

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

PARLIAMENT  
OF KENYA  
LIBRARY

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYA ROADS BOARD

FOR THE YEAR ENDED  
30 JUNE 2014



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

---

KENYA ROADS BOARD - OPERATIONS  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014

---



KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

<u>TABLE OF CONTENTS</u>	PAGE NO.
VISION AND MISSION	2
KEY INFORMATION AND MANAGEMENT	3 - 5
THE BOARD OF DIRECTORS	6
MANAGEMENT TEAM	7
CHAIRMAN'S STATEMENT	8 - 10
REPORT OF THE EXECUTIVE DIRECTOR	11 - 13
CORPORATE GOVERNANCE STATEMENT	14 - 21
CORPORATE SOCIAL RESPONSIBILITY STATEMENT	22 - 23
REPORT OF THE DIRECTORS	24
STATEMENT OF THE BOARD'S RESPONSIBILITIES	25
REPORT OF THE INDEPENDENT AUDITORS	26
STATEMENT OF FINANCIAL PERFORMANCE	27
STATEMENT OF FINANCIAL POSITION	28
STATEMENT OF CHANGES IN NET ASSETS	29
STATEMENT OF CASHFLOWS	30
COMPARISON OF BUDGET AND ACTUAL AMOUNTS	31
NOTES TO THE FINANCIAL STATEMENTS	32 - 53
PROGRESS ON FOLLOW UP OF AUDIT RECOMENDATIONS	54

Our Vision:

An effective road network for a prosperous nation.

Our Mission:

To fund, oversee and coordinate road development, rehabilitation and maintenance. We shall ensure prudent sourcing and optimal utilization of resources for social-economic development.

KEY INFORMATION AND MANAGEMENT

**Incorporation:**

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.

**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.*

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

- (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*
  - (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.'*

**Financial Statements:**

The Financial Statements herein represent the utilization of two percent (2%) of the monies from the Kenya Roads Board Fund which is allocated in respect of the recurrent expenditure of the Board.

Section 35(1) of the KRB Act stipulates that *"There shall be paid out of the Fund any expenditure incurred by the Board in the exercise of its powers or the performance of its functions under this Act"*

The Financial Statements of the Kenya Roads Board Fund have been presented separately as required by Section 26 of Chapter 5, Government Financial Management Act of 2004 which deals with administration of Special Funds.

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

**Registered Office:**

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

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)

**Principal Bankers:**

Citibank N.A  
Citibank House, Upper Hill  
P.O Box 30711-00100, GPO  
NAIROBI, KENYA

**Auditors:**

Auditor-General  
P.O Box 30084 - 00100, GPO  
NAIROBI, KENYA

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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. The members who held office during the year are as follows:-

Representative	Organization
Eng. Joel Wanyoike (Chairman)	Institution of Engineers of Kenya
Eng. Jacob Ruwa (Executive Director)	Kenya Roads Board
Eng. John K. Mōsonik	PS, Ministry of Transport & Infrastructure State Department of Infrastructure
Dr. Kamau Thugge	PS, The National Treasury
Amb. John Konchella	PS, Ministry of Devolution
Ms. Mwanamaka Amani Mabruki	PS, Ministry of East African Community
Mr. Joseph Nduva Muli	PS, Ministry of Transport & Infrastructure State Department of Transport
Ms. Rita Kavashe	Automobile Association of Kenya
Mr. Joel Kipkemboi Yego	Institute of Surveyors of Kenya
CPA Osman Hassan Ibrahim, OGW	Institute of Certified Public Accountants
Ms. Monica Solanki (from 19 <sup>th</sup> October 2012)	Kenya Association of Tour Operators
Mr. Michaeli Karanja	Kenya Association of Manufacturers
Mrs. Consolata M. Yambo (up to 9 <sup>th</sup> May 2014) Mrs. Mary W. Wambugu (from 9 <sup>th</sup> May 2014)	League of Kenya Women Voters

Alternate Representative	Organization
Mr. Billow Hussein Abdi	PS, Ministry of Transport & Infrastructure State Department of Infrastructure
Mr. Charles M. Onchoke (up April 2014) Mr. Ontweka Onderi Naftal (from May 2014)	PS, The National Treasury
Ms. Grace Kamasara (up 26 <sup>th</sup> February 2014) Mr. Kennedy C. Nyamao (from 26 <sup>th</sup> February 2014)	PS, Ministry of Devolution
Mr. Alfred M. Kitolo	PS, Ministry of East African Community
Mr. Geoffrey Irungu	PS, Ministry of Transport & Infrastructure State Department of Transport

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

MANAGEMENT TEAM

Executive Director	-	Eng. Jacob Z. Ruwa
General Manager, Finance	-	CPA Rashid K. Mohamed, MBS
General Manager, Technical Compliance	-	Eng. Stephen W. Ndinika
General Manager, Planning and Programming	-	Eng. Benjamin K. Maingi
Head, Legal and Corporate Affairs	-	Ms. Lucy K. Gathika
Head, Human Resources and Administration	-	Ms. Ruth M. Bitu

### CHAIRMAN'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 and Kenya Roads Board Operations for the year ended 30th June 2014.

#### Overview

According to the Kenya Vision 2030 and Second Medium Term Plan 2013-2017, the development of high quality infrastructure has been recognized as an enabler for socio-economic transformation, sustainable economic growth and development of the economy.

The strategies and measures to be pursued during the period include; supporting development initiatives around flagship projects, strengthening institutional framework, enhancing efficiency and quality as well as increasing the pace of projects so that they are completed as envisaged. Other measures include encouraging private sector participation in the provision of infrastructure services through the Public-Private-Partnership framework.

The road sub-sector aims at improving both the quality and quantity of infrastructure facilities in order to contribute to the attainment of sustained economic growth. A high quality road network is a treasured asset for any economy and its maintenance needs to be managed in the most appropriate business-like manner. The need for better roads continues to be a priority for Kenyan road users.

In the last three years, the Government has continued to commit more financial resources for infrastructural development - including roads, ports and energy generation.

#### Operating Environment

The Kenyan economy continued to witness gradual stabilization in 2014. The economy grew by 4.6%; driven by strong performance in the Agricultural, Financial, Tourism and Construction sectors. Interest rates have shown a downward trend in comparison to the high rates witnessed in 2013. Crude oil prices remained stable in the first six months of 2014, with an average of USD 109.46 per Barrel.

In the short to medium term, the Kenyan economy is expected to have a sustained and rising growth based on the following fundamentals: stable macroeconomic environment, a projected easing and stability of international oil prices and reforms in security, governance and the judiciary.

### Strategy

The Board has continued to monitor the implementation of its five-year Strategic Plan (2013-2017). The Board developed the FY2013/14 business plan which was extracted from the five year strategic plan. The deliverables that were set out in the business plan and performance contract for FY 2013/14 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.

### 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.

With regard to excellence in Financial Reporting and disclosure, the Board, for the third year running was nominated and declared the winner of the Financial Reporting (FiRe) Awards (Public Sector Category). The FiRe Awards are jointly organized by the Nairobi Securities Exchange, the Institute of Certified Public Accountants of Kenya and the Capital Markets Authority.

### Future Outlook 2014/15

Kenya Roads Board will align itself with the new Constitutional dispensation to serve Kenyans at the National and County levels of government. The Board is actively engaged in activities aimed at increasing and sustaining the KRB Fund to meet the ever increasing road maintenance needs. The Board remains committed to deepening relationships with its stakeholders and key partners. Further, the Board shall endeavour to develop its people and develop innovative and cost-effective methods of road construction and maintenance.

### Acknowledgement

On behalf of KRB directors and staff, I express my sincere gratitude to the Government of Kenya, Ministry of Transport and Infrastructure, 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

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

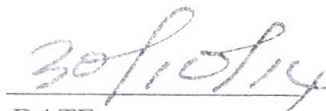
are proud of the team and greatly appreciate their ability and commitment towards achieving the Board's vision, mission and objectives.

I look forward to a promising financial year 2014/15. God Bless you all.



---

ENG. JOEL WANYOIKE  
CHAIRMAN



---

DATE

## REPORT OF THE EXECUTIVE DIRECTOR

### Overview

The Kenya Vision 2030 aims to transform Kenya to a middle income country by 2030. The Government recognizes that the attainment of Vision 2030 will depend heavily on the quality of our road infrastructure through the reduction of transport costs, improvement of accessibility and road safety. The 2nd Medium Term Plan of Vision 2030 identifies a road expansion programme as one of the flagship projects.

Kenya's economy continues to witness growth. The country's Gross Domestic Product (GDP) expanded by 4.7 per cent in 2013 compared to 4.6 per cent in 2012. This performance was supported by:

- The stable macroeconomic environment for the better part of the year.
- Low and stable inflation supported by improved supply of basic foods, lower international oil prices and lower costs of electricity.
- Infrastructural development.
- Construction sector - During the year under review, the building and construction sector expanded by 5.5 per cent.

Kenya Roads Board has continued to carry out its mandate of effectively and efficiently managing the Kenya Roads Board Fund in light of these factors. We are happy to note that the Board continues to achieve its ambitious performance targets set in the annual business plans, derived from the Strategic Plan 2013-2017.

### Performance & Utilization of Funds

The Board surpassed its budgeted revenue for the financial year 2013/14 by Kshs 3.1 Billion (2012/13: Kshs. 899 Million) despite the challenges faced during the year. The collections for the period amounted to Kshs. 28.3 Billion compared to Kshs. 25.3 Billion in FY 2012/13.

The Board released funds amounting to Kshs. 26 Billion to the road agencies during the financial year, which includes prior year funds of Kshs 899 Million. At the close of the year, the Board carried over Kshs. 718 Million which will be released in the course of the Financial Year 2014/2015.

### The Annual Public Roads Programme (APRP)

During the year, the Board allocated and released funds in accordance with the Annual Public Roads Programme (APRP). As the process of alignment of the Roads Sector to the new Constitution continues, road works contained in the Annual Public Roads Programme for FY 2013/14 shall continue uninterrupted and will be undertaken by the designated road agencies.

### ISO Certification

The Board has been ISO 9001:2008 – Quality Management System (QMS) certified since 24th June 2010. 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 9001:2008 requirements.

### Road Sector Investment Programme (RSIP)

The Road Sector Investment Programme (RSIP) forms the basis of prioritization of roads in the APRP for each financial year. The RSIP clearly identifies the Road Section to be considered, types of interventions and the estimated costs. The Board monitors the implementation of the RSIP through regular reports and stakeholders' meetings. The Board continues to ensure that the APRP prepared by Road Agencies is based on the RSIP in the prioritization of road works.

### Road Inventory & Condition Survey (RICS)

The length of the entire road network in Kenya is estimated to be 160,886 KM as per the RICS undertaken between 2006 and 2009 for roads whose road reserve is greater than nine (9) meters. The data on the road inventory and condition survey is maintained in a Geographical Information System (GIS) database in KRB and provides essential data for planning, sourcing and allocation of funds and implementation of maintenance and development programs.

Kenya Roads Board has procured a consultant to collect and collate road network management data in Kenya. As part of the consultancy, an inventory of over 60,000 kilometers of narrow roads with road reserve between six (6) and nine (9) metres will be undertaken. Once completed, the comprehensive GIS for the entire network will be availed to the public.

### 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, and has engaged two consulting engineers to continue monitoring Axle Load. These consultancies cover the urban and rural network in addition to the national road network. The frequency of monitoring has also been increased from quarterly to monthly.

### Performance Contracting

Kenya Roads Board signed the sixth performance contract with the Government of Kenya through the Ministry of Transport and Infrastructure. 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.


#### Future Outlook

Kenya Roads Board will align itself with the new Constitutional dispensation to serve Kenyans at the National and County levels of government. The Board is actively engaged in activities aimed at increasing and sustaining the KRB Fund to meet the ever increasing maintenance needs.

#### 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 and Infrastructure, the National Treasury, Road Agencies, stakeholders and taxpayers 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 RUWA  
EXECUTIVE DIRECTOR

29/10/2014

---

DATE

## 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 Director's 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 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 members and changes thereto are published in the Kenya Gazette.

The public sector representatives are the permanent 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 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 dubs 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 Directors 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 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:
  - (i) *Retaining full and effective control over KRB, and monitoring management in implementing Board plans and strategies;*
  - (ii) *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*
  - (iii) *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.

#### 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, management 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 & Planning and Management. The responsibilities and attendance of meetings during the year is as summarized below:-

#### *Finance & Planning Committee*

The Finance and Planning 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) Review KRB budgeting process, systems and cycle to ensure that they promote openness accountability and prudence;
- (b) Constantly review and monitor the collections of RMLF including seeking explanations for certain trends;
- (c) Periodically review the extent of utilization and compliance with budgetary levels and make appropriate recommendations;
- (d) Review the Ceilings for road agencies to ensure compliance with the KRB Act and the approved Road Sector Investment Programme;
- (e) Review the consolidated annual public roads programme to ensure compliance with the guidelines from KRB and the proposals from the road agencies;
- (f) Review the reports on works carried out to ensure that they are within specifications, costs and time;
- (g) Review financial statements, management accounts and audit reports and make appropriate recommendations.

#### *Audit & Risk Management Committee*

The Audit and Risk Management Committee assists the board in fulfilling its oversight responsibilities for the works 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:-

- (a) Review and ensure the integrity of financial statements and appropriate accounting principles prior to review and approval by the Board;
- (b) Review audit reports and make recommendations to the Board;
- (c) Review the effectiveness of the Board's internal control systems and compliance as well as advise the board on risks and mitigation measures;
- (d) Review the effectiveness of the system for monitoring compliance with laws and regulations and ensure business continuity amongst other responsibilities as may be delegated by the Board.

#### 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;

#### 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.

#### Directors Induction and Training

The Board develops an 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.

#### 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 proceeding year are formulated, assists to identify the training needs for directors and it also forms the basis of re-appointment.

#### 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.

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.

### 3. Accountability & Audit/Control Environment Management

#### Annual Report and Accounts

The Board is required to present an objective and understandable assessment of the Fund's and Board's operation position and prospects. The Board has ensured that accounts are presented in accordance with the International Public Sector Accounting Standards and obtained an unqualified audit report.

The Board received unqualified audit report on the activities of the Fund and its operations

#### External and Internal Audits

##### *(i) External Auditors*

The Kenya Roads Board Fund and its operations account is audited by the Auditor-General. The Auditor-General is an independent office established and whose role and responsibilities are defined under the Constitution of Kenya.

*(ii) Internal Auditors*

The Board in furtherance of its duties to ensure that the process, structure and internal controls are maintained and adhered to may appoint independent audit consultants or recruit in-house staff to carry out such functions. The Internal Audit firm was appointed through a competitive open tendering process. The Board engaged the services of Davle Consulting & Associates to carrying out the internal audit function and present reports on compliance.

Further, the Board engaged the services of Technical, Financial and Performance consultants to evaluate the efficiency, effectiveness and economy, value for money, on the utilization of funds by Road Agencies.

4. Internal Controls and Risk Management

The Board has the responsibility for identifying internal risk exposures and developing measures to mitigate against the identified risks. The Board reviews and monitors the development and implementation of systems of internal controls.

The Board must have an understanding of these risks and mitigate them by implementing sound internal controls and risk management practices. The Board has developed the risk management framework and management control which identifies the risks. The Board recognizes that information technology form an integral part of the risk management process therefore it has developed the business continuity plan, disaster preparedness plan and the IT policy.

The Board reviewed the internal controls, policies and procedures and satisfied that appropriate controls and procedures were in place. This review was done by the internal auditors who report directly to the audit committee. The Board also delegated the day to day management of risks to management through systems and process carried out on a day to day basis.

5. Relationship with Stakeholders

The Board appreciates that stakeholder perception affect the organizations reputation. Therefore the Board strives to achieve an appropriate balance between its various stakeholders in the best interest of the organization by taking into account their legitimate interest and expectations in decision making.

The Board values the importance of complete, timely, transparent and effective communication with its stakeholders for building and maintaining their trust and confidence by providing regular information on its performance, activities and addressing their concerns whilst having regard to legal and strategic considerations. The Board has developed a Corporate Communications Strategy which encompasses internal & external communication, customer service and public relations.

## 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

The Board has set an interagency Research and Development Committee to explore the innovative technology in road design, construction and maintenance. The committee has requested for proposals from the universities on researches that among others on construction of low volume cost roads. It is also noted that gravel in Kenya is diminishing at a very high rate; the committee is also tasked with the responsibility of research on alternative materials for road construction and maintenance.

### Standard Chartered Marathon

KRB staff and families participated in the 2013 Standard Chartered Marathon. The theme of the Marathon was 'Run for a Reason', which seeks to raise funds to help needy children. The number of participants this year increased as more staff and their family members enrolled for the event. The Board's contribution towards the noble event was KShs 0.27 million.

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.

During the year the Board planted trees in Kisumu and Homabay Counties. To ensure survival of the trees, the Board partnered with primary schools and local polytechnics. The Board catered for the tree planting while the schools were to ensure that watering and maintenance is done. The trees were purchased from the local community.

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

*Roads 2000 (R2000) Strategy*

The R2000 Strategy is a method of road development and management that ensures optimum utilization and development of locally available resources, where technically and economically feasible.

The strategy focuses on the optimum use of labor and local resources with the support of appropriate tools and equipment. The use of this strategy provides employment to the local community and saves on foreign exchange substantially. This guarantees sustainable community investment and creation of wealth among the increasing youth population in the country.

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

**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 2014 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 2014 are set out on page 11 to 14.

**DIRECTORS**

The Board of Directors who held office during the year are 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, 2003.

**BY ORDER OF THE BOARD**



---

ENG. JACOB RUWA  
EXECUTIVE DIRECTOR

29/10/2014  
DATE

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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 the Roads Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the Board and signed on its behalf by:-

  
ENG. JOEL WANYOIKE  
CHAIRMAN  
KENYA ROADS BOARD

  
ENG. JACOB RUWA  
EXECUTIVE DIRECTOR  
KENYA ROADS BOARD

DATE: 30/06/14

DATE: 29/10/2014

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

REPORT OF THE INDEPENDENT AUDITORS

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-Mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA ROADS BOARD FOR THE YEAR ENDED 30 JUNE 2014

---

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Roads Board set out at pages 27 to 53 which comprise the statement of financial position as at June 30, 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. 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.

#### **Board's Responsibility for the Financial Statements**

The Board of Kenya Roads Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

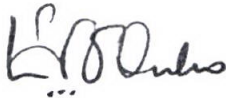
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board's as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects the financial position of the Board as at 30 June, 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with Kenya Roads Board Act, Cap. 408 of the Laws of Kenya.



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

**Nairobi**

**25 November 2014**

KENYA ROADS BOARD  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

	Note	KShs'000 2013/2014	KShs'000 2012/2013
OPERATING REVENUE	6	509,187	582,567
<u>OPERATING EXPENSES</u>			
Director Costs	7	44,416	49,637
Staff Costs	8	204,080	203,669
Field Activity Costs	9	44,982	38,239
Other Operating Costs	10	209,756	251,755
Corporate Social Responsibility	11	1,790	1,645
<b>TOTAL OPERATING EXPENSES</b>		<b>505,024</b>	<b>544,945</b>
<b>SURPLUS FROM OPERATIONS</b>		<b>4,163</b>	<b>37,622</b>
Gain on Disposal of Property & Equipment	15	7,343	1,069
<b>NET SURPLUS FOR THE YEAR</b>	<b>12</b>	<b>11,507</b>	<b>38,691</b>

The notes on pages 32 to 53 form an integral part of these financial statements.

KENYA ROADS BOARD  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

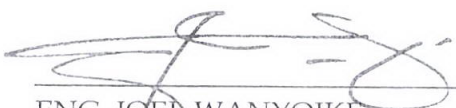
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

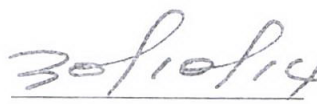
	Notes	2013/2014 KShs'000	2012/2013 KShs'000
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash equivalents	13	896,425	681,002
Receivables	14	480	1,245
		896,905	682,247
<i>Non-Current Assets</i>			
Property & Equipment	15	55,659	68,057
<b>TOTAL ASSETS</b>		<b>952,564</b>	<b>750,304</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Payables	16	52,500	45,873
		52,500	45,873
<b>TOTAL NET ASSETS</b>		<b>900,063</b>	<b>704,431</b>

<b>NET ASSETS/EQUITY</b>			
<i>Reserves</i>			
KRB Staff Fund	17(a)	248,683	238,228
KRB Capital Fund	17(b)	474,253	300,581
Accumulated Surpluses	17(c)	177,128	165,621
		900,063	704,431
<b>TOTAL NET ASSETS/EQUITY</b>		<b>900,063</b>	<b>704,431</b>

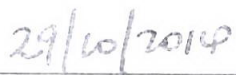
The notes on pages 32 to 53 form an integral part of these financial statements.

The financial statements on pages 27 to 30 were approved by the Board of Directors and signed on its behalf by:

  
 \_\_\_\_\_  
 ENG. JOEL WANYOIKE  
 CHAIRMAN

  
 \_\_\_\_\_  
 DATE

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

  
 \_\_\_\_\_  
 DATE

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

	Note	Accumulated Surpluses	Capital Fund	Staff Fund	Total
		KShs'000	KShs'000	KShs'000	KShs'000
As at 1 <sup>st</sup> July 2013		165,621	300,581	238,228	704,431
Growth in Staff fund	17(a)			10,455	10,455
Transfer to Capital Fund	17(b)		150,000		150,000
Growth in Capital fund	17(b)		23,671		23,671
Net Surplus for the year	17(c)	11,507			11,507
As at 1 <sup>st</sup> July 2014		177,128	474,253	248,683	900,063

	Note	Accumulated Surpluses	Capital Fund	Staff Fund	Total
		KShs'000	KShs'000	KShs'000	KShs'000
As at 1 <sup>st</sup> July 2012		126,930	590,110	220,973	938,013
Growth in Staff fund	17(a)			17,255	17,255
Transfer from Capital Fund	17(b)		(400,000)		(400,000)
Transfer to Capital Fund	17(b)		50,000		50,000
Growth in Capital fund	17(b)		60,471		60,471
Net Surplus for the year	17(c)	38,691			38,691
As at 1 <sup>st</sup> July 2013		165,621	300,581	238,228	704,431

The notes on pages 32 to 53 form an integral part of these financial statements.

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2014

		2013/2014	2012/2013
		KShs'000	KShs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>Note</b>		
Cash generated from operations	18	34,899	61,855
<b>Net cash generated from operating activities</b>		<b>34,899</b>	<b>61,855</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	6	5,397	7,637
Purchase of property and equipment	15	(16,357)	(36,330)
Proceeds on disposal of equipment	15	7,343	1,069
Net book value of disposed assets		15	0
<b>Net cash (used in) investing activities</b>		<b>(3,602)</b>	<b>(27,624)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Growth in KRB Staff fund (Interest)	17(a)	10,455	17,256
Growth in KRB Capital fund (Interest)	17(b)	23,671	60,471
Increase in KRB Capital fund (KRBF)	17(b)	150,000	50,000
Transfer to KRB Capital fund	17(b)		(400,000)
<b>Net cash inflow from financing activities</b>		<b>184,126</b>	<b>(272,273)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b><u>215,423</u></b>	<b><u>(238,042)</u></b>
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>			
At the beginning of the year		681,002	919,044
Net increase in cash and cash equivalents		215,423	(238,042)
<b>At the end of the year</b>	<b>13(b)</b>	<b><u>896,425</u></b>	<b><u>681,002</u></b>

The notes on pages 32 to 53 form an integral part of these financial statements.

KENYA ROADS BOARD  
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

STATEMENT OF COMPARISON ON BUDGET AND ACTUAL AMOUNTS

	COL 1	COL 2	COL 3	COL 4
	ANNUAL	ACTUAL	VARIANCE:	% OF
	FORECAST	YEAR	ACTUAL TO	ACTUAL TO
	FY 13/14	FY 13/14	ANNUAL	ANNUAL
	(KSHS)	(KSHS)	FORECAST	FORECAST
<b>INCOME</b>				
Fuel Levy Fund	503,489,450	503,489,450	0	100%
Interest Earned	6,000,000	5,397,478	(602,522)	90%
Sale of Tenders	300,000	300,500	500	100%
Gain on disposal	9,000,000	7,343,438	(1,656,562)	82%
	<b>518,789,450</b>	<b>516,530,866</b>	<b>(2,258,584)</b>	<b>100%</b>
<b>EXPENDITURE</b>				
Directors Costs	53,105,240	44,416,421	8,688,819	84%
Staff Costs	217,397,090	204,079,693	13,317,398	94%
Operating Costs	198,337,120	178,115,511	20,221,608	90%
Audit Fees	2,900,000	2,900,000	0	100%
Dept. Costs	45,250,000	44,981,784	268,216	99%
C.S.R.	1,800,000	1,790,264	9,736	99%
Depreciation	0	28,740,553	(28,740,553)	N/A
<b>TOTAL EXPENSES</b>	<b>518,789,450</b>	<b>505,024,226</b>	<b>13,765,224</b>	<b>97%</b>
<b>Operations Surplus/(deficit)</b>		<b>11,506,640</b>		

NOTES TO THE FINANCIAL STATEMENTS

1.0 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

**Adoption of New and Revised International Public Sector Accounting Standards (IPSASs)**

*(i) New Standards and Interpretations In Issue But Not Yet Effective in Year Ended 30<sup>th</sup> June 2014*

	New Standards	Effective for Annual periods Beginning on or after
(a)	<p>IPSAS 32 – <i>Service Concession Arrangements: Grantor</i></p> <p>The standard prescribes disclosure requirements for service concession arrangements by the grantor, a public sector entity.</p> <p>The Standard will not impact on the accounting policy and financial position of the Fund.</p>	1 <sup>st</sup> January, 2014

*(ii) Proposed Amendments to IPSAS – as per Exposure Draft 55*

The International Public Sector Accounting Standards Board (IPSASB) has released an exposure draft of proposed improvements to International Public Sector Accounting Standards (IPSASs).

The proposals incorporate relevant amendments made by the International Accounting Standards Board (IASB) in the 2009-2011 and 2010-2012 cycles of annual improvements, and the changes made by 'Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)'.

The proposals are contained in IPSASB Exposure Draft 55 *Improvements to IPSASs 2014* and would see amendments made to four IPSASs:

- i. IPSAS 1, *Presentation of Financial Statements* - clarification of comparative information requirements
- ii. IPSAS 17, *Property, Plant and Equipment* - classification of servicing equipment, clarification of the revaluation methodology, acceptable methods of depreciating assets
- iii. IPSAS 28, *Financial Instruments: Presentation* - tax effects of distributions to holders of equity instruments
- iv. IPSAS 31, *Intangible Assets* - clarification of the revaluation methodology, clarification of acceptable methods of amortising assets.

The exposure draft contains an appendix which outlines all of the items the IPSASB considered including in the document, and the rationale as to why

NOTES TO THE FINANCIAL STATEMENTS (Continued)

changes equivalent to those made by the IASB in recent narrow scope amendment projects have not been proposed by the IPSASB. Reasons include where:

- (i) IASB amendments relate to IFRSs without an equivalent IPSAS, e.g. first-time adoption, business combinations, share-based payments and interim financial reporting (in some cases, the IPSASB has projects underway in these topic areas)
- (ii) the existing IPSAS is not fully converged with IFRSs, e.g. borrowing costs, related parties, employee benefits, segment reporting, financial instruments
- (iii) minor amendments are not considered relevant.

The exposure draft does not indicate a proposed effective date for the amendments if they are finalised. The comment period on the exposure draft closes on 30 September 2014.

## 2.0 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) Statement of Compliance*

The financial statements for the year ended 30<sup>th</sup> June 2013 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 Government Financial Management Act, 2004, Public Audit Act, 2003 and Kenya Roads Board Act.

For the Government Financial Management Act, 2004, Public Audit Act, 2003 and Kenya Roads Board Act reporting purposes, in these financial statements the "balance sheet"/ "statement of assets and liabilities" is represented by/ 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.

### *(c) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 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*'.

The requirement by the Auditor General to present separate financial statements for the Kenya Roads Board Operations and the Kenya Roads Board Fund has led to reclassification of assets and liabilities including prior year to each set of financial statements.

*(d) 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.

The Board is not required to publicly avail the approved KRB Operations budget and has elected not to present its budget publicly. Therefore the Board has not attached a Statement of Comparison of Budget and Actual amounts. However it is observed that the Approved KRB Budget amounts for the year have not been exceeded.

*(e) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(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.

(f) *Revenue Recognition*

In accordance with the Kenya Roads Board Act, 1999, the Board is allocated 2% of the Road Maintenance Levy Fund (RMLF) for its operations and is recognized on accrual basis. An inflow of the funds is recognized as revenue and a liability is recognized in respect of the same inflow upon approval of the disbursements by the Board. Revenue is generally recognized in the Statement of Financial Performance on accrual basis.

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

Other incomes are recognized as they accrue unless the collectability is in doubt.

(g) *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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

(i) *Inventories*

Given the nature of the Board's operations and mandates, items in stock relate to stationery. Stationery costs are recognized as an expense when deployed for utilization in the ordinary course of the Board's operations.

As at 30<sup>th</sup> of June 2014, the Board did not have any inventory.

(j) *Property and Equipment and Depreciation*

All property and equipment are initially stated at cost and thereafter at historical cost less accumulated depreciation and any accumulated impairment loss. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Board and the cost can be reliably measured. All other repairs and maintenance are charged to the Statement of Financial Performance during the financial year in which they are incurred.

Depreciation is calculated on straight line basis at annual rates estimated to write down the carrying value of the assets over their expected useful lives. The annual depreciation rates in use are:-

	<u>Rate</u>		<u>Rate</u>
Computer Equipment	33 <sup>1</sup> / <sub>3</sub> %	Motor Vehicles	25.0%
Office Equipment	12.5%	Furniture & Fittings	12.5%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or losses on de-recognition of the asset is included in the Statement of Financial Performance in the year the asset is de-recognized.

*(k) Payables*

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables 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.

*(l) Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Board as the lessee. All other leases are classified as operating leases.

Where the Board is the lessee, the total payments made under operating leases are charged to the statement of financial performance on a straight line basis over the period of the lease. When an operating lease is terminated before the expiry of the lease period, any payment required to be made to the lessor by way of penalty is recognized as expense in the year in which termination takes place.

Rentals payable under operating leases are amortized on the straight line basis over the term of the relevant lease.

*(m) 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.

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.

*(n) 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.

*(o) Retirement Benefit Obligations*

The Board operates a defined contribution provident fund for eligible employees. The fund is administered by an independent administration company and Trustees. It is funded by contributions from both the employer and employees.

The Board and its employees also contribute to the statutory pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently limited to KShs. 200 per employee per month. The Board also sets aside on monthly basis the gratuity for its employees who are on contract basis.

The Board's contributions in respect of staff retirement benefit costs are charged to the statement of financial performance, as they fall due or in case of service gratuity as they accrue to each employee.

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

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

*(q) Subsequent Events*

There have been no subsequent events that would have an impact on the financial statements for the year ended 30th June 2013.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(r) Comparatives*

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

**3.0 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 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) Useful Lives of Property, Plant and Equipment*

The directors make estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy (j) above for property and equipment.

The Board reviews the estimated useful lives of plant and equipment at the end of each reporting period. During the financial year, no changes to the useful lives were identified by the directors.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(ii) 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.

*(iii) Provision for Doubtful Debts*

The organization reviews its travel advances 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.

*(iv) 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.

*(v) 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.

#### 4.0 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

**5.0 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
- 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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 2013/14 is 17.08 (FY 2012/13: 14.87)

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Assets	Note	2013/14 KShs '000	2012/13 KShs '000
Bank and Cash Balances	13	894,711	680,384
Receivables	14	2,194	1,863
<b>Total Financial Assets</b>		<b>896,905</b>	<b>682,247</b>
<b>Financial Liabilities</b>			
Payables	16	52,500	45,873
<b>Total Financial Liabilities</b>		<b>52,500</b>	<b>45,873</b>
<b>NET LIQUIDITY</b>		<b>844,404</b>	<b>636,374</b>
<b>LIQUIDITY RATIO</b>		<b>17.08</b>	<b>14.87</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 pursuing additional sources of revenue for which approval has been sought from Ministry of Finance.

*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:-

*(i) Currency Risk*

Currency risk arises primarily from purchasing imported goods and services from overseas or indirectly via local supplies. The currency risk is minimal as cash and cash equivalents held with banks are dominated in Kenya Shillings and there are minimal dealings in foreign currency.

*(ii) Price Risk*

The Board is exposed to the price risk of the fuel levy. The Board collects KShs. 9 per litre of diesel/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; changes thereof require approval by Parliament.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) *Interest Rate Risk*

The Board is exposed to various risks associated with effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises.

The Board closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities on the statement of financial position. The interest rates on call deposits held in financial institutions are fixed and agreed upon on monthly basis. The management is in regular contact with the approved banks in a bid to obtain the best interest rates and therefore able to plan for the resulting income.

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

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
- 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 liability 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 'Audit and Risk Committee', legal function, legal risk policies and procedures and the effective use of internal controls and external lawyers.

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.0 OPERATING REVENUE

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Revenue	503,489	485,609
Interest Earned	5,397	7,637
Other income	301	89,321
<b>Total Operating Revenue</b>	<b>509,187</b>	<b>582,567</b>

Revenue mainly represents the 2% portion from the Kenya Roads Board Fund which is allocated in accordance with Section 6(2) (e) of the Kenya Roads Board Act. Interest is earned on the balances held in the bank accounts. Included in other income is KShs 7.34 million being gains on disposal of fully depreciated assets and KShs. 0.30 million being income from sale of tender documents.

The operating revenue is recognized in accordance with the accounting policy on revenue recognition set out in policy 2 (f) above.

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

7.0 DIRECTORS COSTS

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Emoluments	22,714	27,581
Insurance	379	223
Field Activities	10,747	10,625
Training	8,892	10,163
Board Evaluation/ Induction	1,685	1,045
<b>Total Directors Costs</b>	<b>44,416</b>	<b>49,637</b>

8.0 STAFF COSTS

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Salaries & Wages	140,520	144,422
Pension Costs	16,085	16,374
Training & Development	27,147	24,986
Staff Insurance	13,162	13,190
Other Costs	7,166	4,697
<b>Total Staff Costs</b>	<b>204,080</b>	<b>203,669</b>

The average number of employees during the year was:-

No. of Employees	2013/14	2012/13
Permanent Employees	61	57
Contract Employees	2	6
<b>Total Employees</b>	<b>63</b>	<b>63</b>

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.0 FIELD ACTIVITY COSTS

	2013/14	2012/13
Departments/Sections	KShs '000	KShs '000
Planning & Programming	8,404	8,486
Technical Compliance	9,470	8,497
Finance	8,423	6,488
Human Resource & Administration	7,732	6,233
Legal & Corporate Affairs	6,491	5,485
Infor. Comm. & Tech.	2,483	1,484
Procurement	1,979	1,566
<b>Total Field Activities</b>	<b><u>44,982</u></b>	<b><u>38,239</u></b>

10.0 OTHER OPERATING COSTS

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Advertising & Publicity	13,232	37,958
Audit fees	2,900	2,500
Conferences & Seminars	19,726	17,999
Depreciation	28,741	27,002
Consultancies	78,850	101,775
Rent & Rates	30,256	29,723
Telephone, Postages & Internet	6,510	6,941
Travelling, Vehicle Maintenance & Repairs	13,460	13,070
Other Operating Costs	<u>16,082</u>	<u>14,787</u>
<b>Total Other Operating Costs</b>	<b><u>209,756</u></b>	<b><u>251,755</u></b>

11.0 CORPORATE SOCIAL RESPONSIBILITY

The Board's contribution towards the Corporate Social Responsibility (CSR) amounts to KShs 1.79 million (2012/13: KShs 1.64 million). In FY 2013/14 the Board participated in the 'Standard Chartered Marathon', environment sustainability implementation projects in Taita, and capacity building in HIV/AIDS..

12.0 OPERATING SURPLUS

The operating surplus is arrived at after charging/ (crediting):

	Note	2013/14	2012/13
Particulars		KShs '000	KShs '000
Staff Costs	8	204,080	203,669
Depreciation	15	28,741	27,002
Directors' emoluments	7	22,714	27,581
Auditors remuneration	10	2,900	2,500
Rent & Rates	10	30,256	29,723
Gain on Disposal of Assets	15	(7,343)	(1,068)
Interest earned	6	(5,397)	(7,637)

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13.0 CASH AND CASH EQUIVALENTS

(a) Analysis of bank and cash balances:

Particulars	Note	2013/14	2012/13
		KShs '000	KShs '000
Cash at Bank and in Hand		171,775	167,066
KRB Staff Fund	17(a)	248,683	213,228
Bank Term Deposit	17(b)	474,253	300,090
Cash Imprests and Advances		<u>1,714</u>	<u>618</u>
		<u>896,425</u>	<u>681,002</u>

The Board is not exposed to credit risk on cash and bank balances as they are held with sound financial institutions approved by Central Bank of Kenya. The carrying amounts of the Board's cash and cash equivalents are dominated in Kenya Shillings.

(b) Cash and cash equivalents:

For the 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:

Particulars	Note	2013/14	2012/13
		KShs '000	KShs '000
Bank and Cash Balances	13 (a)	<u>896,425</u>	<u>681,002</u>

14.0 RECEIVABLES

Receivables constitute short term liquid assets which are recoverable within one year.

Particulars	2013/14	2012/13
	KShs '000	KShs '000
Prepayments & Deposits	480	1,245
	<u>480</u>	<u>1,245</u>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Board does not hold any collateral as security. The aged analysis of receivables is as follows:

Particulars	0-3 months	3-12 months	Total
	KShs '000	KShs '000	KShs '000
Deposits & Prepayments	-	480	480
	<u>0</u>	<u>480</u>	<u>480</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15.0 PROPERTY AND EQUIPMENT

	COMPUTER EQUIPMENT	OFFICE EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	TOTAL
Deprn. Rate	33.30%	12.50%	25%	12.50%	
Cost:	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Start of year	38,672	44,858	84,180	55,694	223,404
Disposals	(3,897)	(381)	(15,785)	0	(20,063)
Additions	3,717	163	7,104	5,373	16,357
Total Cost	38,493	44,640	75,499	61,067	219,699
Depreciation:					
Start of year	35,812	23,023	47,166	49,362	155,362
Disposals	(3,897)	(381)	(15,785)	0	(20,063)
For the period	3,336	4,739	17,497	3,168	28,741
Total Depreciation	35,251	27,381	48,878	52,531	164,040
NBV 30 <sup>th</sup> June 2014	3,242	17,260	26,621	8,536	55,659
NBV 30 <sup>th</sup> June 2013	2,861	21,850	37,015	6,332	68,057

The net book value of non-current assets decreased from KShs. 68.05 million in prior period to KShs. 55.65 million in the review period. This is as a result of asset additions amounting to KShs. 16.35 million, net of depreciation charge for the year amounting to KShs. 28.74 million.

Gain on disposal of assets during the year ended 30th June 2014 amounted to KShs. 7.34 million (2012/13: KShs. 1.06 million). These assets had an accumulated depreciation amounting to KShs. 20.06 million.

The Board is of the opinion that the net book values represent the fair value of the equipment.

16.0 PAYABLES

Payables are expected to be settled in KRBs normal operating cycle and within twelve months after the reporting period and are not attached to an unconditional right to defer payment of the liability for at least twelve months after the reporting period.

Provisions and accruals relate to accrued expenses during the year.

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Provisions and accruals	50,096	39,901
Other Payables	2,404	5,972
	<u>52,500</u>	<u>45,873</u>

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The maturity analysis of payables is as follows:

	0-3 months	3-12 months	Total
Particulars	KShs '000	KShs '000	KShs '000
Provisions and accruals	50,096	-	50,096
Other Payables	-	2,404	2,404
	<u>50,096</u>	<u>2,404</u>	<u>52,500</u>

17.0 NET ASSETS

The net assets are made up of designated funds and accumulated reserve which are explained as follows:

17(a) KRB Staff Fund

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Car Loan Staff Fund	53,147	52,834
Mortgage Scheme Fund	<u>195,536</u>	<u>185,394</u>
	<u>248,683</u>	<u>238,228</u>

The Board established independently managed Car Loan and Mortgage Scheme Funds for members of staff. Staff funds increased from KShs. 238.22 million in prior period to KShs. 248.68 million. The growth is represented by KShs. 10.45 million being bank interest earned during the year.

17(b) KRB Capital Fund

The Board established a Capital Fund in FY 2009/10 for the purpose of purchase of office premises.

	2013/14	2012/13
Particulars	KShs '000	KShs '000
KRB Capital Fund	474,253	300,581
	<u>474,253</u>	<u>300,581</u>

The KRB Capital fund increased from KShs.300.58 million in prior period to KShs. 474.25 million. The growth is represented by KShs. 23.67 million being bank interest earned during the year and KShs. 150.0 million being a transfer from KRB Fund.

17(c) Accumulated Surpluses

	2013/14	2012/13
Particulars	KShs '000	KShs '000
Accumulated Surpluses	177,128	165,621
	<u>177,128</u>	<u>165,621</u>

Accumulated surpluses increased from KShs. 165.62 million in prior period to KShs. 177.12 million. Net surplus for the current year amounted to KShs. 11.50 million (FY 2012/13 - KShs. 38.69 million).

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18.0 CASH GENERATED FROM OPERATIONS

Reconciliation of Net Cash Flows from Operating Activities to Net Surplus from Ordinary Activities;

		2013/14	2012/13
	Notes	KShs '000	KShs '000
Net surplus from operating activities	12	11,507	38,690
<i>Adjustments for:</i>			
Depreciation	15	28,741	27,002
Interest Income	6	(5,397)	(7,637)
Gain on disposal of property and equipment	15	(7,343)	(1,068)
<b>Operating income before working capital changes</b>		<b>27,506</b>	<b>56,987</b>
<i>Changes in working capital balances:</i>			
Decrease in receivables		766	3,223
Increase in payables		6,627	1,645
<b>Net cash flows generated from operating activities</b>		<b><u>34,899</u></b>	<b><u>61,855</u></b>

19.0 CONTINGENT ASSETS & LIABILITIES

	2013/14	2012/13
	KShs '000	KShs '000
<b>Guarantees</b>	<b><u>3,393</u></b>	<b><u>3,393</u></b>

a) Guarantees

Guarantees commit the Board to make payments on behalf of the guaranteed in the event of a specific act and carry a certain risk.

The Board has given a guarantee for rent to Kenya Reinsurance Corporation (Kenya Re) for KShs. 2,620,379.50 and KShs 772,219.40 which shall expire on 1<sup>st</sup> February and 1<sup>st</sup> April 2016 respectively.

This guarantee covers the obligation to Kenya Re of three months' rent. The guarantee was issued by the Board's bankers in favour of Kenya Reinsurance Corporation. The Board has entered into counter indemnity with the same bank. The guarantee was issued in the normal course of the business, after the end of the financial year and does not affect the Board's financial position as at the reporting date.

b) Legal matters

The Board is not involved in any 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.

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

**20.0 COMMITMENTS : OPERATING LEASE RENTALS**

Non-cancellable operating lease rentals are payable as follows:

	2013/14	2012/13
	KShs '000	KShs '000
Not later than one year	30,256	27,471
Later than one year and not later than five years	151,278	137,355
	<u>181,534</u>	<u>164,826</u>

The Board has leased office premises under an operating lease. The lease typically runs for 5 years with an option for renewal. Lease payments are increased accordingly to reflect market rentals. The Board does not have an option to purchase the leased asset at the expiry of the lease period. There are no contingent rents recognized in the Statement of Financial Performance.

**21.0 RETIREMENT BENEFITS SCHEME OBLIGATIONS**

The Board operates a defined contribution retirement benefit plan for eligible employees. The assets of the plan are held separately from those of the Board in funds under the control of trustees. The scheme is administered by an independent administration company and is funded by contributions from the Board and employees. The Board's obligations to the staff retirement benefits plan are charged to the Statement of Financial Position as they fall due or, in the case of service gratuity, as they accrue to each employee.

The Board also makes contributions to the statutory defined contribution scheme, National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The Board's obligations under the Scheme are limited to specific contributions legislated from time to time, which are currently at KShs 200 per employee per month.

The total pension expense recognized in the income statement of KShs 16.08 million (FY 2012/13: KShs 16.37 million) represents contributions payable to the plan by the Board at rates specified in the rules of the plan. The expense has been included within the staff pension costs under staff costs.

**22.0 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.

**23.0 CAPITAL COMMITMENTS**

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

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

**24.0 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 and results of its operation as laid out in these financial statements.

**25.0 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

**26.0 CURRENCY**

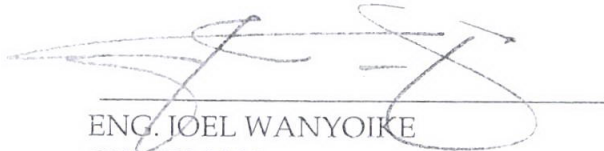
The financial statements are presented in Kenya Shillings (KShs'000).

KENYA ROADS BOARD  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

---

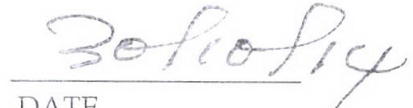
PROGRESS ON FOLLOW UP OF AUDITOR RECOMENDATIONS

All audit issues raised by the external auditor were resolved and concluded during the audit process. There are no audit issues that were carried forward.



---

ENG. JOEL WANYOIKE  
CHAIRMAN



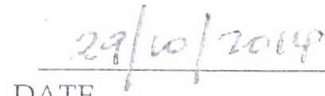
---

DATE



---

ENG. JACOB RUWA  
EXECUTIVE DIRECTOR



---

DATE