financial risk management objectives and policies contained in note 5.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating, investing and financing activities.

Starting 1<sup>st</sup> July 2010, Kenya Roads Board adopted the IPSAS 1 on Presentation of Financial Statements. In previous years the financial statements were prepared in

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

accordance with the International Financial Reporting Standards (IFRSs). The change was necessitated by the reporting standards on public entities which are not Government Business Entities (GBE) as defined and required by IPSAS 1- 'Presentation of Financial Statements' which states that the scope of application is for 'all public sector entities other than Government Business Enterprises'.

**(b) Budget Information**

International Public Sector Reporting Standards allow for non-disclosure where:

(a) an entity is not required to disclose its budget information publicly; and

(b) the entity has elected not to present its approved budget publicly.

It is observed that the Approved KRB Fund Budget amounts for the year have not been exceeded.

**(c) Functional Currencies**

**(i) Functional and Presentation Currency**

The financial statements are presented in the functional currency, Kenya Shillings (Kshs.), which is the Board's presentational currency. The financial information is rounded to the nearest thousands (Kshs.'000) except when otherwise indicated.

**(ii) Transactions and Balances**

**a) Translation of Foreign Currencies**

Transactions in foreign currencies during the year are converted into the functional currency using the prevailing exchange rates ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies have been translated at the mean rates of exchange ruling at the end of the reporting period.

The foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through the statement of financial performance in the year in which they arise.

**b) Translation of Foreign Operations**

The Board does not have any foreign operations.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(d) Revenue Recognition*

*(i) Revenue from non-exchange transactions*

*Levies and Fees*

The entity recognizes revenues from levies and fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

*Transfers from other government entities*

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Revenue is generally recognized in the Statement of Financial Performance on accrual basis.

*(ii) Revenue from exchange transactions*

*Interest income*

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Interest income from all interest bearing financial instruments is recognized in the Statement of Financial Performance on accrual basis using the effective interest method.

*(e) Cash and Cash Equivalents*

For purposes of the cash flow statement, cash and cash equivalents comprise of cash and cash balances held at the bank with less than three months maturity from the statement of financial position date. These include notes and coins on hand and deposits held at call with banks.

*(f) Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Board

NOTES TO THE FINANCIAL STATEMENTS (Continued)

provides money or services directly to a debtor with no intention of trading the receivable.

Receivables are amounts due from the Kenya Roads Board Fund which are accrued in the ordinary course of business and there is no intention of trading the receivable.

Receivables are recognized initially at the fair value (transaction price/ carrying value less any discounts). They are subsequently measured at amortized costs using the effective interest method less provision for impairment.

A provision for impairment of receivables is made when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of receivables.

The carrying value less discounts and any impairment provision of impairment is assumed to approximate their fair values. For financial instruments such as short term receivables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value.

Receivables are classified as current assets if payment is due within one year or less (or in the normal operating cycle of business, if longer). If not, they are presented as non-current assets.

*(g) Payables*

Payables include any obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and may also include payments in respect social benefits where formal agreements for specific amounts exist.

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The historical cost carrying amount of payables subject to the normal credit terms usually approximates fair value.

Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of business if longer). If not, they are presented as non-current liabilities.

*(h) Impairment of Non-financial Assets*

At each reporting period end, based on internal and external sources, the Board reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Where it is not possible to estimate the recoverable amount of an individual asset, the Board estimates the recoverable value of the asset.

Any impairment losses are recognized as an expense in the Statement of Financial Performance whenever the carrying amount of an asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of impairment loss is limited to the assets carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is credited to the Statement of Financial Performance in the year reversals are recognized.

**(i) Provisions**

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that the Board will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period end, taking into account the risks and uncertainties surrounding the obligation.

**(j) Guarantees, Acceptances and Letters of Credit**

Guarantees are accounted for as off statement of financial position transactions and disclosed as contingent liabilities.

**(k) Subsequent Events**

There have been no subsequent events that would have an impact on the financial statements for the year ended 30th June 2018.

**(l) Comparatives**

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

**5.0 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY - (CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS)**

In the process of applying the Board's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on the directors' knowledge of current events and actions, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgments and sources of uncertainty in estimation are as set out below:

*(a) Critical Judgments in applying the Board's accounting policies*

In the process of applying the Board's accounting policies, judgments have been made in determining:-

- Whether the assets are impaired;
- The classification of financial assets;
- The going concern.

*(b) Critical Accounting Estimates and Assumptions*

*(i) Contingent Liabilities*

As disclosed in these financial statements, the Board is exposed to various contingent liabilities in the normal course of business.

The Directors evaluate the status of these exposures on a regular basis to assess the probability of the Board incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

*(ii) Provision for Doubtful Debts*

The organization reviews its receivables portfolio to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Board will not be able to collect all amounts due. Where necessary, an estimation of the amounts irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the Board of Directors.

*(iii) Other Provisions*

Other provisions are recognized when the Board has legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

*(iv) Impairment Losses*

At each reporting period end, the Board reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Board estimates the recoverable value of the asset. Any impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognized as income immediately.

**6.0 SEGMENT REPORTING**

The Board does not have any branches/reporting segments. All the operations of the Board are managed from the registered office. The core business of the Kenya Roads Board continues to be management of the Kenya Roads Board Fund together with other mandates as stipulated in the Kenya Roads Board Act.

There is no distinguished component of the Board that is engaged in providing an individual service that is subject to risks and returns that are different from the main mandates of the Board.

**7.0 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Board has initiated and facilitated the process that will see the enhancement of risk management. The Board has an integrated risk management framework/strategy. The Board's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement, monitoring and reporting. The risk management policies and systems are reviewed regularly to ensure they are in tandem with the micro and macro environment, regulatory guidelines, industry practice, market conditions as well as the services offered.

The Board recognizes the critical role the risk management will continue to play in its endeavor to carry out its business in a dynamic environment. The Board is committed to ensure that corporate governance and risk management are deeply entrenched in the Board's strategy and culture. An elaborate risk management strategy that will provide direction on matters of policy and guide the implementation and control has been developed.

This risk management framework captures the following among other things:-

- The Board's risk appetite and parameters;
- The Board's risk matrix that highlights the rating of risks;
- The structure of managing risks and accountabilities

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- The processes, procedures and reports that manage risks;
- The mitigating factors, prevention, contingency plans and controls.

The Board's core business involves major engagements with financial transactions and processes which pose certain risks. Three types of risks are reported as part of the risk profile namely operational, strategic and business continuity risks.

- a) Operational risks are events, hazards, variances or opportunities which could influence the achievement of the Board's compliance and operational objectives.
- b) Strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organization's strategy and business model which could have an impact on the entity's performance.
- c) Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the entity.

One of the key risks the Board has identified in both the operational and strategic areas is the sustainability of the Road Maintenance Levy in line with the Constitution. Financial risk as defined in IPSAS 15 and the management thereof, form part of this risk area.

The Members of the Board have the overall responsibility for the establishment and oversight of the Board's risk management framework. The Board has delegated its risk management to the 'Audit and Risk Committee'. One of the responsibilities of this committee is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial transactions and processes are managed by the 'Finance and Planning Committee' of the Board.

The Board's exposure to risks, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Board aims therefore to achieve an appropriate balance between the risk and return and minimize potential adverse effects on its financial performance.

The financial management objectives and policies are as outlined below:-

a) *Liquidity Risk*

Liquidity risk is the risk that the Board will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/ operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required.

The objective of the liquidity and funding management is to ensure that all foreseeable operational, capital and loan commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels.



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Board has adopted an overall balance sheet approach which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, cash flows and interest rate considerations. The Board's liquidity and funding management process includes:-

- Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding,
- Maintaining balance sheet liquidity ratios,
- Maintaining/ soliciting a diverse range of funding sources with adequate back up facilities,
- Managing the concentration and profile of debt maturities, where applicable,
- Maintaining liquidity and funding contingency plans.

The table shows the undiscounted cash flows on the Board's financial assets and liabilities on the earliest possible contractual/maturity date. The liquidity ratio in FY 2017/18 is 16.4 (FY 2016/17: 1.9)

	Note	2017/18 KShs '000	2016/17 KShs '000
<b>Financial Assets</b>			
Cash & Cash Equivalents	8	31,324,284	40,814,525
<b>Total Financial Assets</b>		<b>31,324,284</b>	<b>40,814,525</b>
<b>Financial Liabilities</b>			
Payables	9	1,883,059	21,644,533
<b>Total Financial Liabilities</b>		<b>1,883,059</b>	<b>21,644,533</b>
<b>NET LIQUIDITY</b>		<b>29,441,225</b>	<b>19,169,992</b>
<b>LIQUIDITY RATIO</b>		<b>16.4</b>	<b>1.9</b>

The Board has an established corporate governance structure and process of managing risks regarding guarantees and contingent liabilities. All guarantees issued are approved by the Members of the Board and are administratively managed by the finance department.

The primary sources of revenue for the Board are receipts from the Kenya Roads Board Fund, mainly receipts from fuel levy fund. The Board is pursuing additional sources of revenue for which approval has been sought from Ministries of Finance and Roads.

b) *Market Risk*

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, prices and interest rates. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters, and to optimize the funding of business operations and facilitate capital expansion. The Board is exposed to the following market risks:-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) *Currency Risk*

The currency risk is minimal as most of cash and cash equivalents held with banks are dominated in Kenya Shillings.

(ii) *Price Risk*

The Board collects Kshs. 18 per litre of diesel and petrol imported into the country. The Board is exposed to the extent that the levy on diesel and petrol is reduced or eliminated due to changes in the international fuel prices, inflation or other macro indicators.

The Road Maintenance Levy is backed up by an Act of Parliament and changes thereof require approval by Parliament.

(iii) *Interest Rate Risk*

The Board's financial condition may be adversely affected as a result of changes in interest rate levels. The interest rate risk is minimal as the Board does not have any borrowings.

c) *Operational Risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Board's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behavior.

The Board seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks.

The Board's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Board's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk in the following areas:-

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of financial transactions;
- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Requirement for the reporting of operational losses and proposed remedial action;
- Development of Business Contingency Plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where it is effective.

Operational risks are documented in the 'Framework for Management Control' and are managed by the Internal Audit function established to spearhead and coordinate risk management activities. The measures taken include proactively identifying, analyzing and mitigating risks in all facets of the business.

d) *Compliance and Regulatory Risk*

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The Board has complied with all externally imposed requirements throughout the year.

e) *Legal Risk*

Legal risks is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or the loss for the Board, failure to protect the title to and inability to control the rights to assets of the Board (including intellectual property right), changes in law, or jurisdictional risk.

The Board manages legal risk through the legal function, legal risk policies and procedures and the effective use of internal controls and external lawyers.

8.0 RECEIPTS

	2017/18	2016/17
	KShs '000	KShs '000
Road Maintenance Levy	73,744,832	69,113,788
<b>Total Operating Revenue</b>	<b>73,744,832</b>	<b>69,113,788</b>

Revenue represents receipts of Road Maintenance Levy and Transit tolls from the Kenya Revenue Authority and interest income.

The Board did not receive any transfers of any form, (including assets, gifts, donations, goods and service-in-kind, advance receipts, pledges, expenses paid on behalf and concessionary loans) from national and local government, public entities, Donor & International development agencies.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.0 DISBURSEMENTS OF FUNDS

The Board allocates funds to the road agencies in accordance with the allocation criteria set out in the Kenya Roads Board Act, 1999, and in line with the Constitution of Kenya, 2010 which includes funding to County Governments as shown below:

Road Agency:	Particulars/ Class of Roads	Allocation
Kenya Roads Board	Administration	2%
Kenya National Highways Authority	National Trunk Roads	40%
Kenya Rural Roads Authority	National Rural Roads	22%
Kenya Urban Roads Authority	National Urban Roads	10%
Kenya Wildlife Service	Park Roads	1%
County Governments	County Roads	15%
Allocation by Kenya Roads Board/Ministry	Development of roads	10%
<b>Total</b>		<b>100%</b>

Effective July 2015, the Board began collecting funds for the Roads Annuity Program. Based on the above, the Board disbursed funds as follows during the year:

Agency	2017/18 KShs '000	2016/17 KShs '000
Kenya Roads Board	1,269,472	775,027
Kenya National Highways Authority	21,464,128	20,459,228
Kenya Rural Roads Authority	11,438,298	10,893,617
Kenya Urban Roads Authority	5,361,702	5,106,383
Kenya Wildlife Service	525,000	500,000
Allocation by Kenya Roads Board/Ministry	5,250,000	5,000,000
County Governments	7,875,000	7,500,000
Roads Annuity Programme	10,290,000	9,800,000
Other	-	434,345
<b>Total Disbursements</b>	<b>63,473,600</b>	<b>60,468,600</b>
Add: Releases of Prior year funds	-	101,797
<b>Total Funds Disbursed in the Year</b>	<b>63,473,600</b>	<b>60,570,397</b>

10.0 CASH AND CASH EQUIVALENTS

(a) Analysis of bank and cash balances:

These represent cash held at various banks, as follows:

	2017/18 KShs '000	2016/17 KShs '000
Amounts held in local currency	31,324,284	40,814,525
Amounts held in foreign currency	-	-
<b>Total</b>	<b>31,324,284</b>	<b>40,814,525</b>

The Board is not exposed to credit risk on cash and bank balances as the funds are held with sound financial institutions approved by the Central Bank of Kenya.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months.

Analysis of cash and cash equivalents is as set out below:-

	2017/18	2016/17
	KShs '000	KShs '000
Bank and Cash Balances	31,324,284	40,814,525

11.0 PAYABLES

These represent funds due to the road agencies and Roads Annuity Programme, but not released as at 30<sup>th</sup> June 2018, as follows:-

	2017/18	2016/17
	KShs '000	KShs '000
Road Agency Funds	1,778,768	3,747,420
Roads Annuity Funds	104,291	17,897,113
Total	1,883,059	21,644,533

12.0 NET ASSETS AVAILABLE FOR DISTRIBUTION

These represent amounts received over and above the approved budget for the year, as follows:

	2017/18	2016/17
	KShs '000	KShs '000
Road Maintenance Levy	29,441,224	19,169,992
Total	29,441,224	19,169,992

The funds are allocated to the road agencies in the subsequent year in accordance with the Kenya Roads Board Act, 1999.

13.0 CASH GENERATED FROM OPERATIONS

Reconciliation of Net Cash Flows from Operating Activities to Surplus for the year:

	2017/18	2016/17
Note	KShs '000	KShs '000
Net assets available for distribution	10,271,232	8,645,188
<i>Changes in working capital balances:</i>		
(Decrease)/Increase in Road Agency Funds	(19,761,474)	12,605,427
Net cashflows (to)/from operating activities	(9,490,241)	21,250,615

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**14.0 CONTINGENT LIABILITIES**

Though the Board is involved in some legal proceedings, the directors believe, based on the information currently available, that the Board does not have any contingent liabilities which are likely to have a material effect on the results of the Board's operations, financial position or liquidity. Therefore, no provision has been made in the financial statements.

**15.0 FAIR VALUE**

The directors consider that there is no material difference between the fair value and carrying value of the company's financial assets and liabilities, where fair value details have not been presented.

**16.0 CAPITAL COMMITMENTS**

All capital commitments contracted for and authorized at the reporting period end have been recognized in the financial statements.

**17.0 POST BALANCE SHEET EVENTS**

The Directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of Kenya Roads Board Fund and results of its operation as laid out in these financial statements.

**18.0 COMPARATIVES**

Where necessary, comparative figures have been adjusted to conform to changes in presentation of the Financial Statements as required by International Public Sector Accounting Standards, and any amendment whenever necessary in the current year.

**19.0 CURRENCY**

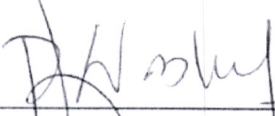
The financial statements are presented in Kenya Shillings (KShs '000).

KENYA ROADS BOARD FUND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

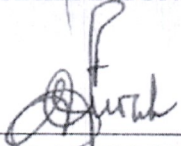
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PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMENDATIONS

There are no audit issues that were carried forward from FY 2016/17.

  
\_\_\_\_\_  
Ms. RITA KAVASHE  
CHAIRPERSON

11/9/2018  
DATE

  
\_\_\_\_\_  
ENG. JACOB RUWA, OGW  
EXECUTIVE DIRECTOR

11/9/2018  
DATE

