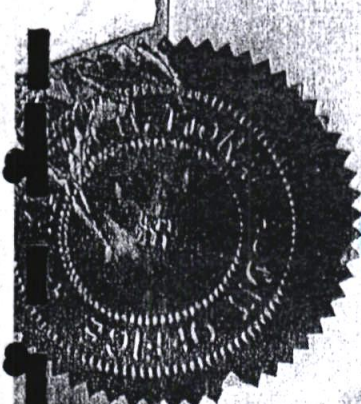


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KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
KENYA NATIONAL HIGHWAYS
AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2014

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Kenya National Highways Authority

Quality Highways, Better Connections

KENYA NATIONAL HIGHWAYS AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**

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

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I. KEY KENYA NATIONAL HIGHWAYS AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

The Authority was formed on enactment of the Kenya Roads Act, 2007. The Authority is responsible to the Principal Secretary, State Department of Infrastructure in the Ministry of Transport and Infrastructure, for the general policy and strategic direction.

(b) Principal Activities

The principal activity/mission of the Authority is to manage, develop, rehabilitate and maintain the national road network.

(c) Key Management

The Authority's day-to-day management is under the Director General who is an *ex officio* member of the Board of Directors.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General	- Eng. M. O. Kidenda, MBS,HSC
2.	General Manager (Special Projects)	- Eng. Linus K. Tonui
3.	General Manager (Design & Construction)	- Eng. Samuel O. Ogege
4.	General Manager (Planning & Environment)	- Eng. Samuel O. Omer
5.	General Manager Finance	- CPA James Bowen
6.	Acting General Manager Maintenance	- Eng. Charles D. Okeyo
7.	Head of Internal Audit	- Mr. William Masita

(e) Fiduciary Oversight Arrangements

i) Finance, Human Resource and General Purpose Committee

This is a committee of the Board whose key responsibilities are to;

- Review, approve and/or recommend for Board's approval;
 - 1) Financial, Human Resources, ICT, Legal & Regulatory Affairs and Corporate Communications policies and procedures,
 - 2) Estimates of receipts and expenditures including their revisions,
 - 3) Re-allocation of funds between budget heads,
 - 4) Special funding proposals including borrowings and grants,
 - 5) Proposals for opening bank accounts,
 - 6) Proposals for investments and their returns,
 - 7) Annual Corporate Social Responsibility activities and
 - 8) Staff terms and conditions of service.

KEY KENYA NATIONAL HIGHWAYS AUTHORITY INFORMATION AND MANAGEMENT CONTINUED

- Ensure that
 - 1) Proper books of accounts and records are maintained for the Authority's transactions,
 - 2) All expenditures are within the approved budget,
 - 3) Proper records are maintained on property and material liabilities.

ii) Audit, Risk and Governance committee

This is also a committee of the Board whose key responsibilities are to;

- Review, approve and/or recommend for Board's approval;
 - 1) The external auditor's management letter and management's response to the external auditor's findings and recommendations,
 - 2) The Authority's procedures for detecting fraud and to review the investigation and remediation of any alleged or suspected fraud;
 - 3) At least annually, the status of the enterprise risk management program and
 - 4) The annual internal audit work plan.
- Ensure that;
 - 1) Unsettled and unimplemented Public Investment Committees' (PIC) issues are resolved,
 - 2) Clarity of disclosure in financial reporting and the presentation of a balanced and understandable assessment of the Authority's financial position;
 - 3) Recommendations of the Auditor General are implemented.
 - 4) Integrity of the financial statements of the Authority is maintained at all times
 - 5) Disagreements between management and any auditor regarding the Authority's financial reporting are resolved
 - 6) Special audit/ investigation on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency are conducted

iii) The Kenya National Audit Office

Within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year, on:

- 1) Accounts of the national and county governments
- 2) Accounts of all funds and authorities of the national and county governments;
- 3) Accounts of all courts
- 4) Accounts of every commission and independent office established by the Constitution
- 5) Accounts of the National Assembly, the Senate and the county assemblies
- 6) Accounts of political parties funded from public funds;
- 7) Accounts of any other entity that legislation requires the Auditor-General to audit.
- 8) The public debt

The Auditor-General may audit and report on the accounts of any entity that is funded from public funds.

- 1) The Auditor General shall confirm whether or not public money has been applied lawfully and in an effective way.
- 2) Audit reports shall be submitted to Parliament by the Authority,

**KEY KENYA NATIONAL HIGHWAYS AUTHORITY INFORMATION AND
MANAGEMENT *CONTINUED***

iv) Development partner oversight activities

This group constitutes Bi/Multi – lateral lenders to the Government of the Republic of Kenya for development projects under the implementation of the Authority, whose key responsibilities include:

- 1) To examine the annual reports of the Auditor General on the financial statements of projects
- 2) To conduct financial management supervision and offer project implementation support
- 3) Review of quarterly Interim Financial Reports
- 4) Commission independent auditors to undertake a financial and technical review projects

v) The Public Investments Committee

This is a parliamentary select committee charged with the responsibility of examining the working of the public investments. It receives audit reports from the Clerk of the National Assembly who in turn would have received them from the Authority.

Its key responsibilities as appertains to the Authority are to;

- 1) Examine the reports, if any, of the Auditor General on the financial statements of the Authority,
- 2) Examine, in the context of the autonomy and efficiency of the public investments, whether the affairs of the public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices.
- 3) Within three months after receiving the PIC report, Parliament shall debate and consider the report and take appropriate action.

(f) Kenya National Highways Authority Headquarters

Blue Shield Towers
Hospital Road
Nairobi, Kenya

(g) Kenya National Highways Authority Contacts

P.O. Box 49712
GPO 00100
Nairobi, Kenya
Telephone: (254) 02 8013842
E-mail: dg@kenha.co.ke
Website: www.kenha.co.ke

(h) Kenya National Highways Authority Bankers

1. Kenya Commercial Bank Limited
Moi Avenue Branch
P.O Box 30081
GPO 00100
Nairobi, Kenya
2. Co-operative Bank of Kenya
Upper Hill Branch
P.O Box 30415-00100
GPO 00100
Nairobi, Kenya

KEY KENYA NATIONAL HIGHWAYS AUTHORITY INFORMATION AND
MANAGEMENT *CONTINUED*

3. National Bank of Kenya
Hill Plaza Branch
P.O. Box 45219
GPO 00100
Nairobi, Kenya

4. NIC Bank
Masaba Road Branch, NIC House
P.O. Box 44599
GPO 00100
Nairobi, Kenya

5. **Equity Bank Limited**
Equity Centre Branch
P.O. Box 75104-00200
City Square 00200
Nairobi, Kenya







(i) **Independent Auditors**

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







(j) **Principal Legal Adviser**

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







II. THE BOARD OF DIRECTORS

Director	Brief Profile
 <p>1. Mrs. Hannah W. Muriithi Chairperson of the Board of Directors</p>	<p>DoB: 9th December, 1969, Advocate of the high court of Kenya Executive MBA (Strategic Management) LL.B.(Hons) , Dip.KSL, CPS(K) Member, Law Society of Kenya 19 years management experience Retired 14th January,2014</p>
 <p>2. Eng. Erastus K. Mwongera, FIEK,CBS, EBS,OGW Director</p>	<p>DoB: 2nd December, 1949. Civil Engineering Consultant BSc (Civil Engineering) H.Dip. Construction Dip. Water Engineering 40 years management experience (Appointed Chair of the Board on 30th September, 2014)</p>
 <p>3. Mr. Gilbert K. Langat Director</p>	<p>DoB: 1st January, 1971 CEO Kenya Shippers Council Executive MBA, BA Member- KAM, EATTA, EACPA, FPEAK & KHC, KCTA 17 Years shipping and logistics solutions experience Retired 24th June, 2014</p>
 <p>4. CPA Kepha N.M. Oyar Director</p>	<p>DoB: 15th July, 1959. Lecturer, United States Int. University. Certified Public Accountant of Kenya MSc (Accounting & Finance) BCom (Hons), Member, ICPAK 32 years management experience Retired 24th June, 2014</p>
 <p>5. Dr. Julius Kibiti M'Ndegwa Director</p>	<p>DOB: 1st January, 1949 Lecturer, Moi University PhD M.Sc.(Highway Engineering) Certified Environmental Auditor 40 years management experience Retired 24th June, 2014</p>
 <p>6. Mrs. Bibiana A. R. Omalla Director</p>	<p>DoB: 19th December, 1958 Licensed surveyor MA(Urban and Regional Planning) PGDE(Cartography) BSc. (Survey and Photogrammetry) Member Kenya Institute of Planners 31 years management experience</p>

THE BOARD OF DIRECTORS CONTINUED

 <p>7. Mrs. Marykaren C. Kigen-Sorobit Director</p>	<p>DoB: 14th February, 1969 Advocate of the high court of Kenya Advocate and assisting counsel, Judges & Magistrates Vetting Board LL.B (Hons) Dip. KSL, CPS(K) Member, Law Society of Kenya 19 years' experience in legal and compliance management. Appointed 14th February, 2014</p>
 <p>8. Eng. Philemon C. Kilimo, OGW Director – Alt. to PS (Infrastructure)</p>	<p>DoB: 22nd August, 1956, Roads Secretary, MOTI BSc (Hons) Mechanical Engineering Member, Institute of Engineers of Kenya 34 years management experience</p>
 <p>9. Mr. Humphrey Muhu Director – Alt. to CS (National Treasury)</p>	<p>DoB: 28th August, 1964. Economist and Financial advisor. BSc (Statistics and Mathematics) B.Phil Economics MA (Economics) Dip. Financial Management 22Years management experience</p>
 <p>10. Eng. Tom Osewe Ogalo Director – Alt. to P.S (Transport)</p>	<p>DoB: 10th December, 1959. Civil Engineer and Environmental Auditor BSc (Civil Engineering) 30 years management experience Retired 11th May, 2014</p>
 <p>11. Mr. George Wanjau Director – Alt. to PS (Transport)</p>	<p>DoB: 19th January, 1962, Economist and Urban Transport Planner. MSc (Project Planning & Financing) BA (Economics) 28 years management experience Appointed 12th May 2014</p>
 <p>12. Eng. M. O. Kidenda, MBS, HSC Director General and Secretary to the Board</p>	<p>DoB: 6th June, 1956 MSc(Traffic Engineering) BSc (Civil Engineering) Member of: Engineers Registration Board, Registered Consulting Engineer, Member of Institution of Engineers of Kenya 33 Years of management experience Retired on 30th November 2014</p>

III. MANAGEMENT TEAM

Manager	Brief Profile
 <p>1. Eng. M. O. Kidenda, MBS, HSC Director General and Secretary to the Board</p>	<p>DoB: 6th June, 1956 MSc(Traffic Engineering) BSc (Civil Engineering) Member of:Registered Engineers Registration Board, Registered Consulting Engineers, Institution of Engineers of Kenya 33 Years of management experience <i>(Retired on 30th November, 2014)</i></p>
 <p>2. Eng. Linus K. Tonui General Manager - Special Projects</p>	<p>DoB: 30th August, 1955, M.Sc. (Highway Engineering) BSc (Civil Engineering) Registered Consulting Engineer, Registered Engineer, Corporate member Institution Of Engineers 34 Years of management experience <i>(Appointed acting Director General on 1st December, 2014.)</i></p>
 <p>3. Eng. Samuel O. Ogege General Manager - Design & Construction</p>	<p>DoB: 3rd June, 1960, BSc (Civil Engineering) Member of : The Engineers Registration Board 27 years of management experience</p>
 <p>4. Eng. Samuel O. Omer General Manager - Planning & Environment</p>	<p>DoB: 17thFebruary 1962, MSc (Civil Engineering) BSc (Civil Engineering) Member of: The Engineers Registration Board 27 years of management experience</p>
 <p>5. CPA James K. Bowen General Manager - Finance</p>	<p>DoB: 1st January, 1973 MBA, BCom (Accounting) Certified Professional Credit Manager (CMP), Certified Public Secretaries (CPS K), Certified Public Accountant (CPAK) MEMBERSHIP: ICPAK, ICPSK 17 Years management experience</p>
 <p>6. Eng. Charles D. Okeyo Ag. General Manager - Maintenance</p>	<p>DoB: 21st June, 1962 BSc (Civil Engineering) Member of: The Engineers Registration Board, MIEK, CIPM 28 years management experience</p>



7.

Mr. William O. Masita
Head, Internal Audit

DoB: 2nd February 1979
MBA, BA (Economics)
Certified Information Systems Auditor
(CISA)
Certified Internal Auditor (CIA)
Certified Public Accountant (CPA)
Certified Public Secretary (CPS)
Member of ICPAK, ISACA, IIA
10 years Management Experience

IV. CHAIRMAN'S STATEMENT

I am pleased to present the Kenya National Highways Authority Annual Report and Financial Statements for the year ended 30th June 2014 during which we recorded good performance despite the financial challenges we experienced. Since its operationalization in late 2008, Kenya National Highways Authority (KeNHA) has played a key role in Kenya's social and economic development by fulfilling its mandate to manage, develop, rehabilitate and maintain national trunk roads. KeNHA aspires to be a leading Highways Authority committed to quality, safe and adequate national trunk roads. We are committed to ensuring that no region of our country is called 'remote' by the year 2030.

Operating Environment

The financial year 2013/2014 had mixed fortunes for the Authority. The global economic down turn coupled with increased global prices of oil and bitumen; rising inflation; and fluctuating forex rates impacted financing of major projects which have foreign funding components. There were instances when works slowed down or even halted due to delay in payments.

We appreciate the government for instituting strong measures aimed at mitigating such risks as we implement our mandate of managing the country's national road network. Notably, we recognise the highly successful infrastructure bond out of which the government was able to deliver on its financial obligations.

Authority's Performance

The last financial year saw KeNHA developing its second Strategic Plan for 2013 – 2017. The activities to be undertaken in our strategic plan are drawn from the Medium Term Plan II (2013 – 2017) which is a five year plan to implement and actualize the Vision 2030. The first Strategic Plan for 2008-2012 saw the Authority delivering on a number of key projects which were aimed at enhancing transport flow across all regions of the country and decongesting urban centers.

The Board of Directors and management continue to review, identify and mitigate risks in order to fulfill our mandate and objective.

Customer/Stakeholder Engagement

In an endeavour to meet customer needs, we heightened our interactions with them through various public forums, conferences and exhibitions. Our efforts were recognised at the Nakuru, Eldoret, Kisumu, Mombasa and Nairobi ASK Shows where the Authority's role was recognised in Innovation and Technology, Promotion of National Cohesion and Integration, Empowerment of Youth, Women and the Disabled, Environmental Conservation, Mitigation of HIV/Aids and other cross cutting issues.

Corporate Social Responsibility

Environmental Conservation is a major concern in road works. As part of our Corporate Social Responsibility, we organised a tree planting day in June 2014 during which we planted 2000 tree seedlings on the Nairobi Southern bypass. The Authority also continues with other mitigating measures of carrying out soil protection works where necessary.

Board Changes

In the period under review Mrs. Marykaren Kigen-Sorobit and Mr. George Wanjau were appointed to the Board as a non-executive Directors whereas Mrs. Hannah W. Muriithi, Mr. Gilbert K. Langat, CPA Kepha N.M. Oyaro and Eng. Tom O. Ogalo retired from the Board.

Future Prospects

In line with the strategy for development of Kenya's road infrastructure, the Government is committed to completing on going road projects and initiate new ones in the country. This will enhance new opportunities for growth, economic development and employment.

Appreciation

On behalf of the Board of Directors, I wish to thank the Government of Kenya, our parent Ministry of Transport and Infrastructure, the Kenyan Public who are our esteemed customers, the management and staff for their contribution to the Authority during the year under review.



Eng. Erastus K. Mwangera, FIEK, CBS, EBS, OGW

Chairman of the Board of Directors

29th January 2015

General Overview

With the development of Vision 2030 and enactment of the Constitution of Kenya, 2010, our country seeks to transform itself into a modern, globally competitive and prosperous nation with a high quality of life. The Government aspires for a country firmly interconnected through a network of roads, railways, ports, airports, water and sanitation facilities and telecommunications. The Government has therefore created a fully-fledged Ministry of Transport and Infrastructure in a bid to create synergies within the various infrastructure sub-sectors.

With funds from the Exchequer and support of development partners, KeNHA has completed key major projects and commenced other very important corridors. Without quality infrastructure, movement in the economy will be impeded. Investors as well as Kenyan citizens demand to get value for their taxes. The past financial year saw KeNHA delivering a number of key projects aimed at enhancing transport flow across all regions of the country. These include the Athi River – Namanga road, Ndori – Ngiya road, KCC (Sotik) – Ndanai – Gorgor road and Sultan Hamud – Machakos Turnoff – JKIA road.

Many other projects are at various implementation stages. Key projects such as Nairobi Southern Bypass, Mau Summit – Kericho – Nyamasaria and Lamu Port Southern Sudan Ethiopia (LAPSSET) Corridor, which comprises the following projects: Isiolo – Merille River, Merille River – Marsabit, Marsabit – Turbi and Turbi – Moyale, among others are at various implementation states.

Major Performance Milestones 2013/2014

In the financial year under review, the Authority intensified its operations to support enhanced socio-economic growth and prosperity through development of the Strategic Plan for 2013 – 2017 that is in line with the National Medium Term Plan for 2013 - 2017. In this regard, the Authority remained focused on its mission of constructing and managing national trunk roads by undertaking various activities aimed at ensuring availability of adequate, safe and quality national roads for our customers. These include enhancing road network capacity and quality; securing and protecting national road reserves and assets; improving road safety and security and ensuring environmental sustainability. Other focus areas include human resource development, strengthening institutional framework and internal capacity of the Authority and promoting use of local resource in road construction and maintenance.

Several milestones were attained as a result of implementation of our strategic objectives during the year under review. Among our notable achievements were construction of 361.34 lane kms new section of national roads and rehabilitation of 17 lane km of national roads, in line with the Authority's strategy of increasing the kilometres of national roads that are built to bitumen standards. The rate of construction was however affected by late release of exchequer funding, which resulted in an increase in pending bills owed to contractors. The outstanding bills attracted interest and resulted in slowing down of works by contractors thus increasing the cost of the projects. In order to mitigate this risk and to get road development and rehabilitation back on track, the Government settled half of the outstanding bills and put in place a plan to settle all outstanding bills in the first quarter of FY 2014/2015.

Other notable achievements of the year under review were the routine maintenance of 15,724 lane km of national roads, construction of two bridges, construction of two One Stop Border Posts as well as installation and operationalization of High Speed Weigh in Motion (HSWIM) at Mariakani and Mlolongo Weighbridges. The HSWIM has facilitated local and regional trade since heavy commercial goods vehicles which are not overloaded are able to proceed on their journey without stopping and weighing at the weighbridges.

Challenges to Development of Quality National Roads

The challenges the Authority faced during the year under review include the following:

- Vandalism of road furniture continued to be a major challenge, greatly hampering efforts to provide safe and quality highways.
- Encroachment on road reserves, continued to delay project commencement and implementation
- Inadequate funds to develop and maintain roads. The optimal requirement for maintenance is Ksh.40 billion while the Road Maintenance Levy Fund realizes only Ksh.25 billion annually. The shortfall for maintenance of existing road network amounts to Ksh.15 billion annually.

Future Initiatives to Upgrade More Roads

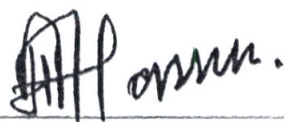
Under MOTI, the journey towards developing 10,000km of new roads within the next five (5) years using alternative financing and delivery strategies in partnership with the Private Sector has commenced in earnest. The program is divided into three (3) phases and covers highways, rural and urban roads. The goal is to develop 2,000km in the first phase; 3000km in phase II and 5,000km in phase III.

Towards this, contractors, financial institutions and other stakeholders have been sensitized. Plans to roll out this programme that will deliver additional roads to Kenyans are at an advanced stage. With the County Governments working to boost growth in all parts of the Country, the demand for additional motorable roads is expected to be driven by the economic activities in the counties. Phase I of the programme will commence in December 2014.

Conclusion

Kenya has set an ambitious target of achieving an economic growth of 7% or more by the year 2017 compared to 4.7% achieved in 2013. Since road infrastructure is an enabler for economic growth and national as well as regional development, the 10,000km that will be implemented will go a long way in achieving this target.

Finally I hereby thank the Government and development partners for continually supporting us to fulfil our mandate, and the Board of Directors for giving strategic direction and leadership, steering the Authority in achievement of our objectives. I thank the Citizens of Kenya, who are our esteemed customers as well as the management and staff of KeNHA for their continued hard work, focus and dedication to the task at hand.



Eng. Linus K. Tonui
Ag. Director General
29th January 2015

VI. CORPORATE GOVERNANCE STATEMENT

Kenya National Highways Authority is committed to the values and principles of good corporate governance as an integral part of the corporate culture established at the Authority and guides the manner in which its directors, management and staff conduct the business of the organization. As a public sector organization dedicated to providing quality service to its stakeholders, the Authority's decisions are guided by the core tenets prescribed in the Public Officers Ethics Act, Internal Codes of Conduct and Corporate Governance guidelines as well as the Board and Board Committee Charters. This report describes the Authority's corporate governance practices that were in place throughout the financial year ended 30 June 2014.

Role of the Board of Directors

The primary function of the Board of Directors (the Board) is to provide effective strategic leadership and direction to enhance the long-term value of the Authority to its stakeholders. The Board oversees the business affairs of the Authority. The Board has the overall responsibility for reviewing the strategic plans and performance objectives, financial plans and annual budget, key operational initiatives, major funding and investment proposals, financial performance reviews, and corporate governance practices. They are also responsible for instilling the appropriate culture, values and behaviour throughout the organization. The Board is therefore committed to maintaining very high standards of corporate governance and ethical business conduct.

Membership structure of the board

The board is constituted per the provisions of The Roads Act 2007 and includes;

- a) a non-executive chairman who shall be appointed by the President from amongst the members appointed under paragraph (f);
- b) the Principal Secretary in the Ministry responsible for roads or his representative;
- c) the Principal Secretary In the Ministry responsible for transport or his representative;
- d) the Principal Secretary in the Ministry responsible for finance or his representative
- e) the Director-General of the Highways Authority, who shall be an ex-officio member, and
- f) six other persons, not being public officers, appointed by the Minister by virtue of their knowledge or experience in:-
 - industry;
 - Highway engineering;
 - Transport economics;
 - Surveying;
 - Accountancy or
 - Law.

The persons referred to in paragraph (f) shall be appointed by the Minister from among members nominated by the organizations set out below, each of which shall nominate and approve three candidates at its annual general meeting.

- (i) Institution of Engineers of Kenya
- (ii) Law Society of Kenya
- (iii) Institute of Certified Public Accountants of Kenya
- (iv) Institute of Surveyors of Kenya
- (v) Kenya Association of Manufacturers
- (vi) Any institution of tertiary learning

Tenure of Directors

In line with the provisions of the Kenya Roads Act 2007, the Chairman and other members of Board, other than public officers 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. The appointment of all members of the Board as first constituted and at every change in membership thereafter shall be

by notice published in the Kenya Gazette. The Director General, is appointed by the Board in consultation with the Minister from among three candidates competitively selected by the Board.

CORPORATE GOVERNANCE STATEMENT *CONTINUED*

Induction, training and development of Directors

New Directors are provided with extensive briefing materials on the Authority and its operations, the procedures relating to the Board and its Committees and their duties and responsibilities as Directors under legislation and regulations that apply to the Authority.

Committees of the Board

The Board has established four permanent Committees to assist in the execution of its responsibilities. These are, the Audit, Risk and Governance committee, the Finance Human Resource and General Purpose committee, Procurement and Disposal Oversight committee and the Technical & Strategy committee. Each of the permanent Committees has terms of reference, under which authority is delegated to them by the Board. Each committee including the full board have scheduled quarterly meetings. Special meetings are held by the Committees and the full board as and when situations demand. The Chairman of each Committee regularly reports to the full Board on the Committee's deliberations.

The Board and its Committees is committed to regularly evaluating and implementing national and international standards in a responsible and transparent manner through the efficient and effective Management with a view of enhancing corporate governance at the Authority and consistently delivering on its statutory mandate.

The Authority has in place a zero-tolerance corruption prevention programme. The Authority thus reiterates its commitment to the principles of sound corporate governance and to fulfilling its commitments as outlined in these documents and in its Performance Contract with the Government of Kenya.

Enterprise Risk Management

Management of risks that the Authority faces is important to meet our objectives. The Authority continues to implement its Enterprise Risk Management (ERM) framework by continuing to review risks as well as formulate and implement the appropriate mitigation strategies. ERM is implemented by management, with the Board having an oversight role. In the year under review, the main risk issues that faced the Authority's operations included:

- a) Devolved Government
- b) Significant outstanding bills from various projects which have resulted in slowing down of works across the country
- c) Vandalism of road furniture, jeopardizing road safety efforts

During the year under review, the Authority's ERM structure was strengthened by deploying three additional staff to the Section. Risk registers for all departments and sections are being reviewed. ERM aims at improving governance and control processes.

Ethical Standards

The Authority has in place a zero-tolerance corruption prevention programme. The Authority thus reiterates its commitment to the principles of sound corporate governance and to fulfilling its commitments as outlined in these documents and in its Performance Contract with the Government of Kenya

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

During the financial year 2013/2014 year, KeNHA undertook a number of corporate social responsibility and brand building activities. The activities were undertaken in line with the Authority's strategic objectives, with a special focus on ensuring environmental sustainability and promoting social interests. Through the various CSR and brand building activities, KeNHA was therefore able to create and maintain a very strong corporate presence.

A summary of CSR projects undertaken during the financial year are as listed below;

- Planted trees along the Nairobi Southern Bypass, at the Ngong Road Interchange. This was part of the Authority's commitment to plant trees along the bypass. In order to construct the bypass, a number of trees were cut to allow for proper alignment of the road.
- Donations of assorted food stuff, beddings and toys to the Kabete Children's Rescue Centre.
- Donations of wheel chairs to the Kenya Paraplegic Association.
- Constructed a house for an elderly destitute woman along the Loruk – Barpelo Road, and visited and donated food and household stuff for her family.
- Awarded a one-year scholarship to a Form One student at Kakamega High School who sat for his KCPE examinations in 2013 and risked losing his admission slot at the school due to his extremely poor background.
- Through the various projects undertaken across the country, the Authority continued to engage in a number of CSR activities, with special focus being on HIV/Aids mitigation, since infrastructure development brings with it new settlement areas, resulting in social challenges like HIV/Aids.
- The Authority continued to actively engage with the Mlolongo Schools, which is part of our CSR flagship projects.

The Authority continued its strong engagement with the public through participation in the Kisumu ASK Show, the Mombasa ASK International Trade Fair, the Nairobi ASK International Trade Fair, the Eldoret ASK Show and the Nakuru ASK Show where good performance was consistently maintained.

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the un-audited financial statements for the year ended June 30, 2014 which show the state of the Authority's affairs.

Principal activities

The principal activities of the Authority are manage, develop, rehabilitate and maintain national roads

Results

The results of the Authority for the year ended June 30, 2014 are set out on page 1

Directors

The members of the Board of Directors who served during the year are shown on page vi and vii

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Section 68(2), (k) of the Public Financial Management Act, 2012 and Section 13 of the Public Audit Act, 2003.

By Order of the Board



Eng. Linus K. Tonui
Ag. Director General and Secretary to the Board

Nairobi

29th January 2015

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68(1) of the Public Finance Management Act, 2012 and section 38(1) of the Kenya Roads Act, require the Directors to prepare financial statements in respect of that Kenya National Highways Authority (herein after referred to as the Authority) which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2013. 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 Authority; (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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2013, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.


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

Approval of the financial statements

The Authority's financial statements were approved by the Board on 29th September, 2014 and signed on its behalf by:


Chairman of the Board

Director


Director General





OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL HIGHWAYS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya National Highways Authority set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, the statement of changes in net assets, the statement of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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.

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 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.

The Management 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 the 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 statement 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 judgement, 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, 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 qualified audit opinion.

Basis for Qualified Opinion

1. Financial Position

The Statement of financial position as at 30 June 2014 reflects current liabilities of Kshs.30,143,953,538 which exceed current assets of Kshs.17,702,422,491 resulting to negative working capital of Kshs.12,441,531,047 (2013 – negative Kshs.3,863,128,331).

In the circumstances, the Authority is technically insolvent and may face difficulties in settling financial obligations as and when the same fall due.

2. Property, Plant and Equipment

The Property, Plant and Equipment balance of Kshs.166,779,697,238 as at 30 June 2014 excludes undetermined value of land and houses occupied by staff in South Rift Region from which the Authority earned an income of Kshs.1,181,000 during the year. As such, the accuracy and correctness of property, plant and equipment balance of Kshs.166,779,697,238 as at 30 June 2014 cannot be confirmed.

3. Trade and other Receivables

Receivables from exchange transactions balance of Kshs.663,717,877 as at 30 June 2014 reflected in the statement of financial position includes travel imprests of Kshs.389,408.00 issued to staff of the former Ministry of Roads between June 2012 and August 2013 that has remained outstanding.

In the circumstances, it has not been possible to confirm recoverability of receivables amounting to Kshs.389,408.

4.0 Nugatory expenditures – Interest on late payments

4.1 The Authority incurred an expenditure of Kshs.2,594,567.00 and Kshs.4,780,516.41 in respect of interest on delayed payments relating to Kaloleni-Kilifi Road project and Magumu-Njabini (C68) Road project respectively.

4.2 Included in the Project's expenditure of Kshs.3,055,446,301.00 for Mombasa-Nairobi-Addis Ababa Road Project (Marsabit-Turbi Road) is interest charges of Kshs.4,497,964.76 (12 October 2012) and Kshs.18,775,310.13 (14 September 2013) totalling to Kshs.23,273,277.76 paid to the contractor for delayed payment dues.

4.3 In addition, an amount of Kshs.33,144,940.23 has been incurred as payment of interest on delayed payments in respect of Rehabilitation of Kericho-Mau Road Section.

4.4 Also, the Contractor carrying out Rehabilitation of Nyamasaria-Kisumu-Kisian Road including Kisumu bypass road has presented eighteen (18) Interim payment certificates (IPC's) amounting to Kshs.4,632,740,214.90 for works done and materials on-site. Included in the certificates is an amount of Kshs.59,032,806.67 certified for payment as interest on delayed payments which is an avoidable charge to public funds.

4.5 The Authority further paid the contractor carrying out rehabilitation of Webuye-Malaba Road an amount of Kshs.9,529,382.69 vide interim certificate No. 19 being interest on delayed payments on completed works.

If the Authority had paid contractors dues within the stipulated time frames, the above nugatory payments totaling to Kshs.132,355,490.76 should not have been a charge to public funds.

5. Periodic Maintenance of Mombasa Miritini (A109) Road

As reported in the previous year the contract for the above maintenance works was awarded to M/s Talewa Road Construction Ltd. at a contract sum of Kshs.341,180,245 with commencement and completion dates of 26 January 2012 and 26 September 2012 (8 months) respectively.

Evidence available indicates that the contract was terminated after poor performance by the contractor when total payment to the contractor stood at Kshs.144,146,778.76 (42.25% of the contract sum).

After termination, the remaining works were repackaged and awarded to M/s S.S. Mehta through direct procurement at a negotiated contract sum of Kshs.292,656,590 contrary to Section 50 of the Public, Procurement and Disposal Act, 2005. Further, the negotiated contract sum of Kshs.292,656,590 brings the total contract expenditure to Kshs.436,803,368, an increase of Kshs.95,623,123 or approximately 28% from the original contract sum of Kshs.341,180,245.

A review of the contract during the year under audit revealed that the contract sum had been varied by a further Kshs.63,330,409 thereby raising the contract sum to Kshs.355,987,000 and further escalating total expenditure for the project to Kshs.500,133,777 or 46.60% above original contract price of Kshs.341,180,245. Although management has explained that the escalation of project costs was due to configuration of roads, roundabouts and traffic redirection around Changamwe area to facilitate faster exit of trucks after a directive by the Government, it has not been possible to confirm whether the Authority got value for money in incurring the total expenditure of Kshs.500,133,777.

6. Bush Clearing in preparation of official opening of the Multinational Arusha-Namanga-Athi River

As reported in the previous year, the road was officially opened by His Excellency the President of the Republic of Kenya on 28 November 2012. Examination of records, documents and payment vouchers relating to the above project revealed that the tender committee on its 91st Meeting held on 6 November 2012 considered and approved direct procurement of M/s Sinai Construction Co. Ltd of P.O. Box 71273 – 00622 Nairobi to execute bush clearing in preparation of official opening of

the Road. This was contrary to the secretariats recommendation that a more competitive method of procurement be used.

Kenya National Highways Authority went ahead and initiated negotiations with Sinai Construction Co. Ltd in which the scope of work, rates and the contract price was agreed at Kshs.11,595,415.50. The negotiated works were approved by the tender committee in its meeting held on 22 November 2012.

Although management has explained that the direct procurement was occasioned by information that the Heads of States of East African Community were to travel by road for double launch of the road at Kenya-Tanzania border and subsequently at Athi River and the visibility along the corridor had to be enhanced for security purposes, it was not possible to confirm that the Authority got value for money from the expenditure of Kshs.11,595,415.50.

7.0 Northern Corridor Rehabilitation Programme Phase III (Eldoret-Turbo-Webuye-Malaba Road) Improvement Project

7.1 Rehabilitation of Eldoret-Turbo-Webuye (A 104) Road – Contract No. KeNHA/ICB/51/2010

The contract was awarded to a contractor on 19 November 2010 at a contract sum of Kshs.3,383,387,115.63 while the contract agreement was signed on 26 November 2010. The contractor commenced work on 26 January 2011 and the contract duration was 18 months. However the contract was not completed within the stipulated time and the contractor was awarded two extensions under claims 1 and 2 of 45 and 115 days respectively. Although the contract was supposed to have been completed by 9 February 2013, as at 30 November 2014, the works had not been completed.

Further, although the original project length was 59km at a contract sum of Kshs.3,383,387,115.63 the length was reduced by 18 km to 41km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately. It is doubtful if the Authority got the value for its money.

Evidence available indicates that through Addendum No. 1 dated 20 June 2014, the contract sum for the project has been revised up wards by Kshs.2,005,552,882.86 or 59.3% to Kshs.5,388,939,997.86. This Addendum No. 1 is for the completion of the 18 kilometers earlier scaled down as reported in 1.2 above and the works are expected to take 15 months with a commencement date of 01 August 2014 and a completion date of 31 October 2015.

It is not clear and the management has not satisfactorily explained the rationale of scaling down the project and awarding an addendum with variation of the contract sum by 59.3% thereby breaching the Public Procurement and Disposal Act, 2005.

In the circumstances, it has not been possible to confirm that the Authority will obtain value for money in implementing the above Project.

7.2 Rehabilitation of Webuye - Malaba (A 104) Road - Contract NO. KENHA/ICB/52/2010

The contract was awarded to a contractor on 19 November 2010 at a contractor sum of Kshs.3,848,928,516.25. The contract agreement was signed on 26 November 2010 with a commencement date of 26 January 2011. The project was scheduled for completion on 31 August 2012 when the eighteen (18) months contract period expired. However, the contract was not completed in time and the contractor was awarded two extension of time totaling to twelve and half (12.5) months. According to monthly progress report No. 40 of June 2014, works completed stood at 87.57% against certified payments of Kshs.3,469,656,939.41 representing 90% of the original contract sum.

Further, although the original contract length was 61km at a contract sum of Kshs.3,848,928,516.25, the length was scaled down by 8km to 53km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately.

In the circumstances, it is doubtful if the Authority will get value for its money.

Evidence available indicates that through Addendum No. 1 dated 23 July 2014, the contract sum for the Project has been revised upwards by Kshs.2,106,120,003.46 or 55% to Kshs.5,5,955,048,519.47. Addendum No. 1 is for among other things completion of the 8 kilometers earlier scaled down as reported above and the works are expected to take 12 months with a commencement date of 14 August 2014 and a completion date of 13 August 2015.

It is not clear and the management has not satisfactorily explained the rationale of scaling down the project and awarding an addendum with variation of the contract sum by 55% thereby breaching the Public Procurement and Disposal Act, 2005. In the circumstances, it has not been possible to confirm that the Authority will obtain value for money in implementing the above Project.

7.3 Nugatory Payment of Interest

The Authority paid the contractor an amount of Kshs.9,529,382.69 vide interim certificate No. 19 being interest on delayed payments on completed works. If payments had been made within the stipulated period, the Authority would have made a saving on Public resources of Kshs.9,529,382.69.

8.0 Kenya Transport Sector Support Programme IDA Credit No. 4926 - KE

8.1 Rehabilitation of Kakamega-Webuye Road (Lot 2)

The above contract was on 18 January 2012 awarded to M/s Vil Ltd (Formerly Vijay Infrastructure Ltd) at a contract sum of Kshs.2,505,924,536.66. The works commenced on 1 April 2013 for a contract period of 24 months with a completion date of 31 March 2015. The project is financed by the World Bank and the Government of Kenya at 75% and 25% respectively.

Evidence available indicates that a notice of termination of the contract was issued on 08 May, 2014 due to contractor's non-performance. However, the contractor obtained a court injunction to stop the employer from directing the contractor to remove equipment from the site. By the time the notice to terminate was issued, 53 % of the contract period had elapsed and the contractor had only achieved 1% physical progress despite having been paid an advance of Kshs. 205,974,052.89 for mobilization and cash flow support.

As at 30 November 2014, the matter was still pending in court and it was not clear the effect the court determination may have on implementation of the Project.

9. Northern Corridor Transport Improvement Project (IDA Credit No. 3930-KE and 4571-KE)

9.1 Rehabilitation of Kericho – Mau Summit (b1) Road section

As reported in the previous audit report, the contract was awarded to a contractor on 26 October 2009 at a contract sum of Kshs.6,832,657,486.36. The contract commenced on September 2010 for a contract period of 24 Months with the expected completion date of 15 September 2012. The contractor has, however, been awarded extension of time for 759 days thus revising the completion date to 14 October 2014.

According to the Progress Report No. 45 for August 2014, 1445 days had elapsed representing 97.04% of the revised contract period, while the actual progress of works stood at 81.78% implying that the works are still behind schedule.

In addition, an amount of Kshs.33,144,940.23 has been incurred as payment of interest on delayed payments which should have been avoided had the payments been made within the stipulated timelines.

9.2 Rehabilitation of Nyamasaria – Kisumu – Kisian (A1/B1) Road Including Kisumu Bypass Road - Contract No. Rd 0505

The project is financed by World Bank and Government of Kenya at 67% and 33% respectively. The contract was awarded to M/s Sinohydro Corporation Ltd on 31 March 2011 for a contract sum of Kshs. 5,788,202,418.54 being the second lowest bidder and the contract signed on 31 August 2011.

(i) Contract Period and Works Progress

The project commenced on 09 February 2012 for a contract period of 30 months with an expected completion date of 08 August 2014 extended to 6th November 2014 but as at 31 January 2015, the Project had not been completed.

(ii) Nugatory Payments to the Contractor

The Contractor has so far presented eighteen (18) Interim Payment Certificates (IPC's) amounting to Kshs. 4,632,740,214.90 for works done and materials on-site. Included in the certificates is an amount of Kshs. 59,032,806.67 certified for payment as interest on delayed payments which is an avoidable charge to public funds.

9.3 Supply of Computer Servers (Rack-Mount) Standard Desktop Computers, Touch Smart Desktop Computers, Laptop Computers and Integrated Service Routers for the Mechanical and Transport Department of the Ministry Of Roads (Lot 1)

Included in Annex 2A–Analysis of Pending Bills is Invoice No. 812 from M/s Intermass Technologies (E.A) Limited dated 19 November 2013. The supplier was competitively awarded the contract for the supply of the 3No. Rack-Mount type computer servers; 94No. Standard Desktop Computers; 12 No. Touch Smart Desktop Computers; 8 No. Laptop Computers and 46No. Integrated Service Routers on 13 June 2103 at their tender sum of Kshs.25,564,350.00.

The supplier is said to have delivered the goods to Mechanical and Transport Department of Ministry of Transport and Infrastructure on 19 November 2013 vide delivery note No. 1063. The Inspection and Acceptance committee inspected and accepted only 8 No. laptop computers and 19No. Integrated service routers all valued at Kshs.2,975,150.00. It's reported that the rest of the goods though delivered were stolen before they could be inspected by the inspection and acceptance committee.

Despite the forgoing and although the goods received notes were issued, the Authority paid for all the goods vide Payment Voucher Number 17690 dated 23 July 2014 for Kshs.22,589,200.00

In the circumstances, no value for money was obtained from the expenditure of Kshs.22,589,200.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority 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 the Kenya Roads Act, 2007.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

30 June 2015



KENYA NATIONAL HIGHWAYS AUTHORITY
 Financial Statements for the year ended 30th June 2014

XI. STATEMENT OF FINANCIAL PERFORMANCE
 For the year ended 30 June 2014

	Note	2014	2013
		Kshs	Kshs
Revenue from non-exchange transactions			
Road maintenance contributions	3	10,358,789,002	10,094,179,998
Fines, penalties and levies	4	445,947,577	43,238,236
Transfer from other government's -Recurrent expenditure	5	191,953,459	623,714,505
		10,996,690,038	10,761,132,739
Revenue from exchange transactions			
Rental revenue from facilities and equipment	6	1,181,000	2,247,055
Finance income-external investments	7	325,778,237	448,918,953
Other income	8	24,992,610	43,864,189
		351,951,847	495,030,197
Total revenue		11,348,641,885	11,256,162,936
Expenses			
Road maintenance and axle load expenses	9	10,329,168,318	7,358,198,470
Employee costs	10	932,946,895	831,745,409
Board Expenses	11	62,850,867	54,474,906
Depreciation and amortization expense	12	69,752,804	87,741,499
Repairs and maintenance	13	63,813,396	53,196,528
General expenses	14	472,857,426	496,700,626
Finance costs	15	2,726,585	2,501,588
Total expenses		11,934,116,291	8,884,559,026
Other gains/(losses)			
Gain on sale of assets	16	54,809	161,918
Provision for doubtful debtors	17	(287,574,065)	-
Loss on foreign exchange transactions	18	(11,138)	(37,965)
(Deficit)/Surplus for the period		(873,004,800)	2,371,727,863

The notes set out on pages 6 to 21 form an integral part of the Financial Statements

KENYA NATIONAL HIGHWAYS AUTHORITY
Financial Statements for the year ended 30th June 2014

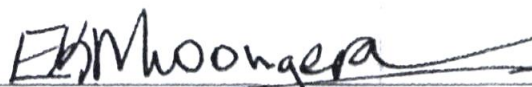
XII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Note	2014	2013
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	19	6,028,591,703	6,620,323,377
Receivables from non- exchange transactions	20	11,005,470,733	4,470,313,304
Receivables from exchange transactions	21	663,717,877	1,678,698,122
Inventories	22	4,642,178	4,142,845
		<u>17,702,422,491</u>	<u>12,773,477,648</u>
Non-current assets			
Property, plant and equipment	23	166,779,697,238	128,450,806,993
Intangible assets	24	46,046,961	41,210,995
		<u>166,825,744,199</u>	<u>128,492,017,988</u>
Total assets		<u>184,528,166,690</u>	<u>141,265,495,636</u>
Liabilities			
Current liabilities			
Trade other payables from exchange transactions	25	30,058,344,059	16,521,707,795
Refundable deposits from customers	26	71,937,026	34,172,580
Provisions	27	13,672,453	80,725,604
Total liabilities		<u>30,143,953,538</u>	<u>16,636,605,979</u>
Net assets		154,384,213,152	124,628,889,657
Reserves		151,298,648,686	120,579,267,923
Accumulated Surplus		3,085,564,466	4,049,621,734
Total net assets and liabilities		<u>184,528,166,690</u>	<u>141,265,495,636</u>

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:



Eng. Linus K. Tonui
Ag. Director General
Date 29th January 2015



Eng. Erastus K. Mongera, FIEK, CBS, EBS, OGW
Chairman of the Board of Directors
Date 29th September, 2014

KENYA NATIONAL HIGHWAYS AUTHORITYFinancial Statements for the year ended 30th June 2014**XIII. STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 30 June 2014

	<u>Accumulated Surplus</u>	<u>Reserves Grants</u>	<u>Total</u>
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Balance as at 30 June 2012	1,677,893,871	85,069,553,865	86,747,447,736
Surplus for the period	2,371,727,863	-	2,371,727,863
Government Grants	-	35,509,714,058	35,509,714,058
Balance as at 30 June 2013	4,049,621,734	120,579,267,923	124,628,889,657
Deficit for the period	(873,004,800)	-	(873,004,800)
Government Grants		30,719,380,763	30,719,380,763
Transfers from Accumulated Surplus	(91,052,468)	-	(91,052,468)
Balance as at 30 June 2014	3,085,564,466	151,298,648,686	154,384,213,152

KENYA NATIONAL HIGHWAYS AUTHORITY
Financial Statements for the year ended 30th June 2014

XIV. STATEMENT OF CASHFLOWS
For the year ended 30 June 2014

	Note	2014 Kshs	2013 Kshs
Net cashflows from operating activities	30	6,766,352,726	6,615,728,435
Cash flows from investing activities			
Purchase of property, plant and equipment		(38,398,462,243)	(40,608,526,987)
Proceeds from sale of disposable items		54,809	157,098
Purchase of Intangible assets		(4,835,966)	(11,614,778)
Interest Income		325,778,237	448,918,952
Net cashflows used in investing activities		(38,077,465,163)	(40,171,222,813)
Cashflows from financing activities			
Proceeds from borrowings		30,719,380,763	35,509,714,057
Net cashflows used in financing activities		30,719,380,763	35,509,714,057
Net increase/(decrease)in cash and cash equivalents		(591,731,674)	1,954,219,679
Cash and cash equivalents at 1July	19	6,620,323,377	4,666,103,698
Cash and cash equivalents at 30 June	19	6,028,591,703	6,620,323,377

	Original budget 2013-2014 Kshs	Adjustments 2013-2014 Kshs	Final budget 2013-2014 Kshs	Actual comparable basis 2013-2014 Kshs	on Performance difference 2013-2014 Kshs
Revenue					
Road maintenance contributions	10,629,184,353	(440,838,510)	10,188,345,843	10,358,789,002	170,443,158
Fines, penalties and levies	175,005,000	-	175,005,000	445,947,577	270,942,577
Government grants	-	191,953,459	191,953,459	191,953,459	-
Rental revenue from facilities	-	-	-	1,181,000	1,181,000
Finance Income	200,000,000	-	200,000,000	325,778,237	125,778,237
Other Income	20,000,000	-	20,000,000	25,047,419	5,047,419
Total income	11,024,189,353	(248,885,051)	10,775,304,302	11,348,696,694	573,392,392
Expenses					
Road maintenance & Axle Load	9,066,352,475	28,000,000	9,094,352,475	10,329,168,318	(1,234,815,843)
Compensation of employees	1,023,462,420	(31,101,746)	992,360,674	932,946,895	59,413,779
Finance cost	3,211,222	-	3,211,222	2,726,585	484,637
Board expenses	64,568,603	(980,000)	63,588,603	62,850,867	737,736
Repairs and renewals	88,709,244	(3,618,537)	85,090,707	63,813,396	21,547,581
Depreciation	-	-	-	69,752,804	(69,752,804)
General Expenses	777,885,389	(241,184,768)	536,700,621	472,857,426	63,843,195
Provision for doubtful debtors	-	-	-	287,574,065	(287,574,065)
Loss on foreign exchange	-	-	-	11,138	(11,138)
Total expenditure	11,024,189,353	(248,885,051)	10,775,304,302	12,221,701,494	(1,446,397,192)
Surplus(Deficit)for the period	-	-	-	(873,004,800)	(873,004,800)

NOTES ON MATERIAL VARIANCES BETWEEN BUDGETED & ACTUAL AMOUNTS.

a) Road Maintenance Contributions.

The favourable variance was as a result of receipt of emergency funds for Dadaab – Liboi (A23) and Buna – Dabel (C80) as well as funds to cater for outstanding payments for Namanga Road Development Project received from the Minister's 10% Road Maintenance Levy Fund allocation which had not been initially budgeted for.

b) Fines, penalties & Levies.

The favourable variance was as a result of invoices raised for advertisements on road reserves over the budgeted amounts. The collection of Kshs. 287,574,065 advertisement revenue is however doubtful due to a pending judicial review at the high court. A provision for doubtful debtors of the same amount has been made.

c) Finance Income.

The favourable variance was as a result of favourable rates of return negotiated on current accounts and call deposits.

d) Other Income.

The favourable variance was as a result of receipt of liquidated damages income initially not budgeted for.

e) Road maintenance & Axle Load Expenses.

The unfavourable variance was as a result of carry over for road maintenance works for financial year 2012/2013 as well as accrued road maintenance works which had exhausted their budgets for the current financial year.

f) Compensation of employees.

The variance resulted from austerity measures implemented on staff travelling and welfare expenses.

g) Repairs & Renewals.

The favourable variance was as a result of stringent measures on vehicle running as well as reduced repairs on office equipment.

h) Depreciation.

The unfavourable variance was as a result of non-budgeting of depreciation expense.

i) General Expenses.

The favourable variance was as a result of stringent cost controls on telephone, cleaning & sanitation, security, professional fees and advertising.

j) The bad debt provision was judicial review against legal notice provisions that had been implemented by the Authority.

1. Statement of compliance and basis of preparation

Section 192 of the Public Finance Management (PFM) Act, 2012 provided for the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary, National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February 2014. Following the Board's approval on the adoption of The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the Authority has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fines, penalties & Levies

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

Transfers from other government entities

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

ii) Revenue from exchange transactions

a) Interest income

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

b) Budget information

The annual budget is prepared on the accrual basis where all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis for timing differences on the Authority that would require reconciliation between the actual comparable amounts

Notes to the Financial Statements Continued

and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on straight line basis at annual rates estimated to write off the cost of the Asset over expected useful lives.

The annual depreciation rates in use are:-

a. Computer Equipment & Accessories	33.3%
b. ICT Infrastructure and Telephony	33.3%
c. Motor Vehicles	25.0%
d. Office Equipment and Furniture	12.5%
e. Office Partitioning and fixtures	16.7%
f. Plant & Machinery	10.0%
g. Buildings	2.5%

e) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term. The Authority has a five year renewal operating lease with M/s Blue Shield Towers for its head office premises.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The only intangible assets in the Authority's books of accounts are computer software. The useful life of these intangible assets is assessed as indefinite.

g) Research and development costs

The Authority expenses research costs as incurred.

h) Financial instruments

Financial Assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cashflows of the financial asset can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors of the Authority are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

i) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition is accounted for. After initial recognition, inventory is measured at the lower of cost and current replacement cost. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

k) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Notes to the Financial Statements Continued

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

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

l) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. The Authority maintains a grants reserve. These are exchequer funds received from the Government for development of roads.

m) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

n) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the Authority pays fixed contributions into a separate fund account, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable,

o) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

p) Related parties

The Authority regards a related party as a person with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the Board and senior managers.

q) Cash and cash equivalents

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

r) Comparative figures

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

s) Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions

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

Notes to the Financial Statements Continued

of the Authority. Such changes are reflected in the assumptions when they occur as per IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 24.

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

t) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

u) Capital Commitments

There are no capital commitments as the Authority's loans and grants are fully guaranteed by the government.

3. Road maintenance contributions

	2014 Kshs	2013 Kshs
Road Maintenance Funds	8,898,010,101	8,596,961,998
Administration & Operations Fund	991,778,900	955,218,000
Transit Tolls	441,000,001	392,000,000
RMLF Allocation from 10% of Fund	28,000,000	150,000,000
Total maintenance contributions	10,358,789,002	10,094,179,998

4. Fines, penalties and levies

	2014 Kshs	2013 Kshs
Overload & Transgression fees	75,676,246	-
Road cutting fees	49,602,363	24,912,036
Exemption permit fees	65,197,200	-
Road Reserve User Fees	250,936,767	390,700

Notes to the Financial Statements Continued

Sale of Tender Documents

Total

4,535,001	17,935,500
445,947,577	43,238,236

5. Transfer from other government's-Recurrent expenditure

	2014 Kshs	2013 Kshs
Emergency funds	-	375,000,000
NCTIP	55,382,397	33,070,938
Nairobi southern-by-pass	165,677	4,803,105
Other GoK Development Projects	91,856,001	146,104,989
EATTFP	2,266,733	2,776,676
KTSSP	23,744,613	49,981,432
LAPSSET	-	149,005
Mombasa Bypass	5,906,000	4,745,753
NUTRIP	9,186,568	3,748,537
Greater Southern By-pass	3,445,470	942,683
Nairobi - Thika Highway	-	2,391,387
Total government grants and subsidies	191,953,459	623,714,505

6.Rental revenue from facilities and equipment

	2014 Kshs	2013 Kshs
Rental Income	1,181,000	2,247,055
Total rentals revenue	1,181,000	2,247,055

7.Finance income-external investments

	2014 Kshs	2013 Kshs
Cash and call deposits	325,778,237	448,918,953
Total finance income-external investments	325,778,237	448,918,953

8.Other income

	2014 Kshs	2013 Kshs
Interest on Salary Advances	59,445	-
Sale of disposable items	144,160	86,179
Recovery surcharge	512,372	-
Liquidated Damages	24,276,633	43,778,010
Total other income	24,992,610	43,864,189

9.Road maintenance and axle load expenses

	2014 Kshs	2013 Kshs
Road maintenance works	8,570,611,420	6,950,264,386
Emergency road works	942,627,089	49,179,612

Notes to the Financial Statements Continued

<i>Kazi kwa vijana</i>	-	361,525
Weighbridges management contract	808,478,058	321,036,858
Weighbridge operational expenses	7,451,751	37,356,089
Total road maintenance and axle load expenses	10,329,168,318	7,358,198,470

10. Employee costs

	2014	2013
	Kshs	Kshs
Salaries & Allowances	739,358,647	668,035,014
Pension & Gratuity	49,600,718	45,081,339
Training & Subscription	41,638,089	50,495,742
Welfare	22,568,162	14,473,125
Staff Medical & Group Life Insurance	79,398,279	53,086,969
Recruitment	383,000	573,220
Total employee costs	932,946,895	831,745,409

11. Board expenses

	2014	2013
	Kshs	Kshs
Salaries & allowances	15,309,000	18,185,688
Honoraria & telephone	565,129	1,044,000
Lunch allowance	368,309	372,000
Transport, travelling & accommodation	25,419,853	17,003,027
Insurance	78,777	480,392
Training	6,898,697	11,169,456
Refreshments	320,000	353,179
Ministerial & other official functions	12,998,302	4,602,555
Gratuity	892,800	1,264,609
Total board expenses	62,850,867	54,474,906

12. Depreciation and amortization expense

	2014	2013
	Kshs	Kshs
Property, plant and equipment	69,752,804	87,741,499
Total depreciation and amortization	69,752,804	87,741,499

13. Repairs and maintenance

	2014	2013
	Kshs	Kshs
Repairs property , plant and equipment	2,749,369	1,720,353
Vehicles	55,131,377	46,946,122
Renewals	5,932,650	4,530,053
Total repairs and maintenance	63,813,396	53,196,528

Notes to the Financial Statements Continued

	2014	2013
	Kshs	Kshs
14. General expenses		
The following are included in general expenses:		
Postage & courier services	912,900	968,252
Reference material	400,640	63,635
Telephone & WAN connectivity vii	10,876,402	9,926,575
Newspapers & magazines	2,602,930	2,017,290
Drinking water	1,049,451	786,668
Printing & photocopy	1,378,338	1,992,201
Hire of ground/non ground transport	482,801	859,735
Kitchen utensils	87,832	187,709
General insurance	2,066,541	1,834,951
Stationery & consumables	18,478,409	15,156,372
Cleaning & sanitation	4,739,040	6,426,518
Security expenses	19,349,827	23,155,405
Professional fees	43,709,540	48,797,665
Conference & seminars	15,695,221	2,243,809
Advertising , publicity& CSR	39,162,325	26,690,439
Field activities	57,406,819	50,374,846
Utilities	2,528,256	2,160,340
Rent	59,976,695	54,343,712
Development projects administration expenses	191,953,459	248,714,505
Total general expenses	472,857,426	496,700,626

15. Finance costs

	2014	2013
	Kshs	Kshs
Bank Charges	2,726,585	2,501,588
Total finance costs	2,726,585	2,501,588

16. Gain on sale of assets

	2014	2013
	Kshs	Kshs
Property, plant and equipment	54,809	161,918
Total gain on sale of assets	54,809	161,918

17. Provision for doubtful debtors

	2014	2013
	Kshs	Kshs
	287,574,065	-
Total provision for doubtful debtors	287,574,065	-

18. Loss on foreign exchange transactions

	2014	2013
	Kshs	Kshs
Total loss on foreign exchange transactions	11,138	37,965

19. Cash and cash equivalents

	2014	2013
	Kshs	Kshs
Cash-on-hand and bank	4,128,591,703	4,620,323,377
Short-term deposits	1,900,000,000	2,000,000,000
Total cash and cash equivalents	6,028,591,703	6,620,323,377

20. Receivables from non-exchange transactions

	2014	2013
	Kshs	Kshs
Current receivables		
Londiani - Fortenan - Muhoroni	225,546,737	272,407,425
Nairobi - Thika	-	4,000,000
Homa Bay- Mbita	132,603,279	155,595,606
Ndori - Ngiya	125,142	19,252,255
Kisumu - Kisian	45,029,763	45,029,763
Southern By pass	3,760,571	3,760,571
Voi - Mwatate	5,573,441	40,088,010
Bridge Over Rail along Timboroa-Eldoret	-	52,042,432
Ejinja-Bumala	30,107,697	96,528,401
Loruk-Barpelo	507,793,436	570,991,278
KCC (Sotik) - Ndanai-Gorgor	29,355,426	150,298,317
Webuye - Malaba	114,327,326	135,095,936
Nyamasaria - Kisumu-Kisian	90,033,940	181,172,482
Mau Summit-Kericho	146,227,476	-
Kericho-Nyamasaria	120,216,003	-
Eldoret-Turbo-Webuye	-	52,247,862
Chiakariga - Mitunguu-Meru	466,880,670	466,880,670
Chebilat - Ikonge-Chabera	108,609,780	108,609,780
Kangema - Gacharage	95,000,000	95,000,000
Thua Bridge & approach road	42,460,568	42,460,568
Chepterit – Baraton - Kimondi	85,000,000	85,000,000
Timboroa-Eldoret	243,720,824	64,768,521
Kaloleni-Kilifi	220,000,000	220,000,000
Kisumu- Kakamega	271,699,138	26,554,048
Nairobi Southern By-pass	-	773,990,719
Webuye-Kitale	251,227,817	116,487,707
Modika –Nuno	97,879,527	109,019,140
Turbi-Moyale	2,338,114,780	72,369,209
One-Stop Border Post –Taveta	384,477	18,464,468
One-Stop Border Post –Isebania	29,137,129	14,826,224
One-Stop Border Post –Malaba	76,179,321	19,982,330
One-Stop Border Post –Busia	79,603,319	20,838,330
One-Stop Border Post –Lunga-Lunga	10,312,651	17,607,019
Rehabilitation of Kisumu-Kakamega	90,566,379	90,566,379

20. Receivables from non-exchange transactions

	2014	2013
	Kshs	Kshs
Current receivables		
Kakamega-Webuye	205,974,053	51,493,523
Webuye-Kitale	-	22,571,223
Renovation of MoR/MoP offices in Homabay, Oyugis, Kisumu	16,154,844	16,154,844
Mbita causeway replacement bridge & approach roads on	65,701,290	
Homabay - Mbita	-	43,158,264
Rumuruti - Maralal	190,000,000	50,000,000
Siaya-Ruambwa C29	190,849,478	50,000,000
Masara – Suna - Kehancha/Awendo Mariwa	326,814,500	50,000,000
Magumu - Njambini C68	71,310,695	45,000,000
Mombasa Port Area Devt Road	269,642,511	-
Marsabit-Turbi	360,856,913	-
Office Block for road sector Institutions	11,388,300	-
Oljoro – Orok - Dundori	119,880,292	-
Merille - Marsabit A2	2,549,289,244	-
Pedestrian Crossing at Bellevue	17,736,892	-
Pedestrian Crossing at GM Junction	18,587,404	-
Mwatate –Taveta	633,807,700	-
Total receivables from non-exchange transactions	11,005,470,733	4,470,313,304

21.Receivables from exchange transactions**Current receivables**

	2014	2013
	Kshs	Kshs
Interest receivable on call deposits	21,807,451	23,259,279
Travel imprest	11,055,233	18,920,551
Bank guarantee and deposits	9,158,633	1,705,300
Advertising receivables	287,574,066	-
Other receivables	3,587,841	453,900
Road maintenance funds	459,013,318	1,570,766,994
Staff mortgage deposit fund with HFCK	150,000,000	50,000,000
Debtors & Prepayments	8,053,170	6,692,098
Receivable from Equity Bank	1,007,530	-
Receivable from Kisumu Hotel	34,701	-
Receivable from UAP	-	6,900,000
Current receivables	951,291,943	1,678,698,122
Less: Provision for doubtful debtors	(287,574,066)	-
Total Current receivables from exchange transactions	663,717,877	1,678,698,122

22.Inventories

	2014	2013
	Kshs	Kshs
Stationaries and Consumable stores	4,396,223	4,142,845
Fuel supplies	245,955	-
Total inventories at the lower of cost and current replacement cost	4,642,178	4,142,845

KENYA NATIONAL HIGHWAYS AUTHORITY
Financial Statements for the year ended 30th June 2014

Notes to the Financial Statements Continued

2.2 Property, plant and equipment

Work -in-progress

	Road Assets*										Total
	Cost	Office equipment	Office partitions and fixtures	Computer equipment and accessories	ICT infrastructure and accessories	Furniture and fittings	Motor vehicles	Plant and machinery	Buildings	Kshs	
At 1 July 2012	87,719,477,717	27,592,583	48,198,778	68,673,770	12,270,273	40,543,129	112,538,907	10,859,481	16,015,322	88,056,169,96	
Additions	40,513,625,415	2,729,623	4,963,731	8,512,210	1,128,332	1,934,216	42,200,295	40,627,175	-	40,615,720,997	
Disposals	-	-	-	-	-	-	(7,036,910)	-	-	(7,036,910)	
Transfers/adjustments	-	-	-	-	-	-	-	-	-	-	
At 30 June 2013	128,233,103,132	30,322,206	53,162,509	77,185,980	13,398,605	42,477,345	147,702,292	51,486,656	16,015,322	128,664,854,047	
Additions	37,796,813,131	257,697	10,826,512	41,902,998	28,550,960	4,463,741	1,029,999	490,204,886	24,500,000	38,398,549,924	
Disposals	-	-	-	(87,681)	-	-	-	-	-	(87,681)	
Transfer/adjustments	-	-	-	119,001,297	41,949,565	46,941,086	148,732,291	541,691,542	40,515,322	167,063,316,290	
At 30 June 2014	166,029,916,263	30,579,903	63,989,021	119,001,297	41,949,565	46,941,086	148,732,291	541,691,542	40,515,322	167,063,316,290	
Depreciation and impairment											
At 1 July 2012	-	6,838,793	19,475,961	34,972,679	4,605,305	8,176,732	52,534,916	-	-	126,604,386	
Depreciation	-	3,575,221	13,361,995	21,248,023	4,167,722	5,161,472	35,310,887	4,515,792	400,383	87,741,495	
Disposal	-	-	-	-	-	-	(298,827)	-	-	(298,827)	
At 30 June 2013	-	10,414,014	32,837,956	56,220,702	8,773,027	13,338,204	87,546,976	4,515,792	400,383	214,047,054	
Depreciation	-	3,104,759	6,967,739	19,090,020	8,412,288	4,715,048	21,684,599	5,233,801	451,425	69,659,679	
Disposals	-	-	-	(87,681)	-	-	-	-	-	(87,681)	
Disposal	-	-	-	-	-	-	-	-	-	-	
Transfer/adjustment	-	-	-	-	-	-	-	-	-	-	
At 30 June 2014	-	13,518,773	39,805,695	75,223,041	17,185,315	18,053,252	109,231,575	9,749,593	851,808	283,619,052	
Net book values											
At 30 June 2014	166,029,916,263	17,061,130	24,183,326	43,778,256	24,764,250	28,887,834	39,500,716	531,941,949	39,663,514	166,779,697,238	
At 30 June 2013	128,233,103,132	19,908,192	20,324,553	20,965,278	4,625,578	29,139,141	60,155,316	46,970,864	15,614,939	128,450,806,993	

Notes to the Financial Statements

Property, plant and equipment (Work-in-progress – Road assets)

	2014	2013
	Kshs	Kshs
GoK Payments		
Other GoK Development projects ⁱⁱ		
NCTIP	11,617,750,516	14,653,692,921
Nairobi - Thika Highway Devpt. Project	2,020,949,573	2,735,047,767
Nairobi Southern By pass	2,279,947,349	1,135,190,210
KTSSP	1,882,929,904	291,483,699
NUTRIP	507,501,499	84,268,952
EATTFP	124,802,991	84,626,178
Kisumu Northern By pass	127,078,125	174,267,132
Mombasa By-pass	-	2,860,640
	-	104,354,299
Total expenditure including pending bills	18,560,959,957	19,265,791,798
Foreign Direct Payments		
Northern Corridor Transport Improvt. Project.	9,126,137,505	6,576,867,152
Other GoK Development projects	5,327,454,429	5,983,359,324
Nairobi Southern By pass	2,923,964,941	1,461,982,470
EATTFP	405,498,152	579,812,185
Mombasa Southern By pass	151,566,427	572,692,323
KTSSP	1,301,231,720	154,480,530
Nairobi -Thika Highway Development Project	-	5,918,639,633
Total Foreign Direct Payments	19,235,853,174	21,247,833,617
Grand total	37,796,813,131	40,513,625,415

Other GoK Projects includes land compensation on compulsory acquisitions amounting to Kshs. 975,341,132

24.Intangible assets-software

Cost	Kshs
At1 July 2012	29,596,217
Additions	
VIMS Software	2,341,916
MSQL 2012 Standard edition	814,339
Supply & Installation of HR & Payroll ERP System	-
Sage Pastel Evolution Accounting software	102,170
Microsoft Windows Professional 8	4,963,353
Audit Management System	2,538,000
Procurement software	855,000
Total additions	11,614,778
At30 June 2013	41,210,995
Additions	
Supply & Installation of HR & Payroll ERP System	2,577,400
Sage Pastel Evolution Accounting software	927,231
Microsoft Windows Professional 8 upgrade	704,880
Audit Management System	406,080
Window server standard and media kit	220,375
Total additions	4,835,966

KENYA NATIONAL HIGHWAYS AUTHORITY
Financial Statements for the year ended 30th June 2014

Notes to the Financial Statements

At 30 June 2014	46,046,961
Amortization and impairment	
At 1 July 2012	-
Amortization	-
At 30 June 2013	-
Amortization	-
Impairment loss	-
At 30 June 2014	-
Net book values	
At 30 June 2014	46,046,961
At 30 June 2013	41,210,995

25. Trade and other payables from exchange transactions

	2014	2013
	Kshs	Kshs
Other GoK Development projects	17,345,164,025	8,036,987,408
Nairobi – Thika Highway Devpt. Project	4,765,826,837	3,487,666,846
N. Corridor Trans. Improvement Project	4,374,150,074	1,675,686,877
Retention monies	1,992,459,819	2,224,996,110
Road Maintenance Contractors	475,880,785	488,562,417
Southern bypass	458,957,967	257,996,906
KTSSP	370,101,547	-
Sundry creditors	120,781,396	139,786,870
EATTFP	127,623,511	68,223,570
NUTRIP	25,410,774	34,585,851
Mombasa Bypass	1,987,324	104,354,300
Kisumu Northern Bypass	-	2,860,640
Total trade and other payables	30,058,344,059	16,521,707,795

26. Refundable deposits from customers

	2014	2013
	Kshs	Kshs
Road cutting deposits	71,937,026	34,172,580
Total deposits	71,937,026	34,172,580

Note: Road cutting deposits relate to moneys owed to customers in respect of deposits related to laying of telephone cables, water pipes and sewer lines across our roads.

27. Current provisions

	Gratuity	Audit fees	Total
	Kshs	Kshs	Kshs
Balance at the beginning of the year	75,725,604	5,000,000	80,725,604
Utilized during the year	(74,463,216)	(2,500,000)	(76,963,216)
Additional provisions raised	7,310,065	2,600,000	9,910,065
Balance as at 30 June 2014	8,572,453	5,100,000	13,672,453

Notes to the Financial Statements

28. Related party disclosures

	2014	2013
	Kshs	
Receivables from Kenya Roads Board(note 20)	459,013,318	1,570,766,994
	459,013,318	1,570,766,994

Transactions with related parties

i) Kenya Roads Board	10,123,197,315	8,614,465,471
ii) GoK Receipts	9,860,865,270	14,809,196,691
iii) Key Management Compensation	172,230,736	171,671,757

Key management compensation is included in salaries and allowances as disclosed in note 10.

29. Commitments and contingencies

It is estimated that the Authority has contingent liabilities amounting to approximately KShs. 1.5 billion arising from land compensation claims, contractors' claims resulting from foreign exchange fluctuations, interest on delayed payments charged by contractors and other court awards. The exact amount will however be established on occurrence of the events.

30. Cash generated from operations

	2014	2013
	Kshs	Kshs
(Deficit) Surplus for the year before tax	(873,004,800)	2,371,727,863
Adjusted for:		
Depreciation	69,571,998	87,442,668
Gains and losses on disposal of assets ()	(54,809)	(157,098)
Finance income ()	(325,778,237)	(448,918,953)
Working capital adjustments:		
Increase in inventory ()	(499,333)	52,500
Increase in receivables non-exchange	(6,626,209,897)	(681,727,009)
Decrease in receivables exchange	1,014,980,245	579,252,917
Increase in payables	13,574,400,710	4,693,344,004
Increase in payments received in advance	(67,053,151)	14,711,543
Net cashflows from operating activities	6,766,352,726	6,615,728,435

31. Events after the reporting period

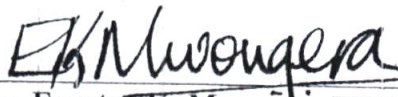
There are no material non-adjusting events after the reporting date.


XVII. 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.

Referen ce 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)
KENHA /356/201 2/2013/ (18)	Financial position A negative working capital of Kshs. 3,863,128,331 depicts the insolvency of the Authority.	The situation was occasioned by inadequate budgetary provision for development works. Exchequer streams could therefore not match contractors' and consultants' claims hence the reported pending bills. The government was developing a policy on annuity financing programs and public private partnerships which would reduce the strain on Exchequer funds for road works.	General Manager (Planning and Environment).	A framework for annuity financing and PPP is at an advanced stage of development.	July, 2015
Same as above	Trade and other receivables An amount of Kshs. 91,052,469 receivable from KRB relate to financial year 2011/12. The recoverability of the receivable was therefore doubtful.	The Authority had written severally requesting the parent ministry to release the funds or confirm their inability to release them. Upon receipt of communication from the parent ministry appropriate action will be taken.	General Manager (Finance)	We have since received formal communication from the parent ministry indicating its inability to disburse. We have since written off the amount.	June 2014.
Same as above	Interest on delayed payments As a result of delays in settling contractors' claims, a total of Kshs.	Interest on delayed payments against the mentioned projects accrued as a result of inadequate Exchequer provisions and their delayed disbursements.	General Manager (Planning and Environment).	A framework for annuity financing and PPP is at an advanced stage of development.	July 2015

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)
	63,695,365 was paid as interest on delayed payments for three projects namely; Isiolo - Merile, Rongo - Homabay and Kericho - Mau Summit.	Annuity financing programs and Public Private Partnerships are expected to reduce the strain on Exchequer funds hence minimise interest on delayed payments.			
Same as above	<p>Slow progress of work</p> <p>Most development projects were behind the planned schedule and it was not clear when they will be completed. The affected projects were; Northern Corridor Transport Improvement Projects (NCTIP), Merille - Marsabit Road, Marsabit - Turbi Road, Eldoret- Turbo-Webuye- Malabaprojects and East African Trade & Transport Facilitation Projects</p>	<p>The slow progress on work were occasioned by the following factors:</p> <ul style="list-style-type: none"> -procurement disputes, -delayed No Objections from the development partners, -inadequate budgetary provisions, -inability to compensate project affected persons along the corridors, -need to redesign the roads in line with changes of traffic requirements, -adverse construction whether -political skirmishes -removal of deleterious materials, Contractual disputes etc. 	<p>General Manager (Special Projects),</p> <p>General Manager (Design & Construction)</p>	<p>Alternative sources of road financing will eradicate most of the noted challenges.</p>	<p>July 2015</p>


 ng. Erastus K. Mongera, FIEK, CBS, EBS, OGW
 Chairman of the Board of Directors
 29th January 2015


 Eng. Linus K. Tonui
 Ag. Director General
 29th January 2015

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