

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
STATE DEPARTMENT OF
INFRASTRUCTURE
(VOTE 1091)

FOR THE YEAR ENDED
30 JUNE 2017

MINISTRY OF TRANSPORT,
INFRASTRUCTURE, HOUSING AND URBAN
DEVELOPMENT

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100 NAIROBI

10 MAY 2018

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STATE DEPARTMENT OF INFRASTRUCTURE

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The State Department of Infrastructure was formed in May 2013 through executive order No.2. At cabinet level, the State Department of Infrastructure is represented by the Cabinet Secretary for Ministry of Transport, Infrastructure, Housing and Urban Development who is responsible for the general policy and strategic direction of the State Department of Infrastructure.

(b) Key Management

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

- Central Administrative Services
- Technical Services
- Materials Testing and Research
- Mechanical and Transport Services and
- Training Services
- Fiduciary Management

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Accounting Officer	Eng. John K. Mosonik CBS
2.	Infrastructure Secretary	Eng. Francis Gitau
3.	Director Administration	Dr. Lydia Muriuki

(d) Entity Headquarters

P.O. Box 30260
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Ngong Road
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Entity Contacts

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E-mail: ps@infrastructure.go.ke
Website: www.transport.go.ke

(e) Entity Bankers

Central Bank of Kenya
Haile Selassie
P.O. Box 30084
GPO 00100
Nairobi, Kenya

(f) Independent Auditors

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

(g) Principal Legal Adviser

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

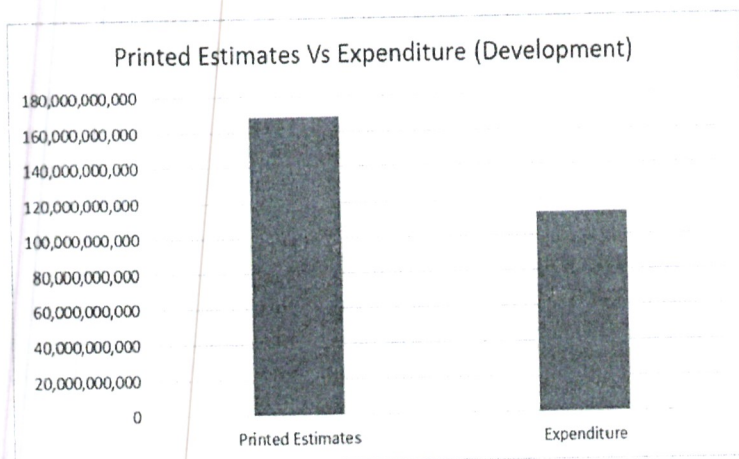
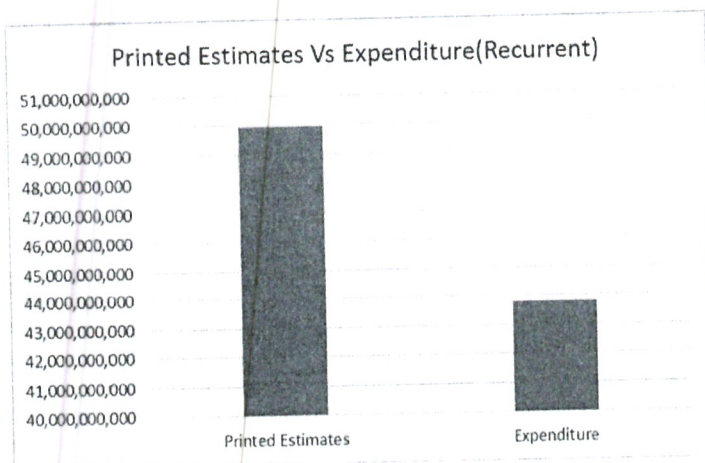
II. FORWARD BY THE CABINET SECRETARY

The State Department of Infrastructure has one programme namely Road Transport whose objective is to develop and manage an effective efficient and secure road network expenditure for the 2016/2017 Financial Year.

Programme Expenditure

The total programme expenditure for the year was as detailed below: -

Description	Budget	Expenditure	Percentage of Expenditure
Recurrent	49,945,690,901	43,802,672,282	88%
Development	168,322,167,294	111,952,328,065	67%
Total for Road Transport Programme	218,267,858,195	155,755,000,347	71%



STATE DEPARTMENT OF INFRASTRUCTURE
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For the year ended June 30, 2017

Expenditure Based on Economic Classification

The expenditure under economic classification for the 2016/2017 Financial Year was as detailed below-

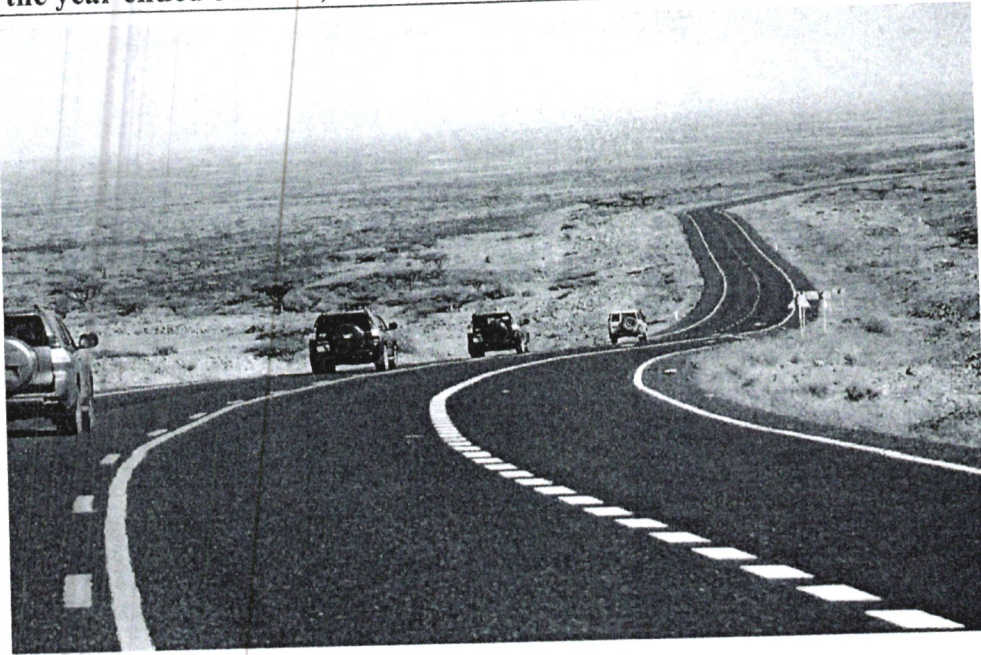
Current Expenditure	Approved Budget Allocation (Kshs)	Expenditure (Kshs)	Percentage of Expenditure
Compensation of Employees	1,108,370,151	1,094,304,817	99%
Use of Goods and Services	297,137,861	269,580,759	91%
Grants & Other Transfers	48,530,872,000	42,431,534,913	87%
Acquisition of Assets	7,692,889	5,688,833	74%
Social Security Benefits	1,618,000	1,562,960	97%
Total Current Expenditure	49,945,690,901	43,802,672,282	88%
Capital Expenditure			
Use of Goods & Services	1,858,500,000	819,696,445	44%
Capital Grants to Govt. Agencies	155,930,967,294	110,604,071,630	71%
Acquisition of Assets	10,532,700,000	528,559,990	5%
Total Capital Expenditure	168,322,167,294	111,952,328,065	67%
Total for Road Programme	218,267,858,195	155,755,000,347	71%

Key Achievements for the State Department of Infrastructure

(a) Regional Connectivity

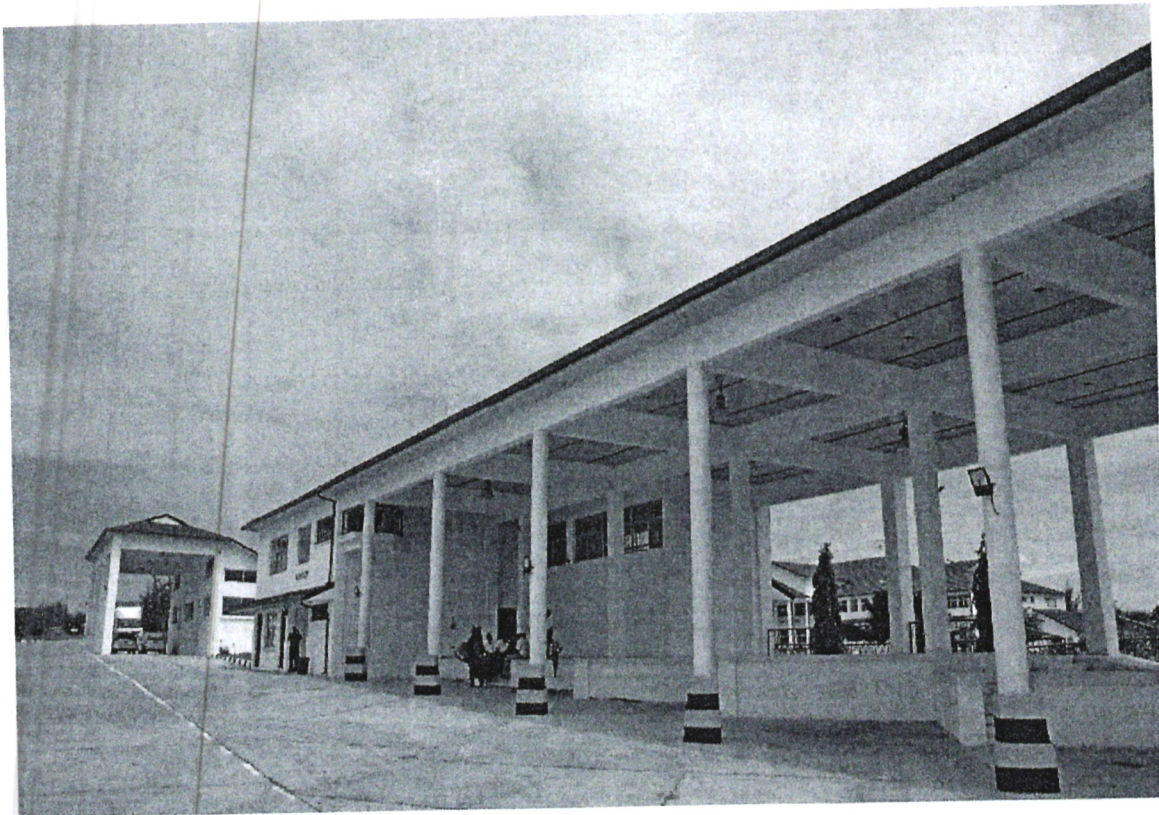
The State Department, with assistance from Development Partners was able to complete several roads with regional connectivity to neighbouring Countries with an aim of boosting trade. Some of the projects completed within the 2016/2017 Financial Year include the following: -

- Mwatate-Taveta, Merille-Marsabit, Marsabit Turbi, Turbi - Moyale



A section of Marsabit – Turbi Road

In addition to regional connectivity roads, the state department has facilitated regional trade and commerce through construction of one stop border posts in Lunga Lunga, Taveta, Busia, Namanga and Malaba



LungaLunga One Stop Border Post

STATE DEPARTMENT OF INFRASTRUCTURE

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Under the regional connectivity, the State Department, with help from Development Partners was also able to award and launch for construction portions totalling **298 Km** of the road to South Sudan including Kainuk Bridge all at a total cost of **Ksh.33 billion**.

(b) Improvement of Core Network

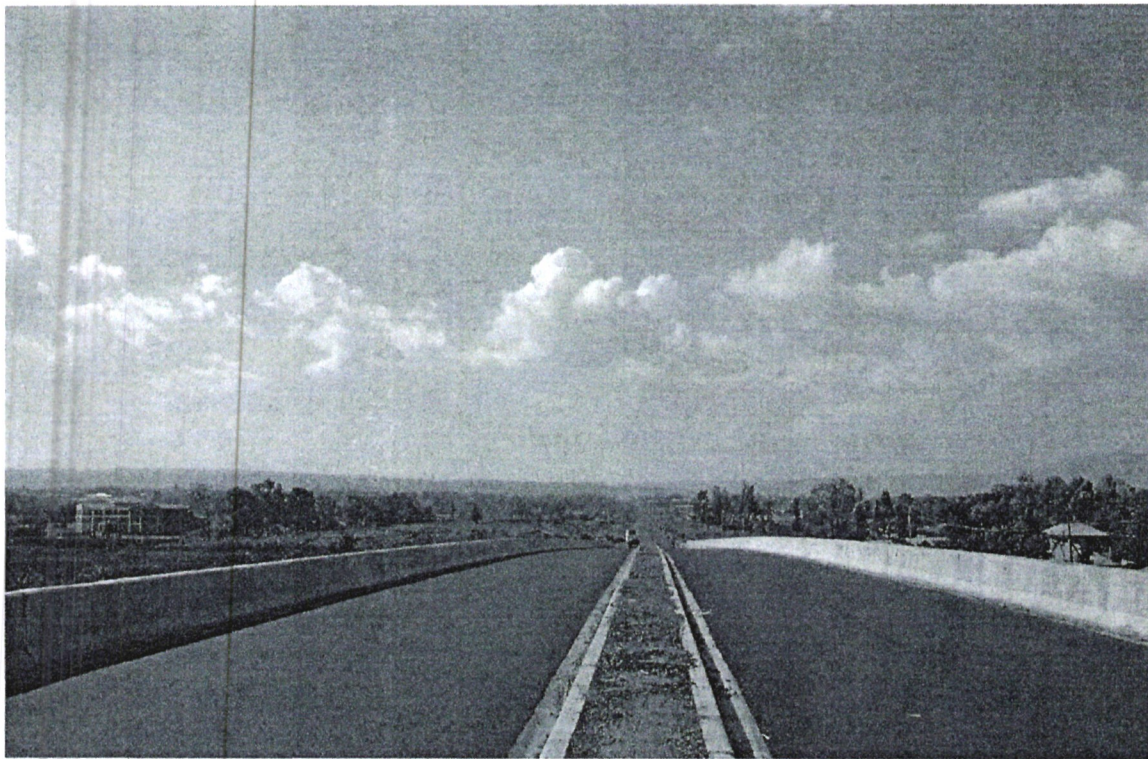
Major roadworks undertaken within the year in improvement of the core network include: -

- Kisumu-Kakamega, Webuye-Kitale, Maji Ya Chumvi-Bachuma Gate

(c) Decongestion

In an effort to decongest major towns, the State Department realized remarkable progress of awarded road projects which included: -

- Nairobi Outering Road, Miritini-Mwashe Road (Ndogo Kundu Bypass) in Mombasa, Meru Bypass and Kisumu Bypass.



A section of Kisumu Bypass

(d) Roads 10,000 Programme

The Government intends to construct 10,000 Km of roads to Bitumen Standards. The programme was started in 2015/2016 Financial Year. As at 30th June 2017, a total of **122 contracts** at a cost of **Ksh.224.68 billion** covering **4993 Kilometres** had been awarded.

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Challenges Facing the Roads Sector and Recommended Way Forward

The State Department faced the following challenges: -

- Inadequate local construction capacity.
- Lack of optimum funding.
- Exorbitant land acquisition costs particularly in urban areas.
- Encroachment of road reserves.
- The State Department, will continue training local Contractors on management at the Ministry's Kenya Institute of Highways and Building Technology (KIHBT) while the internships programme for graduate trainees under Engineers Board of Kenya (EBK) will be pursued to increase the local skills capacity. In order to address, the inadequate budgetary financing, the State Department will slow down uptake of new projects in the medium term and also continue pursuing alternative financing mechanisms, under Public, Private Partnerships (PPP) and Annuity Programme initiative

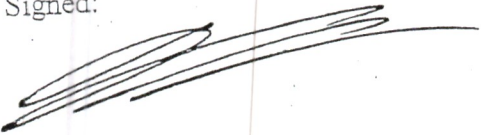
Physical Output Achievement

The State Department of Infrastructure recorded an overachievement of 129% in comparison with the set target for construction, rehabilitation and maintenance of roads as detailed below: -

Roads achievement for 2016/17 FY

Core Mandate/Functions	Target in KM	Achievement KM	% achievement
Construction of roads to decongest cities and urban areas	45	54.09	120.2%
Construction of roads	124	163.9	132.18%
Reconstruction and Rehabilitation of roads	44	71.3	162.05%
Roads 10, 000 Programme	365	516.43	141.49%
Maintenance of Roads	35,074	49,474.55	141.06%
Annuity Programme/PPP	100%	90%	90%
Designs of Roads and bridges	7	9	128.57%

Signed:


James Macharia, EGH
CABINET SECRETARY

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

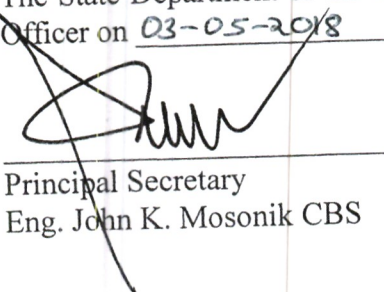
The Accounting Officer in charge of the State Department of Infrastructure is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Accounting Officer in charge of the State Department of Infrastructure accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the State Department of Infrastructure financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The Accounting Officer charge of the State Department of Infrastructure further confirms the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the State Department of Infrastructure confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The State Department of Infrastructure financial statements were approved and signed by the Accounting Officer on 03-05-2018.


Principal Secretary
Eng. John K. Mosonik CBS


Senior Assistant Accountant General
CPA Nemwel Moturi Motanya
ICPAK Member Number: 2367

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT OF INFRASTRUCTURE (VOTE 1091) FOR THE YEAR ENDED 30 JUNE 2017 - MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING AND URBAN DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of State Department of Infrastructure (Vote 1091) set out on pages 12 to 29, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, statements of appropriation: recurrent and development combined and budget execution by programmes and sub-programs for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the State Department of Infrastructure as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

In addition, as required under Article 229 (6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Inaccuracies in the Financial Statements

1.1 Variances between the Financial Statements and the Trial Balance

A comparison between the financial statements and the supporting trial balance revealed total positive variances of Kshs.120,591,704,974 and negative variances totaling to Kshs.224,059,394,058 which were not explained or reconciled as shown hereunder:

Report of the Auditor-General on the Financial Statements of State Department of Infrastructure (Vote 1091) for the Year Ended 30 June 2017 - Ministry of Transport, Infrastructure, Housing and Urban Development

Component	Financial/ Statements Balance (a)	Trial Balance (b)	Variance (a-b)	Audited Amounts
Positive Variances	Kshs.	Kshs	Kshs	Kshs
Transfer from other Govt. Units	42,431,534,913	40,762,534,913	1,669,000,000	42,431,534,913
Transfer to other Govt. agencies	42,933,784,911	39,267,059,530	3,666,725,381	42,933,784,911
Development bank accounts	1,808,362,271	-111,547,311,279	113,355,673,550	1,808,362,271
Deposits items	214,648,553	184,793,689	29,854,864	0
imprests	1,523,889	-5,315,546	6,839,435	1,523,889
Suspense & clearance acc.	1,215,183,092	-648,428,652	1,863,611,744	0
Total	88,605,037,629	-31,986,667,345	120,591,704,974	87,175,205,984
Negative Variances				
Deposit bank accounts	214,648,573	269,698,287	-55,049,714	268,254,087
UNICEF programme	0	64,477,959	-64,477,959	0
Ministerial-Agency	0	16,410,340	-16,410,340	0
Other debtors	0	14,341,689	-14,341,689	0
Debtors & advances	146,651	1,184,653	-1,038,002	146,651
Advance-Govt.	0	3,700	-3,700	0
Cash in hand	1,401,108	205,068,436,525	-205,067,035,417	1,401,108
Recurrent bank account	50,583,783	18,401,926,420	-18,351,342,637	50,583,792
Other liabilities	0	6,711,558	-6,711,558	0
Salary deductions	0	37,247,687	-37,247,687	0
Withholding taxes	0	1,604,102	-1,604,102	0
General provisions	0	444,131,253	-444,131,253	0
Total	266,780,115	224,326,174,173	-224,059,394,058	320,385,638

The accuracy and correctness of the Department's financial statements for the year ended 30 June 2017 could, therefore, not be confirmed.

1.2 In addition, the suspense clearance account balance of Kshs.1,215,183,092 has not been investigated and it is not clear the effects the figure may have on the financial statements.

1.2 Difference between the Financial Statements and IFMIS Generated Report

The financial statements submitted for audit also differed with IFMIS generated Report as shown below:

Component	Financial statements (Kshs)	IFMIS report (Kshs)	Difference (Kshs)
Receipts	157,650,386,160	155,981,386,160	1,669,000,000
Payments	155,755,000,347	152,088,585,415	3,666,414,932
Financial Assets	3,291,849,366	118,012,641,435	(114,720,792,069)
Financial Liabilities	214,648,553	113,868,266,672	(113,653,618,119)
Opening Balance	1,257,006,515	227,008,298	1,029,998,217

The above differences between the two sets of records were not explained or reconciled.

2.0 Statement of Financial Assets and Liabilities

The statement of financial assets and liabilities reflects a net financial assets balance of Kshs.3,077,200,813. A review of the statement and the supporting schedules for the balances therein revealed the following discrepancies:

2.1 Accounts Receivables and Suspense Account

The statement of financial assets and liabilities shows receivables balance of Kshs.1,216,853,632 as at 30 June 2017. Included in the balance is district suspense of Kshs.110,922,927 and amount of Kshs.1,104,260,165 described as clearance accounts which were not supported. In addition, management has not carried out any investigations on the cause of the suspense and clearance accounts.

In the circumstances, the correctness and the accuracy of receivables balance of Kshs.1,216,853,632 as at 30 June 2017 could therefore not be confirmed.

2.2 Accounts Payables - Deposits and Retention

The statement of financial assets and liabilities further shows accounts payables balance of Kshs.214,648,553 which is disclosed in note No. 13 as deposits. The schedule in support of this balance was not availed for audit.

Consequently, the validity and accuracy of the accounts payable balance of Kshs.214,648,553 could not be confirmed.

3.0 Pending Accounts Payable

Note No.17.1 in the financial statements reflects pending accounts payable for the year of Kshs.2,501,700. This amount differs with the support schedule availed for audit verification which had a balance of Kshs.5,013,941.85. The resultant difference of Kshs.2,365,591.85 was not explained, or reconciled. Further, had the pending accounts payable been paid, the surplus reported in the statement of receipts and payments of Kshs.1,895,385,813 would have been reduced by the same amount.

4.0 Proposed Replacement of 3 No. Lifts at Works Building

The contract for above works was awarded to Elevonic Lift Services Limited on 30 October, 2016 at a contract sum of Kshs.34,876,995.50. The works commenced on 6 January 2017 and were to be completed by 5 January 2018. A review of the procurement process and project implementation records revealed the following matters:

4.1 Tender Evaluation

Lack of Clarity in Technical criteria

The first item in technical evaluation criteria was 'compliance with technical specification' which had a total of 40 marks. A review of the items under this heading showed there was lack of clarity on the technical specifications as follows:

- (a) Duplication was noted in item No.s 7.0 and 14.0 where in 7.0 the criterion was 'complete F12 form' with a score of 5 marks while in 14.0 it read 'Form 12 complete' 3 Marks unsigned 1 Mark. It was not clear why this repetition was deemed necessary and why different score was allocated on the same item.
- (b) There was vagueness in some items e.g. 1.0, 2.0, 4.0, 7.0, 8.0, 13.0 &14.0, where some bidders got fraction of total marks without explaining how the fractions were arrived at.

- (c) Item 4.0 required a lift rating of 1000kg/13 persons. The maximum score under this item was 3 marks but the winning bidder, Elevonic Lift services, got 1 out of three marks. This means that the bidder did not meet the requisite criteria for the lifts required. It was not clear how the bidder ended up being awarded while the lift capacity did not fit the specifications.
- (d) The bid document for the winning bidder availed for audit did not have attachments. It was therefore not possible to confirm if they were fairly evaluated.
- (e) Paragraph 16(5) of legal notice 106 of June 2013 requires that each member of the evaluation committee evaluate independently prior to sharing his scores with the other members. Paragraph 16(8) further states that the evaluation report shall include scores awarded by each evaluator. Individual scores sheets were not availed for verification. It was therefore not possible to confirm if evaluation was done in conformity with above provisions of the procurement Act.

4.2 Award Price above Engineers Estimate

The contract was awarded at a contract price of Kshs.34,876,995.50 while the engineer's estimate was Kshs.28,574,500. The award price was therefore Kshs.6,302,495.5 or 22% more than the engineer's estimate. It was also observed that the awarded bidder was the highest of the five bids submitted. The second ranked bidder in technical evaluation stage, MITS Electrical had quoted an amount of Kshs. 20,995,000 which was Kshs.13,881,995 lower than the awarded price and no satisfactory explanation was provided.

4.3 Notification to unsuccessful bidders

Paragraph 19(2) of legal notice 106 requires the procuring entity to notify unsuccessful tenderers in writing and in the same letter provide reasons as to why they were not successful. A review of notification to the unsuccessful bidders dated 31 October 2016 shows that the management did not give the reasons as to why each bidder was unsuccessful as required.

In the circumstances it has not been possible to confirm that the Department obtained value for money in incurring Kshs.34,876,995.50.

5.0 Unresolved Audit Matters from the previous years

The following matters in 2015/2016 audit report remained unresolved as at 30 June 2017.

5.1 Inaccuracies in the Financial Statements

Examination of the financial statements presented for audit revealed inaccuracies as outlined below:

5.1.1 Statement of Assets

a) Cash and Cash Equivalent

The statement of Assets reflects a bank balance of Kshs.327,071,125. However, the supporting cashbooks for this balance reflect a balance of Kshs.300,800,231 resulting to unexplained net difference of Kshs.26,270,894 as summarized below:

Account No.	Account Name	Statements of Assets	Cash Book	Difference
1000209925	Recurrent	519,666	27,650,575	-27,130,909
1000209844	Development	72,925,351	301	72,925,050
1000212535	Deposits	250,713,023	240,597,922	10,115,101
1000231157	KTSSP Project	2,213,085	3,296,956	-1,083,871
1138520586	NUTRIP project	0	28,554,477	-28,554,477
	CBK-165	700,000	700,000	0
TOTAL		327,071,125	300,800,231	26,270,894

b) Accounts Payables - Deposits and Retentions

The statement of assets and liabilities reflects an accounts payables balance of Kshs.250,713,023.00 which is however disclosed under Note 13 to the financial statements as deposits. A review of the balance and the related records revealed the following anomalies:

(i) Lack of Supporting Documents

Management did not avail details on the composition of Kshs.250,713,023 reflected as payables as at 30 June 2016. Further, examination of the deposit cash book showed that it had a balance of Kshs.240,597,922.15 as at 30 June 2016 resulting to a variance of Kshs.10,115,100.85.

(ii) Un-explained reduction of payables

A comparison of payables balance for the year and that of the previous year showed that the payable balance reduced from Kshs.33,212,868,865 in 2014/15 to Kshs.250,713,023 in 2015/16 financial year representing a reduction by Kshs.32,962,155,842. However, the change in the balance was not explained.

c) Account Receivables

The statement of assets and liabilities for the year reflects a balance of Kshs.1,180,648,413 in respect of receivables which are analyzed in Note 12 to the financial statements as follows:

Item	Amount
Salary Advance	740,359
Government imprests	506,139
District Suspense	75,141,750
Clearance accounts	1,104,260,165
Total	1,180,648,413

Review of supporting documents and schedules revealed the following matters:

i. Clearance Accounts

Included in accounts receivables balance of Kshs.1,180,648,413 is an amount of Kshs.1,104,260,165 described as clearance accounts. The management did not provide supporting documents for the total balance of Kshs.1,104,260,165.

ii. Government Imprest

The financial statements shows a figure of Kshs.506,139 on Government imprests. However, examination of the imprest register and schedules in support of the financial statements, revealed that the imprest amount outstanding at the close of the year was Kshs.972,569. The outstanding imprest balance is therefore understated by Kshs.466,430.

In the circumstances, it has not been possible to confirm the accuracy of the Government imprests' balance.

5.1.2 Bank Reconciliation Statements

A review of the bank reconciliation statements availed in support of the bank balance of Kshs.327,071,125 as at 30 June 2016, revealed the following unsatisfactory matters:

a) Recurrent Bank Account

(i) Stale Cheques

The reconciliation statement for recurrent bank account shows Kshs.3,524,991,742.05 as payments in cash book not recorded in bank statement. Included in this amount is a total of Kshs.20,410,249.60 comprising of cheques which have been outstanding for more than six months and are unlikely to be cleared by the bank. Management did not explain why these payments had remained outstanding for so long.

(ii) Receipts in Bank Statement Not Recorded in Cash Book

The reconciliation statement also shows an amount of Kshs.11,045,760.05 as receipts in bank statement not recorded in cash book. However, no information or documents were availed to confirm the nature of these receipts and any efforts to resolve the outstanding balances.

(iii) Payment in Bank statements not recorded in Cash Book

The bank reconciliation statement shows an amount of Kshs.36,559,281.05 as payments in the bank statement not yet recorded in the cash book. Included in this amount are items totaling Kshs.19,543,470.90 which have been outstanding for more than six Months. Management has not provided information on these have not been resolved.

(iv) Receipts in Cash Book not recorded in Bank Statement

The statement also shows a balance of Kshs.83,050,077.85 as receipts in cash book not recorded in the bank statement which includes a total of Kshs.365,425.15 described as cash book under casts. Cash book adjustments are by nature not reconciling items since they are passed to correct errors. Therefore, the validity of this balance could not be confirmed.

b) Development Bank Account

The bank reconciliation statement for the above account shows amount of Kshs.5,955,908,818.25 as payment in cashbook not yet recorded in the bank statement. Review of the supporting schedule for this balance showed an item described as Treasury

unspent balance amounting to Kshs.72,925,350.75 which was, however, not analyzed. The balance above also includes an amount of Kshs.247,500 dated 29 June 2016 described as cashbook under-cast which should not appear as a reconciling item.

In the circumstances the accuracy and correctness of the bank balance of Kshs.327,071,125 as at 30 June 2016 could not be confirmed.

5.1.3 Pending Bills

Note 15 to the financial statements shows that the Department had outstanding bills totaling Kshs.122,496,227.35 as at 30 June 2016. The management did not explain the reason for committing the Department's resources in excess of the funds available.

5.2 Inaccuracies in the financial statements for the year ended 30 June 2015

The financial statements for the year ended 30 June 2015 had the following inaccuracies:

5.2.1 Accounts Receivables

Included in the receivables balance of negative Kshs.41,992,571,850.20 was a credit (Negative) balance of Kshs.41,994,231,622.05 as summarized below whose details or supporting documents were not availed for audit:

Suspense & clearance	12,326,945.80
Differences	<u>-42,006,558,567.85</u>
	<u>-41,994,231,622.05</u>

As a result of this discrepancy, it was not possible to confirm the accuracy and correctness of account receivables of negative Kshs.41,992,571,850.20 as at 30 June 2015 and why receivables had a credit (negative) balance.

5.2.2 Accounts Payable and Deposits

The statement of assets and liabilities disclosed an account payables balance of Kshs.33,212,868,865 made up of deposits, other liabilities and system required liabilities of Kshs.264,258,608.35, negative Kshs.30,827,757.10 and Kshs.32,979,438,013.75 respectively. The Accounting Officer explained that the deposit amount of Kshs.264,258,608.35 represents the bank balance on the deposit account. However, the Deposit Account cash book balance as at 30 June 2015 was Kshs.265,118,800.30 resulting to unexplained difference of Kshs.860,191.95.

Further, the negative Kshs.30,827,757.10 representing other liabilities and Kshs.32,979,438,013.75 representing system required liabilities were not analyzed. In addition, the Department had not disclosed pending bills as at 30 June 2015 for recurrent and development vote amounting to Kshs.57,651,140.05 and Kshs.30,265,963.30 for the two accounts respectively.

In the circumstances, the accuracy and correctness of the accounts payable balance of Kshs.33,212,868,865 as at 30 June 2015 could not be confirmed.

5.2.3 Cash and Cash Equivalents

The statement also reflected total cash and cash equivalents of Kshs.75,237,260,707.15 as at 30 June 2015 while all supporting records and documents showed total cash and cash equivalents balance of Kshs.389,670,252.20. The variance of Kshs.74,847,590,454.95 had not been reconciled or explained and therefore the accuracy of total cash and cash equivalents was doubtful.

5.2.4 Bank Balances

Included in total cash and cash equivalents balance of Kshs.75,237,260,707.15 was bank a balance of Kshs.267,935,813.90 composed of Kshs.266,632,602.30 and Kshs.1,303,211.60 for deposits and Kenya Transport Sector Support Project (KTSSP) bank balance respectively. However, the cash books and the supporting bank reconciliations reflected a bank balance of Kshs.389,670,252.20. Apparently the bank balance of Kshs.267,935,813.90 excluded Kshs.121,139,157.70 and Kshs.2,109,082.60 in respect of recurrent and development bank balance respectively. In addition, the deposit account cash book showed a balance of Kshs.265,118,800.30 resulting to a difference of Kshs.1,513,802. The bank balance was therefore understated by Kshs.123,248,240.30.

5.2.5 Cash Balance

The statement of assets and liabilities further reflected cash balance of Kshs.74,969,324,893.25 which was, however, not analyzed. In addition, the board of survey confirmed that there was no cash balance as at 30 June 2015.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.75,237,260,707.15 as at 30 June 2015 could not be confirmed.

5.2.6 Net Increase in Cash and Cash Equivalents

The cash flow statement for the year ended 30 June 2015 showed net increase in cash and cash equivalents of Kshs.8,747,882,993.25. However, addition of cash flows from all activities revealed that there was actually a net decrease in cash and cash equivalents of the same amount.

5.2.7 Cash and Cash Equivalents at the end of the year

The statement of cash flow also reflected Kshs.8,747,882,993.25 as balance of cash and cash equivalents as at 30 June 2015, while the statement of financial position reflected Kshs.75,237,260,707.15 despite the fact that the audited cash and cash equivalent was Kshs.389,670,252.20. The discrepancies between the above three similar accounts was not been explained or reconciled.

5.2.8 Transfers to other Government Agencies

The statement of receipts and payments for the year ended 30 June 2015 showed an amount of Kshs.84,478,361,621.50 on account of transfer to other governments agencies

comprising Kshs.23,409,273,292.15 and Kshs.61,069,088,329.35 relating to recurrent vote and development vote respectively.

However, examination of the supporting documents for development vote showed a balance of Kshs.61,614,881,790.70 as follows:-

Journal vouchers (Direct payment)	29,818,825,898.60
Payment vouchers-	<u>31,796,055,892.10</u>
Total	<u>61,614,881,790.70</u>

The variance of Kshs.545,793,461.35 between the balance of Kshs.61,069,088,329 shown in the financial statements and that of Kshs.61,614,881,740 reflected in the supporting documents was not explained.

5.2.9 Transfer From other Government Entities

The statement of receipts and payments reflected an amount of Kshs.22,446,501,146 as having been received from Kenya Roads Board. However, review of the records from Kenya Roads Board showed that amount of Kshs.25,036,325,644 was remitted to the Ministry for onward disbursement to Roads Authorities, resulting in unaccounted for transfers of Kshs.2,589,824,498.

5.2.9 Appropriation In Aid Collected from Regional Offices

During the year 2014/2015, it was observed that the regional offices of Materials Department collected AIA amounting to Kshs.14,568,050 which was not disclosed in the statement of receipts and payments for the year. Management did not provide a satisfactory explanation on whereabouts of these funds.

5.2.10 Proceeds from Foreign Borrowing

The statement of receipts and payments further reflects Kshs.24,746,958,749.65 in respect of proceeds from foreign borrowing, which differed from the total of journal entries of Kshs.27,541,044,073.02 resulting to understatement of Kshs.2,794,085,323.40.

The correctness and accuracy of the statement of receipts and payments for the year ended 30 June 2015 could not be confirmed.

5.2.11 Proceeds from Foreign Grants

The statement of receipts and payments showed an amount of Kshs.5,030,114,823.45 as receipts from foreign grant. However, the supporting schedule and the ledger showed an amount of Kshs.3,861,475,171 resulting to unexplained difference of Kshs.1,168,639,652.45.

5.2.12 Consultancy Services for Prospecting and Mapping of Road Construction Materials Sources

The Department entered into two consultancy contracts of Kshs.78,340,020 and Kshs.51,500,125.60 on 9 May 2014 for hardstone materials and natural materials respectively as follows:

- (i) Contract No. CME/002/Rd/2013-2014 for consultancy services for prospecting and mapping sources of hardstone materials for road construction in Embu, Meru, Kitui, Machakos, Makueni and Tharaka Nithi Counties was awarded to C. M. Kamau and Associates on 9 May 2014 for a contract sum of Kshs.78,340,020. The contract was to commence on 26 May 2014 for fifteen months.
- (ii) Another Contract No. CME/001/Rd/2013-2014 for consultancy services for prospecting and mapping sources of natural materials/gravel for road construction in Machakos, Makueni and Tharaka Nithi Counties was awarded to Norken (I) Ltd on 9 May 2014 for a contract sum of Kshs.51,500,125.60. The contract was also to commence on 26 May 2014 and last for fifteen months.

Examination of development vote estimates showed that the two projects were not allocated any funds in the financial year 2014-15. It was noted that the two consultancies covered the same geographical area. It was not explained why they were not packaged as one consultancy contract.

(iii) Value for Money

There was no evidence on how the results of prospecting and mapping under the two consultancies were applied and whether the public obtained value for money.

5.2.13 Contract No.490/04 (Road 2000) Improvement and Graveling of Athi Market Kigucha Market Road D482

On 30 September 2002, the Ministry entered into a contract with Transnational Construction & Materials at a contract sum of Kshs.20,940,180 for improvement and graveling of Road D482. The Contract commenced on 25 October 2002 with completion date of 24 April 2003 (6months).

Observations

- i. The contract was terminated on 22 February 2005 more than two years after the deadline of contract period of 24 April 2003.
- ii. No extension of time had been granted to the contractor despite several requests and no liquidated damages were demanded from the contractor.
- iii. Initial contract sum was Kshs.20,940,180 but the contractor was to be paid a total of Kshs.63,655,268.97 made up of an arbitration award of Kshs.55,235,909.97 and the sum of Kshs.8,419,359 paid before the contract was terminated.
- iv. The contractor did not complete the road works as the contract was terminated.
- v. The arbitrator in awarding the damages noted that the termination of the project did not follow the procedures laid out in the contract agreement.

- vi. A review of the issue during the year under audit revealed that as at 30 June 2017, the principal amount of Kshs.55,235,909.97 had been fully settled by the Department as follows:

DATE	Payment Voucher Number	Amount
28.10.2013	001267	3,300,000
17.01.2014	002389	3,300,000
03.07.2014	FT 14184J40N2	12,326,000
15.09.2014	000241	11,000,000
27.01.2015	002124	10,500,000
22.10.2015	002022	10,100,000
30.06.2015	004529	3,000,000
10.03.2017	001187	1,709,909.97
Total		55,235,909.97

A review of the legal file in the year further showed that on 19 December, 2016 the Contractor wrote to the Solicitor General vide a letter Ref.No:TCM/MRUB/90B claiming accrued interest of Kshs.17,721,426.90 for late settlement of above amount. This will further increase the costs related to above contract.

- (i) In addition, as the initial contract sum was Kshs.20,940,180, the extra expenditure of Kshs.42,715,088.97 is a nugatory expenditure and should not have been a charge to public funds.

5.2.14 Unresolved Issues Relating to Deposits Account

(i) Unresolved issues for Deposits Account for 2012/13 and earlier years

As reported in the previous year, the Statement of Assets and Liabilities for deposits for the former Ministry of Roads reflected the following debit and credit balances relating to 2012/2013 and earlier years which besides being un-cleared for a long time had remained unanalyzed and unsupported as at 30 June 2016.

Account

Debits	Amount (Kshs)
Recurrent AIA	(184,700.00)
General Suspense	255,702,281.45
District Deposit Bank	251,227.00
Provincial suspense account	22,250,045.75
R/D cheques	38,487.75
Fuel Levy	30,004,897.50
Credits	
Stale cheques	719,064.00
Revenue deposit	52,409,214.20
Mechanical Branch Suspense	687,268,445.25

- (ii) The statement as at 30 June 2013 also reflected a balance of Kshs.1,192,886,514.85 on 10% retention money composed of a balance of Kshs.1,438,823,266.35, relating to 2011/2012 and earlier years and movement during the year of negative Kshs.245,936,751.50. However, out of the Kshs.1,438,823,266.35 reported in 2011/2012 an amount of Kshs.1,431,064,185.67 relating to 2009/2010 could not be verified from the retention money register since serial numbers of the receipts accounting for the retention moneys were not indicated. Further, as reported in 2011/12 an amount of Kshs.11,822,080.15 released to a contractor was supported by receipts not issued for use in the Ministry's cash documents. The position remains unresolved to date.
- (iii) Schedule supporting the retention money closing balance of Kshs.1,192,886,514.85 reflected debit balances under various accounts amounting to Kshs.233,311,537.07 implying irregular over-refunding of retention money. One contractor was paid Kshs.17,213,703.00 when the account already had a debit balance of Kshs.59,940,016.67 resulting in an overpayment of Kshs.77,153,719.67. Payment voucher no. 008618 for the amount of Kshs.17,213,703.00 paid was still not availed for audit review as at 30 June 2017.
- (iv) Debit balances reflected in the 2011/2012 statement of Kshs.2,181,697,190.45 differed with the balance of Kshs.10,288,638,370.05 shown in the Ministry's trial balance as at 30 June 2012 by Kshs.8,106,941,179.60. Similarly, the credit balances totaling Kshs.2,181,697,190.45 differed with the trial balance totals of Kshs.3,335,760,495.65 by Kshs.1,154,063,305.20. Additionally, several accounts totaling Kshs.72,528,192.23 and credit balances of Kshs.16,549,108,680.20 shown in the trial balance were excluded from the statement of assets and liabilities as at 30 June 2012.

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

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current year. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Department's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

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

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

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

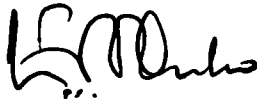
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of

my audit report. However, future events or conditions may cause the Department to cease to continue offering services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Department to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

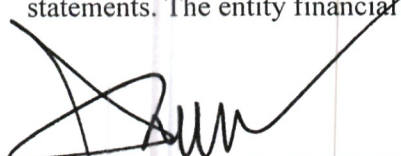
6 July 2018


STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2016-2017 Kshs	2015-2016 Kshs
RECEIPTS			
Proceeds from Domestic and Foreign Grants	1	2,638,922,037	4,775,942,970
Exchequer releases	2	90,670,266,810	56,558,359,357
Transfers from Other Government Entities	3	42,431,534,913	31,787,736,239
Proceeds from Foreign Borrowings	4	21,865,452,773	16,001,795,419
Other Receipts	5	44,209,627	931,591,746
TOTAL RECEIPTS		157,650,386,160	110,055,425,731
PAYMENTS			
Compensation of Employees	6	1,094,299,070	1,131,288,969
Use of goods and services	7	1,089,277,204	263,771,159
Transfers to Other Government Units	8	153,035,606,543	107,314,230,948
Social Security Benefits	9	1,562,960	5,948,026
Acquisition of Assets	10	534,254,571	115,000,106
TOTAL PAYMENTS		155,755,000,347	108,830,239,208
SURPLUS/DEFICIT		1,895,385,813	1,225,186,523

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 03-05-2018 and signed by:


 Principal Secretary
 Eng. John K. Mosonik CBS

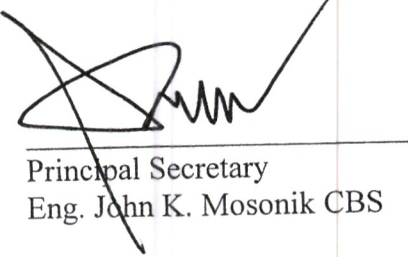

 Senior Assistant Accountant General
 CPA Nemwel Moturi Motanya
 ICPAK Member Number: 2367

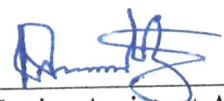
STATE DEPARTMENT OF INFRASTRUCTURE
 Reports and Financial Statements
 For the year ended June 30, 2017

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2016-2017 Kshs	2015-2016 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	11A	2,073,594,626	327,071,125
Cash Balances	11B	1,401,108	-
Total Cash and cash equivalent		<u>2,074,995,734</u>	<u>327,071,125</u>
Accounts receivables – Outstanding Imprests	12	1,216,853,632	1,180,648,413
TOTAL FINANCIAL ASSETS		<u>3,291,849,366</u>	<u>1,507,719,538</u>
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions	13	214,648,553	250,713,023
NET FINANCIAL ASSETS		3,077,200,813	1,257,006,515
REPRESENTED BY			
Fund balance b/fwd	14	1,257,006,515	31,819,992
Surplus for the year		1,895,385,813	1,225,186,523
Prior year adjustments	15	(75,191,515)	
NET FINANCIAL POSITION		<u>3,077,200,813</u>	<u>1,257,006,515</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 03-05-2018 and signed by:


 Principal Secretary
 Eng. John K. Mosonik CBS

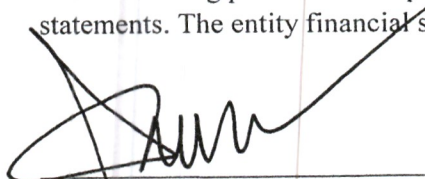

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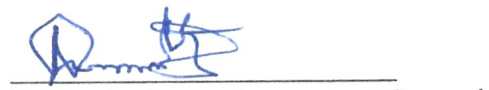
STATE DEPARTMENT OF INFRASTRUCTURE
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For the year ended June 30, 2017

VII. STATEMENT OF CASH FLOWS

		2016-2017 Kshs	2015-2016 Kshs
Receipts for operating income			
Proceeds from Domestic and Foreign Grants	1	2,638,922,037	4,775,942,970
Exchequer Releases	2	90,670,266,810	56,558,359,357
Transfers from Other Government Entities	3	42,431,534,913	31,787,736,239
Other Revenues	5	44,209,627	931,591,746
Payments for operating expenses			
Compensation of Employees	6	1,094,299,070	1,131,288,969
Use of goods and services	7	1,089,277,204	263,771,159
Transfers to Other Government Units	8	153,035,606,543	107,314,230,948
Social Security Benefits	9	1,562,960	5,948,026
Adjusted for:			
Changes in Receivables		(36,205,219)	(43,173,220,264)
Changes in Payables		(36,064,470)	(32,962,155,842)
Adjustments during the year	15	(75,191,515)	-
Net cash flow from operating activities		(19,583,273,593)	(90,796,984,895)
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	10	(534,254,571)	(115,000,106)
Net cash flows from Investing Activities		(534,254,571)	(115,000,106)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	4	21,865,452,773	16,001,795,419
Net cash flow from financing activities		21,865,452,773	16,001,795,419
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENT		1,747,924,609	(74,910,189,582)
Cash and cash equivalent at BEGINNING of the year	11A+B	327,071,125	75,237,260,707
Cash and cash equivalent at END of the year		2,074,995,734	327,071,125

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 03-05-2018 and signed by:


 Principal Secretary
 Eng. John K. Mosonik CBS


 Senior Assistant Accountant General
 CPA Nemwel Moturi Motanya
 ICPAK Member Number: 2367

STATE DEPARTMENT OF INFRASTRUCTURE

Reports and Financial Statements

For the year ended June 30, 2017

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utiliza tion f=d/c %
RECEIPTS						
Tax Receipts	459,228,000	9,372,000	468,600,000	0	468,600,000	0%
Proceeds from Domestic and Foreign Grants	8,050,000,000	250,000,000	8,300,000,000	2,638,922,037	5,661,077,963	32%
Exchequer releases	86,621,285,190	10,303,514,081	96,924,799,271	90,670,266,810	6,254,532,461	94%
Transfers from Other Government Entities	38,418,772,000	21,122,000,000	59,540,772,000	42,431,534,913	17,109,237,087	71%
Proceeds from Foreign Borrowings	42,179,582,851	9,828,104,073	52,007,686,924	21,865,452,773	30,142,234,151	42%
Other Receipts	1,022,000,000	4,000,000	1,026,000,000	44,209,627	981,790,373	4%
Total Receipts	176,750,868,041	41,516,990,154	218,267,858,195	157,650,386,160	60,875,223,051	72%
PAYMENTS						
Compensation of Employees	1,264,533,520	(156,163,369)	1,108,370,151	1,094,299,070	14,071,081	99%
Use of goods and services	2,321,517,958	(165,880,097)	2,155,637,861	1,089,277,204	1,066,360,657	51%
Transfers to Other Government Units	162,341,582,851	42,120,256,443	204,461,839,294	153,035,606,543	51,426,232,751	75%
Social Security Benefits	1,618,000	0	1,618,000	1,562,960	55,040	97%
Acquisition of Assets	10,821,615,712	(281,222,823)	10,540,392,889	534,254,571	10,006,138,318	5%
Total Payments	176,750,868,041	41,516,990,154	218,267,858,195	155,755,000,348	62,512,857,847	71%
Surplus/(Deficit)		0	0	1,895,385,812	(1,895,385,812)	

The entity financial statements were approved on 03-05-2018 and signed by:



Senior Assistant Accountant General
CPA Nemwel Moturi Motanya
ICPAK Member Number: 2367



Principal Secretary
Eng. John K. Mosonik CBS

STATE DEPARTMENT OF INFRASTRUCTURE

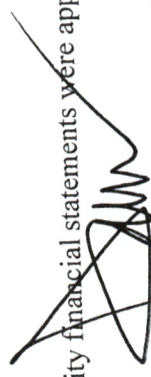
Reports and Financial Statements


For the year ended June 30, 2017

IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization n f=d/c %
RECEIPTS						
Tax Receipts	459,228,000	9,372,000	468,600,000	-	468,600,000	0%
Proceeds from Domestic and Foreign Grants	0	-	0	-	24,668,901	99%
Exchequer releases	1,839,085,190	102,233,711	1,941,318,901	1,916,650,000		
Transfers from Other Government Entities	25,718,772,000	20,791,000,000	46,509,772,000	42,431,534,913	4,078,237,087	91%
Proceeds from Foreign Borrowings	0	-	0	21,865,452,773	(21,865,452,773)	
Other Receipts	1,022,000,000	4,000,000	1,026,000,000	44,209,627	981,790,373	4%
Total Receipts	29,039,085,190	20,906,605,711	49,945,690,901	66,257,847,313	(16,312,156,412)	138%
PAYMENTS						
Compensation of Employees	1,264,533,520	(156,163,369)	1,108,370,151	1,094,299,070	14,071,081	99%
Use of goods and services	354,517,958	(57,380,097)	297,137,861	535,442,518	-238,304,657	77%
Transfers to Other Government Units	27,408,500,000	21,122,372,000	48,530,872,000	46,721,225,656	1,809,646,344	85%
Social Security Benefits	1,618,000	-	1,618,000	1,562,960	55,040	97%
Acquisition of Assets	9,915,712	(2,222,823)	7,692,889	283,423,048	-275,730,159	68%
Totals	29,039,085,190	20,906,605,711	49,945,690,901	48,635,953,253	1,309,737,649	85%
Surplus/Deficit	-	-	-	17,621,894,061	(17,621,894,061)	

The entity financial statements were approved on 03-05-2018 and signed by:


Principal Secretary
Eng. John K. Mosonik CBS


Principal Accounts Controller
CPA Nemwel Moturi Motanya
ICPAK Member Number: 2367

STATE DEPARTMENT OF INFRASTRUCTURE

**Reports and Financial Statements
For the year ended June 30, 2017**

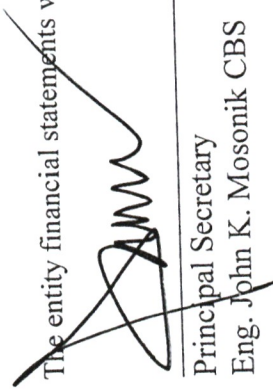
X. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS						
Proceeds from Domestic and Foreign Grants	8,050,000,000	250,000,000	8,300,000,000	2,638,922,037	8,300,000,000	32%
Exchequer releases	84,782,200,000	10,201,280,370	94,983,480,370	88,753,616,810	6,229,863,560	93%
Transfers from Other Government Entities	12,700,000,000	331,000,000	13,031,000,000		13,031,000,000	0%
Proceeds from Foreign Borrowings	42,179,582,851	9,828,104,073	52,007,686,924		52,007,686,924	0%
Total Receipts	147,711,782,851	20,610,384,443	168,322,167,294	91,392,538,847	76,929,628,447	53%
PAYMENTS						
Use of goods and services	1,967,000,000	(108,500,000)	1,858,500,000	553,834,687	1,304,665,313	30%
Transfers to Other Government Units	134,933,082,851	20,997,884,443	155,930,967,294	106,314,380,887	49,616,586,407	68%
Acquisition of Assets	10,811,700,000	279,000,000	10,532,700,000	250,831,522	10,281,868,478	2%
Totals	147,711,782,851	20,610,384,443	168,322,167,294	107,119,047,096	61,203,120,198	64%
Surplus/Deficit	-	-	-	(15,726,508,249)	15,726,508,249	

The entity financial statements were approved on 03-05-2018 and signed by:



Senior Assistant Accountant General
CPA Nemwel Moturi Motanya
ICPAK Member Number: 2367



Principal Secretary
Eng. John K. Mosonik CBS

STATE DEPARTMENT OF INFRASTRUCTURE
 Reports and Financial Statements
 For the year ended June 30, 2017

XI. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget		Adjustments		Final Budget		Actual on comparable basis		Budget utilization difference
	2017	Kshs	Kshs	Kshs	2017	Kshs	Date, 2017	Kshs	
0201000000					0		(209,180)	209,180	
2110000					0		(209,180)	209,180	
0202000000					218,267,858,195		153,682,630,846	64,585,227,349	
2110000					1,108,370,151		1,095,326,126	13,044,025	
2210000					1,770,136,271		771,315,185	998,821,086	
2220000					385,501,590		316,954,700	68,546,890	
2630000					204,461,839,294		150,963,433,705	53,498,405,589	
2710000					1,618,000		1,562,960	55,040	
3110000					10,540,392,889		534,038,171	10,006,354,719	
T000000					96,924,799,271		83,831,499,275	13,093,299,996	
2110000					1,108,370,151		1,094,304,817	14,065,334	
2210000					636,707,286		319,519,876	317,187,410	
2220000					385,501,590		316,954,700	68,546,890	
2630000					94,104,780,370		81,606,744,105	12,498,036,265	
2710000					1,618,000		1,562,960	55,040	
3110000					687,821,874		492,412,817	195,409,057	

XII. SIGNIFICANT ACCOUNTING POLICIES

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

1) **Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy notes below.

This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The receivables and payables are disclosed in the Statement of Assets and Liabilities. The Statement of Assets and Liabilities is not mandatory statement under the IPSAS Cash basis but is encouraged in order to disclose information on assets and liabilities.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity all values are rounded to the nearest Kenya Shilling. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2) **Reporting entity**

The financial statements are for the State Department of Infrastructure. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

1. *Kenya Transport Sector Support Program*
2. *National Urban Transport Improvement Project*
3. *Eastern Africa Regional Transport, Trade and Development Facilitation Project*

3) **Recognition of receipts and payments**

a) **Recognition of receipts**

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the entity.

Tax receipts

Tax Receipts is recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers from the Exchequer

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

External Assistance

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

Donations and grants

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

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds; sovereign bonds and external loans acquired by the entity or any other debt the Entity may take on will be treated on cash basis and recognized as receipts during the year of receipt.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for projects currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. During the year ended 30th June 2017, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

Other receipts

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

b) Recognition of payments

The entity recognises all expenses when the event occurs and the related cash has actually been paid out by the entity.

Compensation of employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

Repayment of borrowing (principal amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of disclosure. This summary is disclosed as an annexure to the entity's financial statements.

4) In-kind contributions

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

5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restriction on cash

Restricted cash represents amounts that are limited /restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2017, this amounted to Kshs 214,648,573 compared to Kshs 250,713,023 in prior period as indicated on note 11A.

There were no restrictions on cash during the year

6) Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

XIII. NOTES TO THE FINANCIAL STATEMENTS

1 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Date received	Amount in foreign currency	2016-2017	2015-2016
			Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)			-	649,315,528
Grants Received from Multilateral Donors (International Organisations)			2,638,922,037	4,126,627,442
			2,638,922,037	4,775,942,970

2 EXCHEQUER RELEASES

Description	2016-2017	2015-2016
	Kshs	Kshs
Total Exchequer Releases for quarter 1	287,000,000	290,700,000
Total Exchequer Releases for quarter 2	13,284,596,716	31,585,721,305
Total Exchequer Releases for quarter 3	16,521,014,108	6,344,994,552
Total Exchequer Releases for quarter 4	60,577,655,986	18,336,943,500
Total	90,670,266,810	56,558,359,357

Included in the Exchequer releases in Quarter 4 is KShs 3,666,725,381 relating to Equalization Fund.

3 TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Description	2016-2017	2015-2016
	Kshs	Kshs
Kenya Roads Board	42,431,534,913	31,787,736,239
TOTAL	42,431,534,913	31,787,736,239

These amounts relate to the Road Maintenance Levy Fund amounts received from the Kenya Roads Board as per the budget.

STATE DEPARTMENT OF INFRASTRUCTURE**Reports and Financial Statements****For the year ended June 30, 2017****NOTES TO THE FINANCIAL STATEMENTS (continued)****4 PROCEEDS FROM FOREIGN BORROWINGS**

	2016-2017	2015-2016
	Kshs	Kshs
Foreign Borrowing - Direct Payments	21,865,452,773	16,001,795,419
Total	21,865,452,773	16,001,795,419

5 OTHER REVENUES

	2016-2017	2015-2016
	Kshs	Kshs
Receipts from Administrative Fees and Charges - Collected as AIA	44,209,627	28,390,079
Other Receipts Not Classified Elsewhere	-	903,201,666
Total	44,209,627	931,591,746

6 COMPENSATION OF EMPLOYEES

	2016-2017	2015-2016
	Kshs	Kshs
Basic salaries of permanent employees	746,755,766	777,103,943
Basic wages of temporary employees	23,238,746	6,951,443
Personal allowances paid as part of salary	324,304,557	347,233,583
Total	1,094,299,070	1,131,288,969

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 USE OF GOODS AND SERVICES

	2016-2017	2015-2016
	Kshs	Kshs
Utilities, supplies and services	21,054,319	10,113,899
Communicatiopn, supplies and services	10,358,615	8,833,731
Domestic travel and subsistence	24,870,492	20,588,590
Foreign travel and subsistence	4,678,407	8,526,877
Printing, advertising and information supplies & services	2,470,922	2,558,728
Training expenses	567,283,766	103,106,351
Hospitality supplies and services	17,901,842	31,211,788
Insurance costs	3,150,200	28,995
Specialized materials and services	19,178,376	8,748,609
Office and general supplies and services	20,310,333	20,441,633
Fuel, Oil & Other Lubricants	7,087,514	6,384,147
Routine maintenance	73,997,718	20,775,522
Routine maintenance – Vehicles	7,604,090	7,502,093
Routine maintenance- other assets	309,330,610	14,950,196
Total	1,089,277,204	263,771,159

8. GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2016-2017	2015-2016
	Kshs	Kshs
Current Grants To Government Agencies and Other Levels of Government	42,933,784,911	32,825,319,221
Capital Grants To Government Agencies and Other Levels of Government	110,101,821,632	74,488,911,728
TOTAL	153,035,606,543	107,314,230,948

STATE DEPARTMENT OF INFRASTRUCTURE
 Reports and Financial Statements
 For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. SOCIAL SECURITY BENEFITS

Explanation	2016-2017	2015-2016
	Kshs	Kshs
Government pension and retirement benefits	1,562,960	5,948,026
Total	1,562,960	5,948,026

10. ACQUISITION OF ASSETS

Non Financial Assets	2016-2017	2015-2016
	Kshs	Kshs
Construction of Buildings	153,476,053	3,048,779
Refurbishment of Buildings	76,907,150	5,880,359
Construction and Civil Works	68,926,802	10,734,677
Purchase of Office Furniture and General Equipment	3,005,625	3,414,836
Purchase of Specialized Plant, Equipment and Machinery	102,441,983	12,584,760
Rehabilitation and Renovation of Plant, Machinery and Equip.	8,600	1,897,530
Research, Studies, Project Preparation, Design & Supervision	123,988,358	77,439,166
Purchase of Vehicles and other Transport Equipment	5,500,000	
Total	534,254,571	115,000,106

11A: Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2016-2017	2015-2016
				Kshs	Kshs
Central Bank of Kenya, 1000209925, KSHS		Recurrent		50,583,783	519,666.45
Central Bank of Kenya, 1000209844, KSHS		Development		1,808,362,271	72,925,350.75
Central Bank of Kenya, 1000212535, KSHS		Deposits		214,648,573	250,713,022.65
Central Bank of Kenya, 1000231157, KSHS		Deposits-Projects			700,000.00
Central Bank of Kenya, 1000231157, KSHS		KTSSP			2,213,085
Total				2,073,594,626	327,071,124.85

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
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NOTES TO THE FINANCIAL STATEMENTS (continued)

11B: CASH IN HAND

	2016-2017	2015-2016
	Kshs	Kshs
Cash in Hand – Held in domestic currency	1,401,108	-
Total	1,401,108	-

11C: DEPOSIT/RETENTION MONEY MOVEMENT SCHEDULE

	2016-2017	2015-2016
	Kshs	Kshs
Opening Balance	250,713,023	272,636,713
Additions during the Financial Year	51,647,812	27,999,782
Payments during the Financial Year	(87,712,281)	49,923,473
Total	214,648,553	250,713,023

12: ACCOUNTS RECEIVABLE - OUTSTANDING IMPRESTS

<i>Description</i>	2016-2017	2015-2016
	Kshs	Kshs
Government Imprests	1,523,889	506,139
Salary advances	146,651	740,359
District suspense	110,922,927	75,141,750
Clearance accounts	1,104,260,165	1,104,260,165
Total	1,216,853,632	1,180,648,413

13. ACCOUNTS PAYABLE

Description	2016-2017	2015-2016
	Kshs	Kshs
Deposits	214,648,553	250,713,023
Total	214,648,553	250,713,023

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. FUND BALANCE BROUGHT FORWARD

Description	2016-2017	2015-2016
	Kshs	Kshs
Bank accounts	327,071,125	267,935,814
Cash in hand	-	74,969,324,893
Accounts Receivables	1,180,648,413	-41,992,571,850
Accounts Payables	(250,713,023)	-33,212,868,865
Total	1,257,006,515	31,819,992

15. PRIOR YEAR ADJUSTMENTS

Description of the error	2016 – 2017	2015 – 2016
	Kshs	Kshs
Adjustments on bank account balances	(74,145,017)	-
Adjustments on receivables	(1,046,498)	-
	(75,191,515)	-

The adjustments on bank balances (Recurrent and Development balances) relate to prior period balances which were swept by treasury. The adjustments on receivables relate to prior period imprests balances surrendered in the current financial year).

16. RELATED PARTY DISCLOSURES

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS.

The following comprise of related parties to the State Department of Infrastructure

- Key management personnel that include the Cabinet Secretaries and Accounting Officers
- Other Ministries Departments and Agencies and Development Projects;
- County Governments; and
- State Corporations and Semi-Autonomous Government Agencies.

Related party transactions:

	2016/2017	2015/2016
	Kshs	Kshs
Key Management compensation	<u>23,244,494</u>	<u>0</u>
Transfers to other State Corporations and SAGAs	<u>153,035,606,543</u>	<u>107,314,230,948</u>
Transfers to Government Development Projects	<u>85,341,121</u>	<u>82,313,392</u>
Transfers from other Ministries, Departments and Agencies	<u>42,431,534,913</u>	<u>31,787,736,239</u>

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. OTHER IMPORTANT DISCLOSURES

17.1: PENDING ACCOUNTS PAYABLE (See Annex 1)

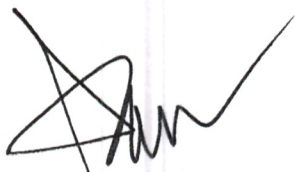
Description	2016 – 2017	2015 – 2016
	Kshs	Kshs
Supply of goods	2,501,700	122,496,227
	2,501,700	122,496,227

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017


18. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		The State Department has not received the audited FY 15/16 Audited Financial Statements			



Principal Secretary
 Eng. John K. Mosonik CBS



Senior Assistant Accountant General
 CPA Nemwel Moturi Motanya
 ICPAK Member Number: 2367

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2017	Outstanding Balance 2016	Comments
	A	B	c	d=a-c		
Sub-Total						
Supply of goods						
1. MultiModel Traders	268,250	30/06/2017	0	268,250	0	No valid Tax Compliance Certificate from Supplier
2. Timely Suppliers/Distributors	624,950	30/06/2017	0	624,950	0	No valid Tax Compliance Certificate from Supplier
3. Jantech Express Ltd	288,000	30/06/2017	0	288,000	0	The POs were unable to check funds in the system
4. Unicommm Technologies Ltd	330,000	30/06/2017	0	330,000	0	The POs were unable to check funds in the system
5. Najeylne Enterprises Ltd	440,000	30/06/2017	0	440,000	0	The POs were unable to check funds in the system
6. Ginambu Stationers	485,000	30/06/2017	0	485,000	0	The POs were unable to check funds in the system
7. Pago Airways Travel Services Ltd	65,500	30/06/2017	0	65,500	0	The POs were unable to check funds in the system
Sub-Total	2,501,700			2,501,700		
Grand Total	2,501,700			2,501,700		

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

ANNEX 2 - ANALYSIS OF PENDING STAFF PAYABLES

Name of Staff	Job Group	Original Amount	Date Payable Contracted	Amount Paid To-Date	Outstanding Balance 2017	Outstanding Balance 2016	Comments
		a	b	c	d=a-c		
Sub-Total					25,140		
Middle Management							
1. Mrs Mary Ndivatha					2,376		
2. Miss Joan Achieng Ogola					25,295		
3. Robert Njuguna Muteti					11,744		
4. Beatrice Emily Wagongo					3,466		
5. Leah Ngonyo Gathuku					24,095		
6. Justine Mbogo Njiru					9,320		
7. Johnson Oduory Nakitari					45,214		
8. Jackogongo Ochieng					146,650		
Sub-Total					146,650		
Grand Total					146,650		

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
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ANNEX 3 - ANALYSIS OF OTHER PENDING PAYABLES

The state department does not have Other Pending Payables

STATE DEPARTMENT OF INFRASTRUCTURE
Reports and Financial Statements
For the year ended June 30, 2017

ANNEX 4 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Historical Cost b/f (Kshs) 2015/2016	Additions during the year (Kshs)	Disposals during the year (Kshs)	Historical Cost c/f (Kshs) 2016/2017
Land				299,310,004
Buildings and structures		299,310,004		5,500,000
Transport equipment		5,500,000		3,005,625
Office equipment, furniture and fittings		3,005,625		
ICT Equipment, Software and Other ICT Assets				62,397,616
Other Machinery and Equipment				
Heritage and cultural assets				
Intangible assets				
Total		370,213,245		370,213,245

NB: The Additions during the year does not tie to note 10 on acquisition of assets during the year due to 123,771,960 charged to Research, Feasibility Studies, Project Preparation, Design and Supervision

STATE DEPARTMENT OF INFRASTRUCTURE

Reports and Financial Statements

For the year ended June 30, 2017

ANNEX 5 – LIST OF PROJECTS IMPLEMENTED BY THE STATE DEPARTMENT OF INFRASTRUCTURE

Ref	Project Name	Principal activity of the project	Accounting Officer	Project consolidated in these financial statements(yes/no)
1	Kenya Transport Sector Support Project	The key objective of the project is to improve the efficiency of the road transport along the Northern Corridor.	Eng. John K. Mosonik	No
2	National Urban Transport Improvement Project	The key objective of the project is to improve the efficiency of road transport along the Northern Corridor	Eng. John K. Mosonik	No
3	East Africa Trade And Transport Facilitation Project	The key objective of the project is to strengthen institutional capacities in all implementing entities and complementary institutions involved within the project.	Eng. John K. Mosonik	No

STATE DEPARTMENT OF INFRASTRUCTURE
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For the year ended June 30, 2017

ANNEX 6 – LIST OF SCs, SAGAs AND PUBLIC FUNDS UNDER THE STATE DEPARTMENT OF INFRASTRUCTURE

Ref	SC, SAGA or Public Fund's name	Principal activity of entity	Accounting Officer	Amount transferred during the year	Inter- entity reconciliations done?(yes/no)
1	Kenya Highways Authority	Construction & maintenance of highways	Eng. Peter M.Mundinia	46,312,897,251.75	Yes
2	Kenya Urban Roads Authority	Construction and maintenance of urban roads	Eng. Silas Kinoti	11,867,499,284.55	Yes
3	Kenya Rural Roads Authority	Construction and maintenance of rural roads	Eng. J. O. Ogango	65,209,720,934.75	Yes



STATE DEPARTMENT OF INFRASTRUCTURE
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ANNEX 7- REPORTS GENERATED FROM IFMIS

The following financial Reports Generated from IFMIS should be generated and attached as appendices to these financial statements.

- i. GOK IFMIS Comparison Trial Balance
- ii. FO30 (Bank reconciliations) for all bank accounts
- iii. GOK IFMIS Receipts and Payments Statement
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