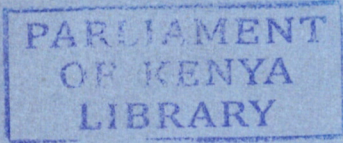


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper Laid*  
*By Hon. A. Duale (KON) on*  
*Thursday, 23.04.2015.*  
*(Afternoon) MW*

**REPORT**  
**OF**  
**THE AUDITOR-GENERAL**  
**ON**  
**THE FINANCIAL STATEMENTS OF KENYA**  
**RURAL ROADS AUTHORITY**  
  
**FOR THE YEAR ENDED**  
**30 JUNE 2014**



KENYA NATIONAL AUDIT OFFICE  
P. O. Box 30084 - 00100, NAIROBI.  
- 3 MAR 2015  
**RECEIVED**



---

**KENYA RURAL ROADS AUTHORITY**

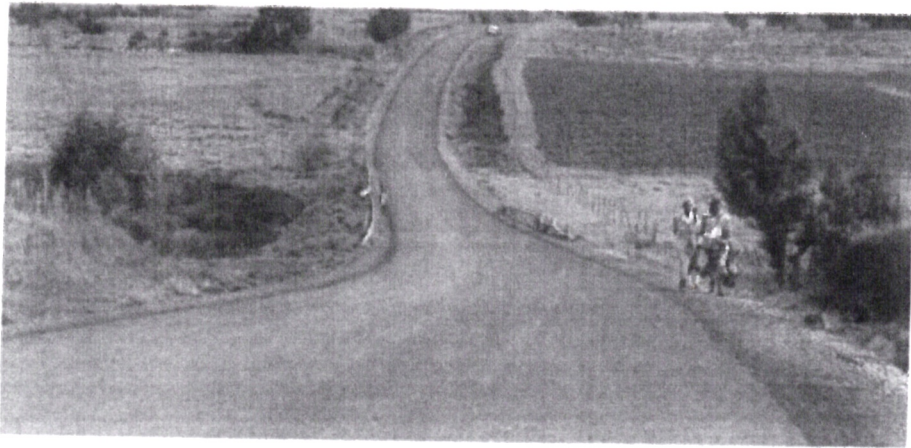
---

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

---



---

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

*Kenya Rural Roads Authority  
Annual Report and Financial Statements  
For the year ended June 30, 2014*

**Table of Contents**

Abbreviations.....	3
<b>I. Key Entity Information and Management</b> .....	<b>5</b>
<b>II. Board of directors</b> .....	<b>7</b>
<b>III. Management Team</b> .....	<b>10</b>
<b>IV. Chairman’s Statement</b> .....	<b>12</b>
<b>V. Report of the Director General</b> .....	<b>15</b>
1.1 Management of rural Roads.....	15
1.2 Rural roads network.....	16
1.3 Adequacy of funding.....	17
1.4 Projected contribution levels to vision 2030.....	17
1.5 Projected optimum level of network.....	17
1.6 Extent of financing required.....	17
1.7 Technical adequacy and cost effective efficiency of road management operations.....	18
1.8 Coordination with other stakeholders.....	18
1.9 Performance & Utilization of Funds.....	19
1.10 Fuel levy funded projects (maintenance).....	19
1.10.1 Design and construction projects.....	19
1.10.2 Road 2000 Projects.....	20
1.10.3 Reconstruction and rehabilitation.....	20
1.11 Quality control.....	20
1.12 ISO Certification.....	21
1.13 Road Sector Investment Programme (RSIP).....	21
1.14 Strategic Plan.....	21
1.15 Performance Contracting.....	22
1.16 Degree of realization of the objectives of the enabling legislation.....	22
1.17 Levels of compliances with the provisions of the Roads Act 2007.....	23
1.18 Policies and Procedures.....	24
1.19 Challenges.....	25
1.20 Mitigating the challenges.....	26
1.21 Way Forward.....	26
1.22 Conclusion.....	27
<b>VI. Corporate Governance Statement</b> .....	<b>28</b>
<b>VII. Report of the Directors</b> .....	<b>32</b>
<b>VIII. Statement of Directors Responsibilities</b> .....	<b>33</b>
<b>IX. Report of the Auditor General</b> .....	<b>34</b>
<b>X. Statement of Financial Performance</b> .....	<b>35</b>
<b>XI. Statement of Financial Position</b> .....	<b>36</b>
<b>XII. Statement of Changes in Net Assets</b> .....	<b>37</b>
<b>XIII. Statement of Cash Flows</b> .....	<b>38</b>
<b>XIV. Statement of Comparison of Budget And Actual Amount</b> .....	<b>39</b>
<b>XV. Notes to the Financial Statements</b> .....	<b>40</b>
1. Statement of compliance and basis of preparation.....	40
2. Basis of Preparation.....	40
a) Presentation of Financial Statements.....	40
b) Budget Information.....	41
c) Taxation.....	41
d) Translation of foreign currencies.....	41
e) Revenue recognition.....	41
f) Financial Instruments.....	42
g) Provisions.....	44
h) Operating leases.....	44
i) Provision for liabilities and charges.....	44
j) Property, plant and equipment.....	44
m) Construction contracts.....	46
n) Impairment of Non-Financial Assets.....	46
o) Inventories.....	47
p) Cash and Cash Equivalents.....	47
q) Nature and purpose of reserves.....	47

*Kenya Rural Roads Authority  
Annual Report and Financial Statements  
For the year ended 30 June 2014*

r)	Changes in accounting policies and estimates.....	48
s)	Employee Benefits .....	48
t)	Comparatives.....	49
3.	Critical Accounting Estimates, Judgements and Assumptions.....	49
4.	Segment reporting .....	50
5.	Financial risk management objectives and policies.....	50
6.	Road Maintenance Levy.....	54
7.	Other Government Grants .....	54
8.	Donor Grants .....	54
9.	Finance Income .....	54
10.	Other Income.....	55
11.	Rental Revenue .....	55
12.	Road works expenses .....	55
13.	Directors' Costs.....	55
14.	Employment Costs .....	55
15.	Depreciation and amortization .....	56
16.	Repairs and maintenance .....	56
17.	Other Operating expenses .....	56
18.	Cash and cash equivalents.....	56
19.	Receivables .....	57
20.	Inventories.....	57
21.	Property Plant and equipment .....	58
22.	Payables.....	60
23.	Employee Benefit obligations .....	60
24.	Prior Year Adjustments .....	60
25.	Analysis of Accumulated Surplus .....	61
26.	Related Parties.....	62
ii)	Key management personnel compensation .....	62
b)	Outstanding balances resulting from related parties transactions.....	62
27.	Comparison of Budget And Actual Amount .....	63
28.	Contingent assets & liabilities.....	63
29.	Commitments: operating lease rentals.....	63
30.	Fair value.....	64
31.	Capital commitments.....	64
32.	Post balance sheet events .....	64
33.	Currency.....	64
<b>XVI.</b>	<b>Progress on Follow up of auditor recommendations .....</b>	<b>65</b>

**Abbreviations**

AIA	Appropriation In Aid
EAC	East African Community
EC	European Commission
EGH	Elder of Golden Heart
EU	European Union
FY	Financial Year
GIS	Geographical Information System
GoK	Government of Kenya
HIV/AIDS	Human Immune Deficiency Virus /Acquired Immune Deficiency Syndrome
HSC	Head of State Commendation
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
KeRRA	Kenya Rural Roads Authority
KeNHA	Kenya National Highways Authority
KfW	Germany Development Bank
KIHBT	Kenya Institute of Highways & Buildings Technology
KM	Kilometres
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
KRBF	Kenya Roads Board Fund
KURA	Kenya Urban Roads Authority
KWS	Kenya Wildlife Service
MBS	Member of the Burning Spear
MTEF	Medium Term Expenditure Framework
MTRD	Materials Research & Testing Department
MoLG	Ministry of Local government
MoTI	Ministry of Transport and Infrastructure
MP	Member of Parliament
NSE	Nairobi Stock Exchange
OGW	Order of the Golden Warrior
RICS	Road Inventory & Condition Survey
RMLF	Road maintenance Levy Fund
RSIP	Road Sector Investment Programme
SIDA	Swedish Development Cooperation Agency
TC, F&PA	Technical Compliance, Financial & Performance Audits

### **Our Vision**

To be a provider of an adequate, quality, safe and efficient rural road network

### **Our Mission**

To construct, maintain and manage the rural road network for sustainable socio-economic development

### **Core Values**

As a public sector institution, Kenya Rural Roads authority is dedicated to excellence and provision of high quality professional services to the stakeholders. The values that guide KeRRA in achieving its vision and mission are:

**a) Integrity:**

We are committed to the promotion of honesty, transparency, accountability and professional ethics.

**b) Leadership:**

We practice servant leadership where customer is king.

**c) Creativity:**

We explore innovative methods of implementing our mandate.

**d) Teamwork:**

We recognize the synergy brought about by team work and actively promote the same.

**e) Reliability in delivery of service:**

We strive to deliver services in a timely and cost effective manner.

**f) Environmental and Social Stewardship:**

We are committed to mainstreaming of environmental, gender and other cross cutting issues in our operations.

## **I. Key Entity Information and Management**

### **a) Background information**

Kenya Rural Roads Authority (KeRRA) is a State Corporation established under the Kenya Roads Act 2007. The Authority is headed by a state-appointed Board of Directors led by a chairman with the Director General being the Chief Executive of the Authority.

At the cabinet level the Authority is represented by the Cabinet Secretary for the Ministry of Transport and Infrastructure who is responsible for the general policy and strategic direction of the Authority.

The Authority began its operations in September 2008 and has 47 regions covering all parts of the country.

### **b) Principal activities**

As stipulated in the Kenya Roads Act 2007, the Authority is responsible for the management, development, rehabilitation and maintenance of the Rural Road network in Kenya classified as D, E and others.

### **c) Key Management**

The Authority's day to day management is under the following key organs;

1. Board of Directors
2. Senior management led by the Director General

### **d) Fiduciary Oversight Arrangements**

1. Ministry of Transport and Infrastructure
2. Kenya Roads Board

### **e) Independent auditor**

The Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 49384-00100  
Nairobi, GPO

**f) Principal Place of Business**

Blue Shield Towers 6th Floor,  
Hospital Hill Road, Upper Hill,  
PO Box 48151 - 00100  
Nairobi GPO

**g) Principal bankers**

Kenya Commercial Bank Limited

Moi Avenue Branch  
PO Box 48400-00100  
Nairobi GPO

NIC Bank Limited  
Upper Hill Branch  
P.O.BOX 44599-00100  
NAIROBI GPO

Equity Bank Limited  
Equity Centre,  
Hospital Road, Upper Hill.  
P.O. Box 75104-00200,  
Nairobi

Cooperative bank Limited  
Co-operative House,  
Haile Selassie Avenue,  
P.O. Box 48231 - 00100,  
NAIROBI.

## **II. Board of directors**

The Board draws representatives from public and private stakeholders as set out in section 8 of the Kenya Roads Act 2007. The members who held the office during the year under review were as follows:



**Eng. Richard Chepkwony**  
Chairman

Eng. Richard Chepkwony was the Chairman of the Board for the period under review. He was born in 1950 and holds a Master of Science degree in Forest Industries Technology and a Bachelor of Engineering degree (Civil) and a Higher National Diploma in Building and Civil Engineering. He has over thirty years experience in the Building and Civil Engineering Industry as a structural/civil engineer. He is a fellow of the Institute of Engineers of Kenya and a member of the Engineers Board of Kenya. He has held several senior positions within the public service. He is trained in Corporate Governance. He was nominated under section 8(1) f(i) of the Kenya Roads Act 2007 by the Institute of Engineers of Kenya.



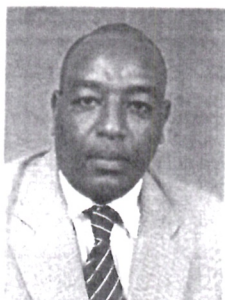
**Eng. Mwangi Maingi, MBS, OGW**  
Former Director General and Secretary  
to the Board

Eng. Mwangi Maingi is the Director General of the Authority and the Secretary to the Board of Directors. He was born 1953 and holds a Master of Science degree in Highway Engineering and Bachelor of Science degree in Engineering. He has held several senior management positions in the public service amongst them Chief Engineer (Roads), Chief Engineer (Materials), General Manager – Numerical Machinery Complex Limited and Registrar, Engineers Registration Board of Kenya. He is a registered Consulting Engineer and is a corporate member of the Institute of Engineers of Kenya. He is trained in Corporate Governance.



**Dr. Kamau Thugge**  
Principal Secretary- The National  
Treasury

Dr. Kamau Thugge was born in 1965. He is currently the Principal Secretary at The National Treasury. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) as Economist/Senior Economist and Deputy Division Chief. Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy (PhD) in Economics, also from Johns Hopkins



**Mr Festus King'ori**  
Alternate to the Principal Secretary –The  
national Treasury

Mr King'ori was born in 1963. He holds a Bachelor of Commerce degree from the University of Nairobi and is finalizing an MBA from JKUAT. He also holds a post graduate certificate in Investment Appraisal and Management from Harvard University and has undergone extensive training in general management, strategic leadership and financial management, and corporate governance. He has extensive experience in financial and general management and corporate governance gained from interaction with both public and private sector institutions, as well as from the World Bank, where he has worked on secondment by the Government of Kenya. Mr. King'ori is also an alternate director in Kenya Ferry Services Ltd and Kenya Petroleum Refineries Ltd, and has previously served as an alternate director on many other boards in the public sector. He is a full member of the Kenya Institute of Management.



**Mr. John Konchella**  
Principal Secretary- Ministry of  
Devolution & Planning

Mr. Konchella is the Principal Secretary, Ministry of Devolution and Planning, State Department for Devolution. Before his appointment to this position, he was serving as a Senior Manager and Operations Manager at the National Bank of Kenya, Head Office. Mr. Konchella has an MBA (Double major) in Strategic Management and Marketing, B.Com (Banking) and is a Fellow of the Kenya Institute of Bankers, Kenya.



**Amb. Philip Richard Owade**  
Alternate to Principal Secretary Ministry  
of Devolution and Planning

Amb. Philip Owade was born in 1956. He holds a Master degree in Public Policy and Administration and a Bachelor of Laws degree. He is a career diplomat for over 29 years. He is trained in Corporate Governance and is currently the Secretary Devolution and Inter Governmental Relations, Ministry of Devolution & Planning.



**Eng. John Mosonik**  
Principal Secretary- Ministry of Transport  
and Infrastructure

Eng. Mosonik is currently the Principal Secretary- Ministry of Transport and Infrastructure. He holds Bachelor of Science in Civil Engineering from the University of Nairobi



**Eng. P. Kilimo**

Alternate to Principal Secretary- Ministry  
of Transport and Infrastructure

Eng. Kilimo was born in 1957. He holds a Bachelor of Science degree in mechanical Engineering from the University of Nairobi. He has undergone leadership and various graduate courses at John F. Kennedy School of Government, Harvard University and various British Universities. Eng. Kilimo has extensive experience in public service having spent 34 years in Government in different capacities.



**Mrs Caroline Nkirote Nyororo**  
Intitute of Surveyors of Kenya

Mrs. Caroline Nkirote Nyororo was born in 1969. She holds a Bachelor of Arts (Lands Economics) and Master of Business Administration (Strategic Management). Mrs. Nyororo has held various senior management positions and has been trained in Corporate Governance. She is a registered and practising valuer and is a member of Institution of Surveyors of Kenya. She was appointed under section 8(1)f(ii) of the Kenya Roads Act 2007.



**Mr. Charles Birech**  
Kenya Farmers Association

Mr. Charles Birech was born in 1971. He is a holder of Bachelor of Arts General and a Master of Business Administration (Finance option). He has held several senior management positions and is a member of the Chartered Institute of Marketing (U.K). He is trained in Corporate Governance. She was appointed under section 8(1)f(v) of the Kenya Roads Act 2007.



**Mr. Renson K. Mbwagwa**  
Kenya Institute of Physical Planners

Mr. Renson Mbwagwa was born in 1950. He holds a Bachelor of Arts and Master of Arts in Urban and Regional Planning and a post graduate Diploma in Town and Country Planning. He previously served as the Director in the Physical Planning department of the former Ministry of Lands and Settlement. He is trained in Corporate Governance and is a member of the Kenya Institute of Physical Planners, Architectural Association of Kenya and the Physical Planners Registration Board. He was appointed under section 8(1)f(iii) of the Kenya Roads Act 2007.



**Dr. Desterio E. Ouma**  
Institutions of Higher Learning

Dr. Desterio Ernest Ouma was born in 1941. He holds a Doctor of Philosophy degree, a Master degree in Public and International Affairs and a Bachelor of Science degree. Dr. Ouma has held various distinguished positions in the area of academics. He is trained in Corporate Governance. He was appointed under section 8(1)f(iv) of the Kenya Roads Act 2007.

### III. Management Team



**Eng. Mwangi Maingi, MBS, OGW**  
*P. Cons. Eng., BSc., MSc., MIEK*  
*Former Director General*



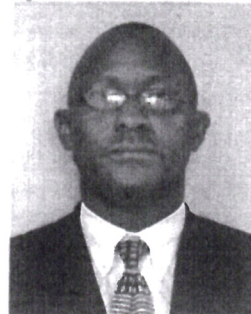
**Eng. John Ogango**  
*P. Eng., BSc. MSc., MIEK.*  
*General Manager -Planning and Roads 2000*



**Eng. Frank D. Karanja**  
*P. Eng., BSc., MIEK*  
*Ag Director General*



**Dr. Peter Rutto**  
*PhD, MBA, ACCA, BSc, BCom,*  
*General Manager -Finance*



**Eng. George W. Chiaji**  
*P. Eng., BSc., MIEK*  
*Ag. General Manager-Design and Construction*



**CPA Judith Chumo**  
*MBA, CPA(K)*  
*Manager- Internal Audit*



**Eng. Alfred Achoki**  
*P. Eng., BSc., MIEK*  
*Manager -Quality Assurance*



**Mr. Justin Rapando**  
*LLB Msc, Dip(KSL), CPS(K), M(CIArb)*  
*Manager- Legal affairs*



**MS Judith Yamo**  
*BEd, HNDP(HRM), IHRM, MBA*  
*Manager-Human Resource & Administration*



**Mr. Samuel Kingori**  
*BSc(Comp. Eng.), CCNA, MSCE*  
*Ag. Manager- ICT*



**MS Margaret Muthui**  
*Msc, Bsc*  
*Ag. Manager- Procurement*



**Mr. Kenneth Wando**  
*Bsc(Surveying and Photogrammetry), MISK*  
*Manager- Survey*



**MS Catherine Butaki**  
*BA(Comm), PGD(Mass. Comm), PRSK*  
*Manager- Public relations*

## **IV. Chairman's Statement**

### **Overview**



Good corporate governance requires that the funds used to deliver services are invested wisely so as to provide an appropriate level of service for the public in the long term in the most cost-effective way. This is done in such a way as to achieve sustainability and to allow stakeholders and interested parties to be able to assess the performance and ensure accountability. This report therefore is a record of what transpired during the financial year ended 30 June 2014.

The annual report and financial statements are the primary mechanism used by the Authority to provide accountability and allow the public to assess the Authority's overall financial performance. The financial statements are designed to provide a snapshot of the position (the statement of financial position) and performance (the statement of financial performance) of the Authority.

### **Financial Performance**

During the financial year 2013/2014, the Authority received a total of Kshs 8.8billion from Kenya Roads Board under Road Maintenance Levy and Kshs 14.9 billion as funding from the exchequer. These funds were utilised for maintenance and rehabilitation of the rural roads network in accordance with the provisions of the Kenya Roads Board Act 1999 and the Kenya Roads Act 2007.

### **Strategy**

The Authority is currently implementing its five year strategic plan which was formulated last financial year and covers the financial years 2012/13 - 2017/18. The strategic plan has three main goals:

- i) Design, construct, Rehabilitate and Maintain entire rural road network to support accessibility to all production, market and social centres for enhanced economic growth.
- ii) Build and Strengthen Institutional capacity to execute the mandate of the Authority.
- iii) Ensure all cross cutting issues are mainstreamed in Authority's operations

The board is pleased with the progress made so far in implementing this strategic plan as reported elsewhere in this report.

### **Corporate Governance**

The Authority has continued to embrace corporate governance as noted in the corporate governance section of this report. During the year members of the board were trained in corporate governance matters to ensure the board's effectiveness in delivering the Authority's mandate.

### **Future Outlook 2014/2015**

His Excellency President Uhuru Kenyatta unveiled a plan to tarmac 10,000 kilometres of Roads across the country in 5 years' time through Annuity Financing Framework programme. The Annuity Financing Project is an innovation that largely benefits many stakeholders, especially the taxpayer as it focuses on value for money. It achieves this by ensuring performance and the generation of synergies from cooperation among stakeholders. It guarantees faster and more efficient construction while reducing administrative costs.

The programme is designed to make Kenya not only a low-cost investment and trading destination, but also promote national integration and improve security due to connectivity of regions and communities. Under this Annuity Programme, 2,000 kilometres of small roads will be complete within the 2014/2015 financial year. In the 2015/2016 financial year, 3,000 kilometres made up of 80 per cent small roads and 20 per cent highways will be done, whereas in the 2016/2017 financial year 5,000 kilometres, 80 per cent of which will be small roads and 20 per cent highways, will be completed.

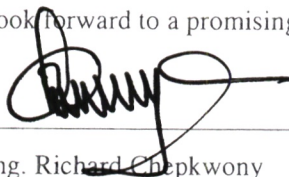
Kenya Rural roads Authority will play an important role in the implementation of this program. Out of the 2000 Kilometres scheduled to be constructed in the financial year 2014/2015 a total of 1,170 kilometres (59%) will be implemented by the Authority.

### **Acknowledgement**

I take this opportunity to express my sincere gratitude to the Government of Kenya, Ministry of Transport and Infrastructure, Development Partners, taxpayers and other

stakeholders for their continued support, providing an enabling environment, co-operation, guidance and continued confidence in Kenya Rural Roads Authority

I wish to thank my fellow Board members for their support and contributions made during deliberations on policy issues and support to management. I also take this opportunity to convey my appreciation to the entire staff and management for their commitment, diligence, and resilience towards delivering the Authority's mandate. I look forward to a promising financial year 2014/15.



---

Eng. Richard Chepkwony  
**Chairman**

## **V. Report of the Director General**

### **Overview**



Kenya's development strategy is guided by the Kenya Vision 2030 which visualizes a globally competitive and prosperous Nation offering High quality of life to all Kenyans by 2030 with three pillars namely economic, social and political. The Vision 2030 implementation strategy utilises medium Term Plans (MTPs). The MTPs are implemented through Medium Term Expenditure Framework (MTEF) which targets and applies sector approach, the key sectors being physical infrastructure, Agriculture, and rural development, Environment water and sanitation.

The transport sector and road sub sector in particular is a key enabler of economic growth by providing access for goods and services for inputs and also to markets. The transportation sector in general and the roads sub sector in particular has been identified under Kenya's vision 2030 as one of the key sectors to drive the economy towards poverty reduction. The Road subsector in Kenya plays an important role for freight and passenger movement in the country.

### **1.1 Management of rural Roads**

Kenya roads Act 2007 provided for establishment of three authorities namely:

- Kenya national Highways Authority (KeNHA), whose broad function is management development and maintenance of national roads;
- The Kenya urban Roads Authority (KURA) whose broad function is management development and maintenance of urban roads; and
- Kenya Rural Roads Authority (KeRRA) whose broad function is management development and maintenance of rural roads

The authority continues to discharge the following mandate as stipulated in the Kenya Roads Act 2007:

- Constructing, upgrading, rehabilitating and maintaining roads under its control;
- Controlling reserves for rural roads and access to roadside development;
- Implementing road policies in relation to rural roads;

- Ensuring adherence by motorists to rules and guidelines on axle load control rules prescribed under the Traffic Act or any other regulations under the Act;
- Ensuring that the quality of road works is in accordance with such standards as may be defined by the Minister;
- Overseeing the management of traffic on rural roads and issues related to road safety in collaboration with the Ministry responsible for transport and the police department.
- Collecting and collating all such data related to the use of rural roads as may be necessary for efficient forward planning.
- Monitoring and evaluating the use of rural roads;
- Planning the development and maintenance of rural roads;
- Liaising and co-coordinating with other Authorities in planning and operations in respect of roads;
- Preparing the road work programmes for all rural roads;
- Advising the Minister on all issues relating to rural roads and;
- Performing such other functions related to the implementation of this Act as may be directed by the cabinet secretary.

## 1.2 Rural roads network

Roads are classified into various categories from A to E corresponding for International trunk roads to District roads respectively. The Authority manages the rural roads network classified as D, E and others totalling to 136,375 Kms as indicated below.

No	Class/description	Pavement Type		Total(Kms)
		Paved(Kms)	Unpaved(Kms)	
1	Class D Roads	1,233.28	9,485.38	10,718.67
2	Class E Roads	590.58	26,133.52	26,724.11
3	Special Purpose Roads	100.10	10,405.92	10,506.03
4	Unclassified Roads	700.52	87,725.61	88,426.14
<b>Total(Kms)</b>		<b>2,624.50</b>	<b>133,750.44</b>	<b>136,374.94</b>
<b>Percentage</b>		<b>1.9%</b>	<b>98.1%</b>	<b>100%</b>

### Condition of rural roads network

Although a lot of investment has gone into the road network over the last few years, a big proportion of the rural roads network is still in poor condition.

### **1.3 Adequacy of funding**

Kenya's Infrastructure Funding Gap is estimated at US\$2.1 billion (KShs 180 billion) annually, for the next ten (10) years. The Roads Sub-Sector alone has a corresponding gap of US\$ 44 million (approx. KShs 40 billion) per year. Infrastructure gaps could be halved through eliminating inefficiencies, and adoption of appropriate financing strategies and technologies.

### **1.4 Projected contribution levels to vision 2030**

The Kenya Vision 2030, a long term planning blueprint launched in the year 2008 recognizes the improvement of infrastructure as one of its foundations to creating a globally competitive and prosperous country with high quality of life by the year 2030. However, this comes in a background of inadequate rural road network in terms of coverage to meet current and future demands.

At the current levels of funding and output the Authority targets to increase the rural road network under tarmac from the current 1.7 % to 5.9% and another 90,000 Kms (61.3%) of well maintained rural roads as part of her contribution to Vision 2030 target of reducing the percentage of roads under poor conditions from about 30% to 20%.

### **1.5 Projected optimum level of network**

The Ministry of Transport and Infrastructure has published a blue print on the Road Sector Investment programme and strategy 2010-2024. Overall, it is projected that there will be construction of 206 Kms of new roads at Kshs. 27billion, upgrading of 3,884 Km to bitumen standards at Kshs. 163 billion and upgrading of 1175 Km to low volume seal at a cost of Kshs. 18 billion.

### **1.6 Extent of financing required**

The optimal requirement for routine and periodic maintenance for Road network in Kenya stands at KShs 40 billion while the Road maintenance Levy realizes only KShs 25 billion annually. The shortfall for maintenance of existing road network amounts to KShs 15 billion annually.

The Authority requires resources as tabulated below to be able to implement adequately its strategic plan for the next three years.

Source of Funds	2014/2015	2015/2016	2016/2017
	Kshs	Kshs	Kshs
RMLF (22% and 10%)	9,317,000,000.00	10,248,700,000.00	11,273,570,000.00
Direct GOK Funding	19,913,066,000.00	21,904,372,600.00	24,094,809,860.00
<b>Total Government Funding</b>	<b>29,230,066,000.00</b>	<b>32,153,072,600.00</b>	<b>35,368,379,860.00</b>
AFD	931,700,000.00	931,700,000.00	1,024,870,000.00
KFW/EU	1,771,561,000.00	1,948,717,100.00	2,143,588,810.00
<b>Total Development Partner Funding</b>	<b>2,703,261,000.00</b>	<b>2,880,417,100.00</b>	<b>3,168,458,810.00</b>
<b>TOTAL</b>	<b>31,933,327,000.00</b>	<b>35,033,489,700.00</b>	<b>38,536,838,670.00</b>

The financial requirements are continuously reviewed annually to ensure consistency with the MTEF budget ceilings. The Authority is exploring ways of raising funds through development partners as well as forming partnerships with county governments and other stakeholders.

#### 1.7 Technical adequacy and cost effective efficiency of road management operations

Authority standardized tender documents and specifications for works carried out under RMLF funding making it possible to compare and therefore control unit costs.

By adopting an integrated Road Management System (RMS) comparable unit costs can be derived and hence more realistic estimates. For the first time in a long time tendered sums have become consistently lower than initial estimates, although competition has increased with more interested contractors joining the industry.

Adequate and quality supervision remains a challenge together with lack of experienced local contractors. Deliberate training programmes at the Kisii Training School assisted by development partners, have been pursued to alleviate this situation.

#### 1.8 Coordination with other stakeholders

At the policy level, coordination between Authorities has been very well carried by the Ministry of Transport and Infrastructure through regular executive committee meetings chaired by the cabinet secretary.

The meetings have provided the right forum for harmonization of policies, standards and public outlook. At the county level, the Authority has continued to engage with the county government and the local leaders on prioritisation of the roads to be maintained.

The Authority's regional offices have continued to provide technical assistance to the county governments, Constituency Development Fund and all interest groups wishing to enjoin the Authority in the maintenance of the rural roads network while engaging the public through the Constituency Road Committees at the constituency level.

### **1.9 Performance & Utilization of Funds**

Kenya Rural Roads authority is committed to ensure that the funds received from the government as well as development partners have been applied for the purpose for which it was intended and that the use of such resources is efficient and transparent, in accordance with the principles, procedures and requirements of the authority and sound professional practise. The authority aims to ensure that value for money is achieved.

The average utilization of available funds was 79% while the extent of implementation of the APRP was at 105%. The low utilisation was due to delays in the disbursements of funds.

### **1.10 Fuel levy funded projects (maintenance)**

These were implemented under three RMLF allocation heads, 22% and 10%.

#### **1.10.1 Design and construction projects**

##### ***New roads constructed***

The total Kilometres upgraded to bitumen during the year was 115 lane Km against a target of 364.5 lane km.

##### ***Roads designed***

During the financial year a total of 414 lanes Km were designed to final engineering standards. Several other roads were in various stages of design.

##### ***Bridges***

A total of 5 drainage structures (bridges) were constructed.

### **1.10.2 Road 2000 Projects**

As part of the overall strategy to promote economic growth, poverty reduction and market integration, the Government of Kenya in consultation with the donor community, developed in the early 1990's a roads 2000 concept which aimed at improving the road network and creating employment opportunities through the use of appropriate mix of labour and equipment for a well maintained and sustainable road network.

The Road 2000 concept focuses on four main objectives namely:

- Implementation of spot improvement and partial rehabilitation of damaged rural roads in each network,
- Training of engineers and other technical staff on the technical contract administration and business skills,
- Development of locally based small scale contractors for routine maintenance and improvement works; and
- Strengthening the institutional capacity in each district.

The Roads 2000 strategy features include

- Regional based approach to maintenance of roads
- Utilising local resources, appropriate technology and labour based methods where and when these are cost effective, and there by assist in alleviating poverty
- Nationwide approach to capacity building within areas of training and road maintenance system development
- Utilising the private sector where and when cost effective

### **1.10.3 Reconstruction and rehabilitation**

The total length of roads reconstructed/rehabilitated in 2013/14 was 50 lane kilometres

### **1.11 Quality control**

The Authority is committed to adhering to the quality standards and ensures value for money, for every expenditure. The Authority has developed a total quality assurance system for implementation of projects and operations as a whole. The total quality system covers all the Authority's activities from policy and regulations, to construction norms and standards, contract supervision and workmanship.

#### **1.12 ISO Certification**

During the year the Authority implemented the Quality Management System and conducted quality audits achieving 95% of the steps required towards ISO certification. Application for ISO 9001:2008 has already been done to the relevant body and the Authority aims to be ISO certified in the current year. The process is ongoing.

#### **1.13 Road Sector Investment Programme (RSIP)**

The Roads Sector Investment Programme and Strategy identifies activities that will provide efficient road transport. These include construction and rehabilitation of roads, concessioning, rehabilitation of rural access roads and reclassifying existing roads among others.

The Road Sector Investment Programme (RSIP) forms the basis of prioritization of roads in the Annual Road works Program implemented by the Authority in each financial year. The RSIP clearly identifies the Road Section to be considered, types of interventions and the estimated costs.

Kenya Roads Board monitors the implementation of the RSIP through regular reports and stakeholders meetings.

The implementation of the RSIP requires great cooperation and support financially or otherwise from the Government, Ministry of Transport and Infrastructure, Road Kenya Roads Board, Development Partners, Private Sector and other stakeholders. The Authority shall continue to ensure that the APRP is based on the RSIP in the prioritization of road works.

#### **1.14 Strategic Plan**

During the last financial year, the Authority formulated a new Five Year Strategic Plan (2012/13 - 2017/18) to align the Authorities activities with changing demands and Kenya Constitution 2010.

The plan was developed and formulated based on the current government strategic direction as highlighted in Kenya Vision 2030. Further the strategic plan was necessitated by the dynamism in the organization of Government that requires all Government institutions to appropriately align their strategic objectives to government

policies. In addition, the Authority has aligned its strategic plan with the objectives of the Road Sector Investment Plan (RSIP) of the Ministry for the period 2010-2024.

The strategic goals, objectives and planned outcomes together with a summary of the progress made during the 2013/2014 are summarised in the table below.

### **1.15 Performance Contracting**

Kenya Rural Roads Authority signed performance contract with the Government of Kenya through the Ministry of Transport and Infrastructure. The Key Performance Indicators outlined in the Performance Contract include financial & stewardship, service delivery, operational and qualitative indicators derived from the Medium Term Expenditure Framework, Vision 2030 and Sector Performance standards.

In the financial year 2013/2014, the Authority scored an average 2.9 compared to 2.8 in the financial year 2012/2013.

The Authority is committed to meeting its performance targets and improving service delivery in delivering its mandate.

### **1.16 Degree of realization of the objectives of the enabling legislation**

The Kenya Road Act 2007 was enacted to provide for the establishment of the three Road Authorities amongst them the Kenya Rural Roads Authority and to make provisions for the powers and functions of the authorities and other connected purposes.

Kenya Rural Roads Authority was established under section 6 of the Act. The Board of Directors of the Authority was launched in 2008 and the Authority is fully functional. The Authority has continued to discharge its responsibility for the management, development, rehabilitation and maintenance of rural roads as stipulated under section 7 of the Act. The discharge of these functions has been facilitated by the exercise of the powers bestowed to the Authority under the Act

The Authority has managed to maintain 40% of the Road network since its creation, the demand for new Roads has outstripped the funding capacity. It is considered that the objectives of the Roads Act have largely been met in that there is now a functional

Rural Roads Authority who owns and is technically responsible in law for construction, maintenance and management of rural roads with established and sustainable funding.

### 1.17 Levels of compliances with the provisions of the Roads Act 2007

The Authority carries out its operations within the framework of the provisions of the Roads Act 2007 as illustrated below:-

Item No.	Provision in the Act	Level of compliance
1	Part I on the title, commencement and interpretation	The Authority continues to note the title and commencement date of the Act and further recognizes the definitions attached to the key terms in part I of the Act.
2	Part II on the establishment of the various Roads Authorities	The Authority operates as a legal entity in the discharge of its functions. The composition of the Board of Directors is as per the provisions of the Act. The Board conducts its affairs and business as per the stipulations of the Act.
3	Part III on the administration of the authority	The internal administration of the authority is as per the provisions of the Act. The members of the Board and the Director General have qualifications required of them under the Act. The staff of the Authority are appointed and remunerated as per the provisions of the Act. The Authority has established regional offices that operate as per the provisions of the Act.
4	Part IV on the powers of the Authorities generally	The Authority exercises the powers conferred to it. This is bearing in mind the purpose for which the organization was set up for. The exercise of the powers is on need basis.
5	Part V on financial provisions	The Authority manages its financial matters as per the provisions of the Act. This includes:- <ul style="list-style-type: none"> <li>• Recognizing and utilizing the funds allocated to it.</li> <li>• Investing funds as per the legal guidelines.</li> <li>• Participation in preparation of Roads Investment Programme</li> <li>• Preparation of Annual Road work plans</li> <li>• Preparation of Budgets for all financial years and abiding by them.</li> <li>• Submission of Annual work plans to the Kenya Roads Board.</li> <li>• Keeping of proper books of accounts and preparation of Annual Financial statements</li> <li>• Ensuring Audit of the financial statements by the Auditor-General.</li> <li>• Ensuring sound financial management of the Authority</li> </ul>

6	Part VI on Miscellaneous provisions	<p>The authority abides by the miscellaneous provisions of the Act in the discharge of its mandate. This is in regard to :</p> <ul style="list-style-type: none"> <li>• Protection of employees from liability for bonafide acts done in the course of duty</li> <li>• Performance agreement obligations</li> <li>• Submission of Annual Report to the Minister.</li> <li>• Ministers power of direction Making of regulations</li> <li>• Classification of roads</li> <li>• Inventory of roads</li> <li>• Structures and works over and above roads</li> <li>• Compliance with the provisions of the Roads Act 2007</li> <li>• Confidentiality of information</li> <li>• Offences under the Act</li> <li>• Making of returns</li> </ul>
---	-------------------------------------	--

#### 1.18 Policies and Procedures

The following policies were developed and are updated continuously based on the operating environment. The main purpose of these policies is to guide the implementation of the Strategic Plan and the general functioning of the Authority.

Item No.	Policy	Purpose
1	<i>Internal Audit Charter</i>	Serves as a guide to the Internal Audit Department of the Authority in the performance of its roles and responsibilities. It provides a basis for management and the Audit Committee of the Board to use in evaluating the functions of the Internal Audit Department
2	<i>Information Communication Technology Policy</i>	Deals with the Development, Investment and Application of the Information Communication Technology within the authority.
3	<i>Board Charter</i>	Defines the Board's roles and responsibilities, structures and its strategic function.
4	Service Charter	Defines the Authority's obligations and duties to our clients. It also provides for the Authority's Goals, Values and Mission Statements.
5	<i>Anti-Corruption Policy</i>	Sets out the values and principles of the Authority and the practical steps to deal with instances of corruption within the Authority.

6	Human Resource Management Policies	Define the relationship between the Authority and its employees on a wide range of issues such as training, recruitment, staffing, performance appraisal and staff benefits.
7	<i>Risk And Governance Policy</i>	Aimed at promoting good governance within the Authority and minimizes the exposure to risks in the transactions involving the Authority.
8	<i>Procurement Policies and Procedure Manual</i>	Main aim of the policy is to procure goods ,works and services in the most economically favourable ,open and transparent manner. Soliciting for competitive bids is the guiding principle based on clear and accurate description of technical requirements of materials, products and services to be procured.
9	<i>Environmental Planning and Management Policy</i>	Policy provides a framework for the Authority's environmental objectives and targets, to manage all its activities with a view to prevent, reduce, or mitigate harmful effects on natural resources, and ensuring that man-made changes to the environment do not have harmful effects on humans and the environment.
10	<i>Finance Management Policies</i>	They guide the management of the Authority's financial and non financial resources. They consist of the various International Accounting Standards and the Regulations issued by the Government of Kenya.

### 1.19 Challenges

The following are the major challenges facing the authority in delivering its mandate:

- Inadequate funding for all projects under the Strategic Plan
- inadequate infrastructure/facilities for monitoring
- Inadequate personnel making implementation difficult
- Depletion of natural road construction materials
- Inadequate local capacity in road construction
- Inadequate research and development on new construction materials
- Inadequate reliable data and statistics on rural roads
- Inadequate coordination in physical planning
- Encroachment on road reserves
- Overloading by motorists
- Insufficient funds to support construction of new roads to bitumen standard.

### 1.20 Mitigating the challenges

To mitigate these challenges and to ensure that KeRRA is able to overcome them in future, the following mitigation measures have been identified.

- Development of new roads construction technologies to conserve natural construction materials e.g trials on low volume sealed roads using alternative stabilizing materials.
- Review of procurement rules and regulations
- Enactment of the National Construction Authority Act No. 41 of 2011 and the Engineer's Registration Act 2011
- More funding for research and trials on road construction materials and technologies.
- Enhanced funding for training of engineers.
- Improve coordination of various government departments dealing with infrastructural services.
- Rigorous implementation of laws relating to encroachment of road reserves.
- Rigorous implementation of laws relating to management of axle loads.
- More Public-Private-Partnerships (PPP) for road projects to increase funding.

### 1.21 Way Forward

Following the promulgation of the new constitution in August 2010, all government departments and agencies are required to align and revise their functions to comply with the new constitution. The Board, in consultation with its stakeholders is reviewing its mandates and operations to ensure compliance with the provisions of the Constitution.

In the past, the Government has financed development of roads through traditional mechanisms (Exchequer & RMLF). Road infrastructure gap has continued to grow due to increased demands and hence the need for a paradigm shifts in financing road development. This shift entails leverage of private sector capacity for delivery of road infrastructure, including:

**Financing:** Alternative financing methods (Annuity, conventional PPPs and others)

**Road Design:** Reviewing design standards and construction methodologies to achieve appropriate solutions, such as low volume sealed roads.

Adoption of the Annuity model in future road development funding will drive efforts towards the realization of the Vision 2030 Strategy, and Government objectives and targets of increasing the paved road network. Better surface roads are expected to support existing and new transportation business opportunities, access to markets and enhanced rural production.

The improvement of road infrastructure is expected to result in increased mobility which encourages national integration, trade and improved security. Increased opportunities in rural areas and inter-urban/rural transport will encourage income distribution, and address poverty and rural-urban migration.

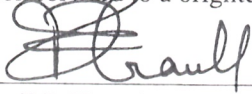
The programme will help revamp the Construction and Financial Sectors of the Economy, enhance local capacity, facilitate job-creation and enhance economic growth.

#### **1.22 Conclusion**

I take this opportunity to thank the Kenya Government, development partners for funding the Authority which enabled us to achieve the results we have recorded. I wish to further express my sincere gratitude to the board members for their support in ensuring that the Authority continues to discharge its mandate effect

I thank the management team and all the KeRRA staff for their untiring efforts which enabled the Authority to deliver on its mandate and continue opening up rural Kenya.

I look forward to a brighter financial year 2014/2015



---

Eng. F.D Karanja

**Ag Director General**

## **VI. Corporate Governance Statement**

### **Overview**

The Kenya Vision 2030 acknowledges that a good roads infrastructure network is a key enabler to the key sectors of the economy that includes tourism, agriculture, manufacturing, wholesale and retail trade, business processing outsourcing and financial services. The overall goal of the Kenya Vision 2030 is to make Kenya a globally competitive and prosperous nation with a high quality of life by 2030. Kenya Rural Roads Authority is actively involved in the implementation of Vision 2030 infrastructural goals and the implementation of the Millennium Development Goals (MDG's).

Governance related policy changes developed in recent years have emphasised on the need for directors to discharge the oversight responsibilities effectively. The Board continues to ensure that good Corporate Governance practices are upheld in the discharge of the Authority's operations.

### **Organisation structure of the Authority**

The Kenya Rural Roads Authority is governed by a Board of Directors as per Kenya Roads Act 2007. The day to day management of the Authority is carried out by the Director General who is also secretary to the board. The Authority carries its mandate through the following departments.

- a) Planning and Environment
- b) Design and Construction
- c) Maintenance
- d) Finance
- e) Human Resources and administration
- f) Internal Audit;
- g) Quality Assurance;
- h) Information, Communication and Technology (ICT)
- i) Procurement,

- j) Legal Affairs
- k) Public relations

#### **Appointments to the Board**

Appointments to the Board are carried out pursuant to section 8 of the Roads Act 2007. The Chairman of the Board is appointed by the President of the Republic of Kenya. Members of the Board are appointed by the Cabinet Secretary Ministry of Transport and Infrastructure on recommendation of the various nominating institutions provided for under the Roads Act 2007.

#### **Board Organisation and structure**

The composition of the Board during the period under review is as indicated above. The composition of the Board is as per the provisions of Section 8 of the Roads Act 2007. The Board is composed of representatives of relevant Government Ministries and private sector as represented by the various nominating bodies and is independent of management. The Board has set up 4 standing committees to enable it discharge its oversight role.

#### **The role of the Board**

The role of the Board is to provide oversight to the management activities in the management of the Authority's affairs. The Board also provides strategic direction to management in the running of the Authority's affairs.

#### **Activities of the Board**

It is the responsibility of the Chairman and the Secretary to work closely together in planning the annual program and agendas for meetings. The Board is required to meet at least four times a year and the meetings are structured to allow open discussion. All substantive agenda items have comprehensive briefing papers, which are circulated well in advance.

In addition to regular Board meetings, there are a number of other meetings to deal with specific matters. When directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman or the Director General prior to or after the meeting.

During the period under consideration, the Board had various meetings to deliberate on issues affecting the Authority. The Board also made several site visits to inspect various projects being undertaken by the Authority. An evaluation of the Board was also carried out during the period.

### Board Effectiveness

The Board is sufficiently independent of management and performs its functions of in away to enhance Board effectiveness. To further enhance effectiveness, the directors have been trained on various issues on Corporate Governance and evaluation of the Board carried out.

### Board meeting attendance 2013-2014

Member	30/10/2013	4/12/2013	29/1/2014	25/2/2014	27/5/2014	20/6/2014
Eng. Richard Chepkwony	√	√	√	√	√	√
Mr.Renson Mbagwa	√	√	√	√	√	√
Dr.Desterio Ouma	√	√	√	√	√	√
Mrs. Caroline Nyororo	√	√	√	√	√	√
Eng. Patrick M. Mwinzi	√	X	X	√	√	√
Mr. Charles Birech	√	√	√	√	√	√
Mr. Festus kingori	√	√	√	X	√	√
Amb.P.R.O Owade	√	√	√	√	X	X

### Board Committees

In line with the provisions of the Roads Act 2007, the Board established four Standing Committees. These are Board Finance Committee, Board Human Resources Committee, Board Audit, Risk & Governance Committee and Board Technical Committee. The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner.

### Audit, Risk & Governance Committee

The Board Audit Committee was established in accordance with the provisions of Treasury Circular No 16. of 25. The Board receives reports from the Audit Committee. The Internal Audit function reports directly to the Board Audit Committee and is independent of management operations.

**Finance Committee**

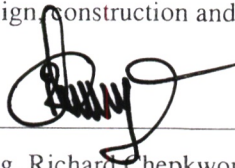
The committee assists the Board in its oversight role of the Authority relating to Authority's finance matters. This is as per the committees Terms of Reference.

**Board Human Resource Committee**

The committee assists the Board in its oversight role of the Authority relating to Authority's human resource matters. This is as per the committees Terms of Reference.

**Board Technical Committee**

The committee assists the Board in its oversight role of the Authority's function relating to the technical issues relating to the Authority's mandate. This is in terms of the design, construction and maintenance of rural roads.



---

Eng. Richard Chepkwony

**Chairman**

## **VII. Report of the Directors**

The directors submit their report together with the audited financial statements for the year ended 30th June 2014, in accordance with the provisions of section of the 44 of Kenya Roads Act 2007 which disclose the state of affairs of the Authority.

### **Principal activities**

The principal activity of the authority is the management, development, rehabilitation and maintenance of the Rural Road Network in Kenya classified as D, E and others.

### **Results**

The results for the year are set out on page 34. The deficit for the year of Kshs 1,063 Million (F/Y 2012/13: Surplus Kshs 3,184 million) has been added to the accumulated surplus is available for the Authority's operations in accordance with the Kenya Roads Act 2007.

### **Directors**

The directors who held office during the year and to the date of this report are set out on page 7-9.

### **Auditor**

The Auditor general is responsible for the statutory audit of the Authority's books of account in accordance with the provisions of Article 229 of the Constitution of Kenya, Kenya Roads Act 2007 and section 14 of the Public Audit Act, 2003

By order of the board



Eng. F.D Karanja

**Secretary to the Board**

### **VIII. Statement of Directors Responsibilities**

The Kenya Roads Act 2007 requires the Board of directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of its operating results for that year. It also requires the Board to ensure that the Authority maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Authority. The Board is also responsible for safeguarding the assets of the Authority and taking reasonable steps for prevention and detection of fraud and other irregularities.

The Board accepts responsibility for the preparation and fair presentation of financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenya Roads Act 2007. The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the authority and of its operating results.

The Board further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control

The Financial statements have been prepared on a going concern basis on the assumption that the Government of Kenya Shall continue to provide financial support in the foreseeable future to Kenya Rural Roads Authority, to enable it discharge its mandate as defined by the Kenya Roads Act 2007, and to meet its obligations as they fall due.


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

Approved by the board of directors on ..... 2014 and signed on its behalf by:



Eng. Richard Chepkwony

**Chairman**



Eng. F.D Karanja

**Director General**

# REPUBLIC OF KENYA

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



P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

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

---

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Rural Roads Authority set out on pages 35 to 64, 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, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

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

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

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

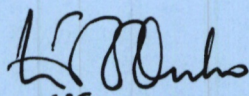
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial

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 Directors, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the 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 Kenya Roads Act, 2007.



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

**Nairobi**

**23 March 2015**

**X. Statement of Financial Performance**  
 For the year ended 30 June 2014

		2013-2014	2012-2013
Revenue	Note	Shs'000	Shs'000
<b>Revenue from Non Exchange Transactions</b>			
Road Maintenance Levy Fund	6	9,267,053	9,745,874
Government Grants	7	14,572,841	12,688,067
Donor Grants	8	683,022	423,672
<b>Total Revenue from Non Exchange Transactions</b>		<u>24,522,915</u>	<u>22,857,613</u>
<b>Revenue from Exchange Transactions</b>			
Finance Income	9	67,082	82,052
Other income	10	82,232	89,753
Rental Revenue	11	1,248	1,327
<b>Total Revenue from Exchange Transactions</b>		<u>150,562</u>	<u>173,132</u>
<b>Total Revenue</b>		<u><u>24,673,478</u></u>	<u><u>23,030,745</u></u>
<b>Expenses</b>			
Road Works costs	12	23,855,771	17,930,550
Directors' Costs	13	19,285	28,745
Employment Costs	14	1,430,607	1,429,358
Depreciation and amortization expense	15	101,383	113,344
Repairs and maintenance	16	42,739	51,395
Other Operating Costs	17	240,298	319,301
<b>Total Expenditure</b>		<u><u>25,690,083</u></u>	<u><u>19,872,693</u></u>
<b>Operating Deficit /Surplus for the year</b>		<u><u>(1,016,606)</u></u>	<u><u>3,158,051</u></u>

The significant accounting policies on pages and the notes on pages 40 to 64 form an integral part of these financial statements.

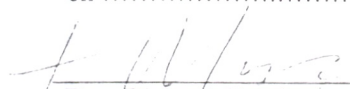
Report of the Auditor General - page 34

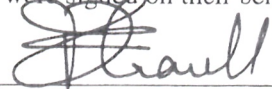
**XI. Statement of Financial Position**  
**As at 30 June 2014**

	Note	2013-2014 Shs'000	2012-2013 Shs'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	7,693,508	5,581,985
Receivables from exchange transactions	19	3,661,313	3,539,143
Receivables from non exchange transactions	19	5,369,212	2,495,345
Inventories	20	4,150	4,080
		<u>16,728,183</u>	<u>11,620,553</u>
<b>Non-Current assets</b>			
Property Plant and Equipment	21	212,265	294,308
		<u>212,265</u>	<u>294,308</u>
<b>Total assests</b>		<u>16,940,448</u>	<u>11,914,861</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables from exchange transactions	22	8,754,182	2,717,208
Employee benefit obligation	23	11,418	6,199
		<u>8,765,600</u>	<u>2,723,407</u>
<b>Net Assets</b>		<u><b>8,174,848</b></u>	<u><b>9,191,454</b></u>
<b>REPRESENTED BY:</b>			
Capital grants	2(q)	80,966	80,966
Staff Mortgage Fund	2(q)	175,996	175,996
Accumulated Surplus	25	7,917,887	8,934,492
<b>Total net assets and liabilities</b>		<u><b>8,174,848</b></u>	<u><b>9,191,454</b></u>

The significant accounting policies on pages and the notes on pages 40 to 64 form an integral part of these financial statements.

The financial statements on pages 35 to 64 were approved for issue by the board of directors on ..... 2015 and were signed on their behalf by:

  
Eng. Richard Chepkwony  
Chairman

  
Eng. F.D Karanja  
Director General

**XII. Statement of Changes in Net Assets**  
For the Year Ended 30 June 2014

Note	Accumulated Surplus Shs'000	Capital Fund Shs'000	Staff Mortgage Fund Shs'000	Total Shs'000
<b>Year ended 30th June 2014</b>				
<b>At 1st July 2013</b>	8,934,492	80,966	175,996	9,191,454
Surplus for the year	(1,016,606)	-	-	(1,016,606)
Grants received during the year	-	-	-	-
	<u>7,917,887</u>	<u>80,966</u>	<u>175,996</u>	<u>8,174,848</u>
<b>Year ended 30th June 2013</b>				
<b>At 1st July 2012</b>				
As previously stated	5,952,437	54,337	-	6,006,774
Prior year adjustment	(165,996)	-	165,996	-
Transfer to Staff mortgage Fund	(10,000)	-	10,000	-
Grants received during the year	-	26,629	-	26,629
Surplus for the year	3,158,051	-	-	3,158,051
	<u>8,934,492</u>	<u>80,966</u>	<u>175,996</u>	<u>9,191,454</u>

The significant accounting policies on pages and the notes on pages 40 to 64 form an integral part of these financial statements.  
Report of the Auditor General - page 34

### XIII. Statement of Cash Flows

For the Year Ended 30 June 2014

		2013-2014 Shs'000	(Restated) 2012-2013 Shs'000
	Note	Shs	Shs
<b>Cash flows from operating activities</b>			
Surplus for the year		(1,016,606)	3,158,051
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	21	101,383	113,344
Interest Income		(67,082)	(82,052)
<b>Changes in operating assets and liabilities</b>			
Receivables from exchange transactions		(131,473)	(4,461,061)
Receivables from non exchange transactions		(2,873,867)	
Inventories		(70)	2,213
Payables from exchange transactions		6,036,974	17,558
Employee benefit obligation		5,219	-
<i>Net cash from operating activities</i>		<u>2,054,477</u>	<u>(1,251,947)</u>
<b>Cash flows from investing activities</b>			
Interest Income		67,082	82,052
Purchases of Property Plant and equipment	21	(10,038)	(55,253)
<i>Net cash used in investing activities</i>		<u>57,044</u>	<u>26,799</u>
<b>Cash flows from Financing activities</b>			
<i>Capital Grant received</i>		-	26,629
		-	26,629
Net increase (decrease) in cash and cash equivalents		2,111,522	(1,198,519)
Cash and cash equivalents at start of year		5,581,985	6,614,508
Prior Year adjustment		-	165,996
Cash and cash equivalents at end of year	18	<u>7,693,508</u>	<u>5,581,985</u>

The significant accounting policies and the notes on pages 40 to 63 form an integral part of these financial statements.

Report of the Auditor General - page 34

#### XIV. Statement of Comparison of Budget And Actual Amount

	Original Budget 2013-2014 Shs'000	Adjustments 2013-2014 Shs'000	Final Budget 2013-2014 Shs'000	Actual on Comparable basis 2013-2014 Shs'000	Performamnce Difference 2013-2014 Shs'000	% Variance 2013-2014 Shs'000
<b>Revenue</b>						
Road Maintenance Levy Fund	8,123,831		8,123,831	9,267,053	(1,143,222)	(14%)
Government Grants	17,121,000		17,121,000	14,572,841	2,548,159	15%
Donor Grants	423,000		423,000	683,022	(260,022)	(61%)
Finance Income	60,000		60,000	67,082	(7,082)	(12%)
Other income	60000		60,000	82,232	(22,232)	(37%)
Rental Revenue	729		729	1,248	(519)	(71%)
<b>Total Revenue</b>	<u>25,788,560</u>	<u>-</u>	<u>25,788,560</u>	<u>24,673,478</u>	<u>1,115,083</u>	<u>4%</u>
<b>Expenses</b>						
Road Works costs	23,733,000	-	23,733,000	23,855,771	(122,771)	(1%)
Directors' Costs	15,000	-	15,000	19,285	(4,285)	(29%)
Employment Costs	1,249,988	35,100	1,285,088	1,430,607	(145,519)	(11%)
Depreciation and armotization expense	-	-	-	101,383	(101,383)	-
Repairs and maintenance	15,500	5,000	20,500	42,739	(22,239)	(108%)
Other Operating Costs	98,608	37,900	136,508	240,298	(103,790)	(76%)
<b>Total Expenditure</b>	<u>25,112,096</u>	<u>78,000</u>	<u>25,190,096</u>	<u>25,690,083</u>	<u>(499,987)</u>	<u>(2%)</u>

## **XV. Notes to the Financial Statements**

### **1. Statement of compliance and basis of preparation**

Section 192 of the Public Finance Management 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 Financial Reporting Standards (IFRS) for the state organs operating as Commercial Business Entities and the International Public Sector Reporting Standards (IPSAS) for non commercial entities, the entity has adopted the pronouncements by the International Public Sector Accounting Standards Board (IPSASB), in preparation of its current year financial statements.

The Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) issued by International Public Sector Accounting Standards Board (IPSASB), the Public Financial Management Act, 2012, Public Audit Act, 2003 and Kenya Roads Act 2007.

IPSAS 17 provides a transition period of five years for Entities implementing accrual accounting for the first time and allows the entity not to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.

Due to difficulties in compiling comprehensive information on the existence and valuation of road infrastructure assets owned by the authority, the authority has elected not to recognize road infrastructure asset in the current year.

### **2. Basis of Preparation**

The financial statements have been prepared under the historical cost convention, unless otherwise stated. The Financial Statements are presented in Kenya Shillings which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Ksh 000).

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

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

The financial statements comprise of statement of financial performance, statement of financial position, statement of changes in net assets/reserves, the statement of cash flows and statement of comparison of budget and actual amount and the notes to the financial statements.

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

The disclosure on risks are presented in the financial risk management objectives and policies contained in note 6.

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

Starting 1st July 2014, Kenya Rural Roads Authority adopted the IPSAS 1 on Presentation of Financial Statements. In previous years the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs). The change was necessitated by the reporting standards on public entities which are not Government Business Entities (GBE) as defined and required by IPSAS 1- 'Presentation of Financial Statements' which states that the scope of application is for 'all public sector entities other than Government Business Enterprises'.

**b) Budget Information**

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

- (a) An entity is not required to disclose its budget information publicly and
- (b) The entity has elected not to present its approved budget publicly.

The Authority is not required to publicly avail the approved operations budget; however, the Authority has elected to disclose its budget in the statement of comparison of budget and actual amounts.

**c) Taxation**

The Authority is a state corporation operating as regulatory/ non commercial entity and therefore not subject to tax in accordance with the taxation laws.

**d) Translation of foreign currencies**

On initial recognition, all transactions are recorded in the functional currency, which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are reported at the statement of financial position reporting date by applying the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis through the statement of financial performance in the year in which they arise.

**e) Revenue recognition**

Revenue comprises the fair value of consideration received or receivable in the ordinary course of business. In accordance with the Kenya Roads Act 2007, revenue comprises all proceeds from the Kenya Roads Board Fund Road, Grants, Loans and donations from Central Government and Development partners, and such moneys, sums or assets that may accrue to the Authority. The revenue is for specified purposes including maintenance, rehabilitation and development of the rural road network in Kenya.

The Authority recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Authority.

*i) Road Maintenance Levy Fund*

Receipts from the Road Maintenance Levy Fund comprise of 32% of collections from the Road Maintenance Levy Fund administered by the Kenya Roads Board in accordance with the Kenya Roads Board act 1999.

Proceeds from the Road Maintenance Levy Fund are generally recognized in the Statement of Financial Performance on accrual basis.

*ii) Agricultural Cess*

The Agricultural Cess comprises of 80% of all monies collected as cess in respect of tea and coffee as per Agricultural Act. The fund is administered by Kenya Roads Board. Proceeds from agricultural cess are recognized in the Statement of Financial Performance on accrual basis.

*iii) Transfers from Government and other entities*

The Kenya Roads Act 2007 provides the Authority may receive all monies from any other source provided for or donated or lent to the Authority. Such monies are recognized as they accrue in the period in which the transfer becomes binding at fair value, in the 'Statement of Financial Performance', unless the collectability is in doubt. The fair values can be determined by reference to the market rate.

Where a transfer is subject to conditions that if unfulfilled require a return of the transferred resources they are recognized as a liability until the condition is fulfilled.

*iv) Interest Income*

Interest income and expense, including interest income from non-derivative financial assets are recognized at fair value through the Statement of Financial Performance using the effective interest method. Interest income is accrued on a time basis and is calculated on call and fixed deposits held with approved banking institutions.

*v) Rental Income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

**f) Financial Instruments**

**(i) Financial assets**

Financial assets within the scope of IPSAS 29 are classified as financial assets at fair value through surplus or deficit, 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.

**Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Authority provides money or services directly to a debtor with no intention of trading the receivable. Receivables mainly arise from non exchange transactions which accrue in the ordinary course of business and there is no intention of trading the receivable.

Receivables are recognized initially at the fair value. They are subsequently measured at amortized costs using the effective interest method less provision for impairment.

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

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

The Authority is allocated funds by the Government and Kenya Roads Board in accordance with the approved budget and allocation criteria set out in the Kenya Roads Board Act, 1999. The amounts allocated are referred to as 'disbursements' and are released to the Authority based on the disbursement schedule. Any amounts not released at any time are referred as receivables.

Receivables are classified as current assets if payment is due within one year or less. If not, they are presented as non-current assets.

**(ii) Financial Liabilities**

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.

**Payables**

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

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The historical cost carrying amount of payables subject to the normal credit terms usually approximates fair value. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of business if longer). If not, they are presented as non-current liabilities.

**g) 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 the Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

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

**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

**h) Operating leases**

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made/received under operating leases are charged/credited to the statement of financial performance on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

**i) Provision for liabilities and charges**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**j) Property, plant and equipment**

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system that is an integral part of the related

hardware is capitalised as part of the computer equipment. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the statement of financial performance in the year in which they are 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 using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	<u>Rate - %</u>
Buildings	2.5%
Computers	33.3%
Furniture and Fittings	12.5%
Technical Equipment	12.5%
Motor Vehicles	25.0%
Road Infrastructure Assets	-

As no parts of items of property, plant and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus.

#### **1) Specialised Public Service Assets**

International Valuation Standards Committee defines specialised public asset as an asset, owned and/or controlled by a governmental or quasi-governmental entity, for the provision of some public service or good.

The authority deals in construction of roads infrastructure which falls in this category and constitutes part of property, plant and equipment within the meaning of IPSASs.

Like other assets, all specialised public service assets provide either service potential or future economic benefit. Service potential is a measure of the capacity of an asset to provide services or benefits to those that use that asset. Future economic benefit is a measure of the capacity of an asset to provide monetary benefits to those that hold or own that asset.

IPSAS 17 provides a transition period of five years for Entities implementing accrual accounting for the first time and allows the entity not to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.

Due to difficulties in compiling comprehensive information on the existence and valuation of road infrastructure assets owned by the Authority, the Authority has elected to not to recognize road infrastructure asset in the current year.

**m) Construction contracts**

A construction contract is defined as a contract specifically negotiated for the construction of an asset. Contract costs are recognised as assets in the period in which they are incurred.

Where the outcome of a construction contract can be estimated reliably, costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its payment is considered probable.

The Authority uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Progress billings not yet paid to the contractors and retention are included within 'Payables' in the statement of financial position.

Costs incurred on maintenance contracts are charged in the statement of financial performance in the period in which they are incurred.

**n) Impairment of Non-Financial Assets**

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

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

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

**o) 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, based on purchase cost using the weighted average cost method.

After initial recognition, inventory is measured at the lower of cost and net realizable value. 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.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

**p) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**q) Nature and purpose of reserves**

The Authority creates and maintains reserves in terms of specific requirements. The net assets are made of up of designated funds and accumulated reserve which are explained as follows:

*i) Staff Mortgage Fund*

The Authority established independently managed staff Mortgage Scheme Funds for members of staff. The scheme is based on a minimum cash balance at the Kenya Commercial Bank account commensurate with the mortgage amount. This cash balance, built up for the scheme as a revolving fund, is limited to a maximum of Ksh 250 million.

There was no transfer of funds from the accumulated surplus to the staff mortgage fund during the year. (2012-2013: 10 million)

*ii) Capital Fund*

The Authority established a Capital Fund in for the purpose of purchase of office property plant and equipment.

*iii) Accumulated surpluses*

Accumulated surpluses of Kshs 7,871 Million (202-2013-Kshs 8,934.million) represent excess operating revenue over expenditure which has accumulated over the years. These funds are available for utilisation in the Authority's operations in the subsequent years. (Refer to note 24)

**r) 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.

**s) Employee Benefits**

The Authority provides retirement benefits for its eligible employees. The Authority operates defined contributions provident fund administered by an independent administration company and trustees and which is funded by both the employee

The Authority and its employees also contribute to the statutory pension scheme , The National Social Security Funds(NSSF). Contributions are determined by the local statute .The Authority also sets aside on monthly basis the gratuity for its employees who are on contract basis.

The contributions to fund obligations for the payment of retirement benefits are charged to the statement of financial performance in the year in which they become payable.

The total expense recognized in the income statement of Shs108.1 Million (2012-2013: Shs 40.6 Million) represents contributions payable to the plan by the Authority at rates specified in the rules of the plan. The expense has been included within the staff pension costs under staff costs.

**t) Comparatives**

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

**3. Critical Accounting Estimates, Judgements and Assumptions**

In the process of applying the Authority's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

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

**(a) Critical Judgments in Applying the Authority's Accounting Policies**

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

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

**(b) Critical Accounting Estimates and Assumptions**

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

**(i) Contingent Liabilities**

As disclosed in these financial statements, the Authority is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the Authority incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

**(ii) Provision for Doubtful Debts**

The Authority reviews its receivables to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Board will not be able to collect all amounts due. Where necessary, an estimation of the amounts

irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the Board of Directors.

*(iii) Other Provisions*

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

*(iv) Impairment Losses*

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

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

**4. Segment reporting**

The core business of the Kenya Rural Roads Authority continues to be management of rural roads together with other mandates as stipulated in the Kenya Roads Act 2007.

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

**5. Financial risk management objectives and policies**

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

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

The risk management framework captures the following among other things:

- The Authority's risk appetite and parameters;

- The Authority's risk matrix that highlights the rating of risks;
- The structure of managing risks and accountabilities
- The processes, procedures and reports that manage risks;
- The mitigating factors, prevention, contingency plans and controls.

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

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

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

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

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

The financial management objectives and policies are as outlined below:

***a) Liquidity Risk***

Liquidity risk is the risk that the Authority will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/ operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow

streams have been discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required.

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

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

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

The Authority has an established corporate governance structure and process of managing risks regarding guarantees and contingent liabilities.

The primary sources of revenue for the Authority are receipts from the Kenya Roads Board, mainly receipts from fuel levy fund, and Grants from the central Government.

#### **b) Market Risk**

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

##### **(i) Currency Risk**

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

##### **(ii) Price Risk**

Kenya Roads Board collects Kshs. 9 per litre of diesel and petrol imported into the country, 32% of which is disbursed to the Authority. The Authority is exposed to the extent that the levy on diesel and petrol is reduced or eliminated due to changes in the international fuel prices, inflation or other macro indicators.

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

*(iii) Interest Rate Risk*

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

**c) Operational Risk**

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

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of financial transactions;
- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirement for the reporting of operational losses and proposed remedial action;
- Development of Business Contingency Plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where it is effective.

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

**d) Compliance and Regulatory Risk**

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

**e) Legal Risk**

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

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

**6. Road Maintenance Levy**

	<b>2013-2014</b>	<b>2012-2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
10% Constituency Links Roads	2,484,191	2,407,172
10% Special allocation	1,358,608	1,517,090
22% Constituency Roads Fund	5,009,384	5,287,378
Coffee Cess	14,870	252,194
RMLF Operations	400,000	282,040
Total Road Maintenance Levy	<u>9,267,053</u>	<u>9,745,874</u>

**7. Other Government Grants**

GOK Development Funds	14,541,841	12,688,067
GOK Recurrent Funds	31,000	-
Total Government Grants	<u>14,572,841</u>	<u>12,688,067</u>

**8. Donor Grants**

Swedish International Development Agency(SIDA)	-	2,340
L'Agence Française de Développement(AFD)	480,533	153,933
German Development Bank(KFW)	202,489	267,399
Total Donor Grants	<u>683,022</u>	<u>423,672</u>

**9. Finance Income**

Interest from fixed deposits	67,082	82,052
Total Finance income	<u>67,082</u>	<u>82,052</u>

*Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014*

	2013-2014 Shs'000	2012-2013 Shs'000
<b>10. Other Income</b>		
Receipts from sale of tenders	82,232	89,753
Total other income	<u>82,232</u>	<u>89,753</u>
<b>11. Rental Revenue</b>		
Receipts from operating lease rental	1,248	1,327
Total Rental revenue	<u>1,248</u>	<u>1,327</u>
<b>12. Road works expenses</b>		
RMLF 10%-Constituency Link Roads	1,912,263	1,654,580
RMLF 22%-Constituency Roads Fund	6,183,705	4,247,498
RMLF 10%-Special Allocation	1,388,020	1,236,918
Donor Funded Projects	644,824	399,636
GoK Development Funds	13,680,571	10,192,259
Coffee Cess	46,387	199,659
<b>Total Road Works Expenses</b>	<u>23,855,771</u>	<u>17,930,550</u>
<b>13. Directors' Costs</b>		
		(4)
<b>Executive Directors</b>		
Emoluments	7,842	7,842
	<u>7,842</u>	<u>7,842</u>
<b>Non Executive Directors</b>		
Emoluments	6,696	7,685
Travelling and accomodation-Overseas	1,624	11,721
Travelling and accomodation-Local	3,124	1,497
	<u>11,443</u>	<u>20,903</u>
<b>Total Directors Costs</b>	<u>19,285</u>	<u>28,745</u>
<b>14. Employment Costs</b>		
Salaries and Wages	1,116,724	1,160,870
Pension and Gratuity costs	116,713	40,669
Medical and Insurance	92,598	47,242
Training and Development	21,288	37,442
Travelling and accomodation	69,314	130,193
Other Staff welfare costs	13,970	12,942
<b>Total Staff Costs</b>	<u>1,430,607</u>	<u>1,429,358</u>

Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014

	2013-2014 Shs'000	2012-2013 Shs'000
<b>15. Depreciation and amortization</b>		
<b>Depreciation Expense</b>		
Property Plant and equipment	101,383	113,344
<b>Total Depreciation Expense</b>	<u>101,383</u>	<u>113,344</u>
<b>16. Repairs and maintenance</b>		
Office building	5,075	11,274
Furniture and equipment	9,501	7,457
Motor vehicles	28,162	32,664
<b>Total Repairs and Maintenance</b>	<u>42,739</u>	<u>51,395</u>
<b>17. Other Operating expenses</b>		
Public relations and Corporate affairs	4,003	949
Audit Fees	2,900	2,900
Advertisement and publicity	7,203	3,146
Rent and Rates	56,467	48,791
Electricity and Water	4,765	7,878
Cleaning and sanitation	6,888	6,894
Fuel and other vehicle running expenses	39,306	71,867
Security	30,406	31,982
Consultancies	5,406	7,061
Legal Fees	3,938	1,251
Printing and Stationery	27,800	35,894
CRC and tender evaluation Expenses	22,735	30,383
Telephone, Internet and Postage	20,886	25,101
Bank Charges	1,979	2,114
Office expenses	5,613	43,090
<b>Total Other Operating expenses</b>	<u>240,298</u>	<u>319,301</u>
<b>18. Cash and cash equivalents</b>		
These represent cash held at various banks, as follows:		
Cash in hand and Bank	6,155,422	4,765,889
Staff mortgage Fund	175,995	175,996
Fixed term deposits	1,362,091	640,100
<b>Total Cash and Cash equivalents</b>	<u>7,693,508</u>	<u>5,581,985</u>

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

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand,

Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014

deposits held at call with banks and other short term highly liquid investments with original maturities of three months

	2013-2014 Shs'000	2012-2013 Shs'000
<b>19. Receivables</b>		
<b>Receivables from Exchange transactions</b>		
Contractors advances	3,661,313	3,539,143
<b>Total Receivables from Exchange transactions</b>	<u>3,661,313</u>	<u>3,539,143</u>
<b>Receivables from Non Exchange transactions</b>		
Advances to Staff	7,467	5,678
Deposits and Prepayments	208	283
Other Receivables	5,361,537	2,489,384
<b>Total Receivables from Non Exchange transactions</b>	<u>5,369,212</u>	<u>2,495,345</u>
<b>Total receivables</b>	<u>9,030,525</u>	<u>6,034,488</u>

Receivables constitute short term liquid assets which are recoverable within one year. Other receivables represent development grants due from the National Government (Kshs 5.2billion) and RMLF funds from Kenya Roads Board for road works and operations

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

	0-3 Months Shs'000	3-12 Months Shs'000	Over 12 Months Shs'000	Total Shs'000
Contractors advances	-	3,661,313	-	3,661,313
Advances to Staff	7,467	-	-	7,467
Deposits and Prepayments	-	208	-	208
Other Receivables	-	5,361,537	-	5,361,537
<b>Total</b>	<u>7,467</u>	<u>9,023,058</u>	<u>-</u>	<u>9,030,525</u>
		2013-2014 Shs'000	2012-2013 Shs'000	

<b>20. Inventories</b>		
<b>Inventories</b>		
Consumable stores	4,150	4,080
<b>Total Inventories</b>	<u>4,150</u>	<u>4,080</u>

Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014

21. Property Plant and equipment

Year ended 30 June 2014	Building Shs'000	Furniture and Fittings Shs'000	Motor Vehicles Shs'000	Office Equipment Shs'000	Computers and Software Shs'000	Plant and Machinery Shs'000	Capital Work in progress Shs'000	Total Shs'000
<b>Cost</b>								
At 1st July 2013	67,664	111,455	301,160	19,077	46,163	51,423	11,146	608,088
Additions	400	2,849	0	477	5,308	(1)	1,006	10,038
Transfer from work in progress	12,152	-	-	-	-	-	(12,152)	-
At 30th June 2014	<u>80,216</u>	<u>114,304</u>	<u>301,160</u>	<u>19,554</u>	<u>51,471</u>	<u>51,422</u>	<u>-</u>	<u>618,126</u>
<b>Depreciation</b>								
At 1st July 2013	3,067	38,295	211,294	5,660	27,294	18,868	-	304,478
Charge for the year	2,005	14,288	64,036	2,465	12,162	6,428	-	101,383
At 30th June 2014	<u>5,072</u>	<u>52,582</u>	<u>275,330</u>	<u>8,124</u>	<u>39,456</u>	<u>25,296</u>	<u>-</u>	<u>405,861</u>
<b>Net Book Value</b>								
At 30th June 2014	<u>75,143</u>	<u>61,721</u>	<u>25,830</u>	<u>11,429</u>	<u>12,015</u>	<u>26,126</u>	<u>-</u>	<u>212,265</u>

*Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014*

**Property Plant and equipment**

<b>Year ended 30 June 2013</b>	<b>Building</b>	<b>Furniture and Fittings</b>	<b>Motor Vehicles</b>	<b>Office Equipment</b>	<b>Computers and Software</b>	<b>Plant and Machinery</b>	<b>Capital Work in progress</b>	<b>Total</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<b>Cost</b>								
At 1st July 2012	55,019	102,357	273,980	13,816	37,793	51,162	11,146	545,273
Additions	5,085	9,098	27,180	5,261	8,370	261	-	55,255
Transfer from work in progress	7,560	-	-	-	-	-	-	7,560
At 30th June 2013	<u>67,664</u>	<u>111,455</u>	<u>301,160</u>	<u>19,077</u>	<u>46,163</u>	<u>51,423</u>	<u>11,146</u>	<u>608,088</u>
<b>Depreciation</b>								
At 1st July 2012	1,375	24,363	136,004	3,275	22,979	12,440	-	200,436
Charge for the year	1,692	13,932	75,290	2,385	13,617	6,428	-	113,344
At 30th June 2013	<u>3,067</u>	<u>38,295</u>	<u>211,294</u>	<u>5,660</u>	<u>36,596</u>	<u>18,868</u>	<u>-</u>	<u>313,780</u>
<b>Net Book Value</b>								
At 30th June 2013	<u>64,597</u>	<u>73,160</u>	<u>89,866</u>	<u>13,417</u>	<u>9,567</u>	<u>32,555</u>	<u>11,146</u>	<u>294,308</u>

	2013-2014 Shs'000	2012-2013 Shs'000
<b>22. Payables</b>		
Due to Contractors	7,269,875	1,232,091
Other Trade payables	22,695	-
Staff Creditors	1,781	356
Tender and Performance security Bonds	553	683
Contract Retention	1,347,589	1,333,480
Other Payables	111,690	150,598
<b>Total</b>	<b>8,754,182</b>	<b>2,717,208</b>

Current trade and other payables are expected to be settled in Authority's normal operating cycle and within twelve months after the reporting period and are not attached to an unconditional right to defer payment of the liability

### 23. Employee Benefit obligations

	Leave Benefits Ksh'000	Gratuity Ksh'000	Pension costs Ksh'000	Total Ksh'000
As at 1st July 2013	-	6,199	-	6,199
Additional Provisions	-	5,219	-	5,219
Provision utilised	-	-	-	-
<b>As at 30 June 2014</b>	<b>-</b>	<b>11,418</b>	<b>-</b>	<b>11,418</b>

Annual Leave accrues to employees on monthly basis subject to certain conditions and constraints. The provision is an estimate of the amount due to staff as at the financial year end based on the value of statutory and non statutory leave. The provision was calculated based on the leave entitlement due to staff at year end adjusted for:

- Experience adjustment in relation to the leave forfeiture trends and leave taken trends
- The salary scales applicable at the time of realisation of the leave by employees
- Uncertainty related to this provision is contained in the rate at which leave is realised and the timing of such realisation.

### 24. Prior Year Adjustments

This relates to the transfer of staff mortgage funds from the accumulated surplus. The Authority established independently managed staff Mortgage Scheme Fund for members of staff. The scheme is based on a minimum cash balance at the Kenya Commercial Bank account commensurate with the mortgage amount. The cash balance, built up for the scheme as a revolving fund as at 30<sup>th</sup> June 2014 was Kshs 175.9 million (2013: 175.9 million). This was previously included under accumulated surplus in the previous years and has now been reclassified to staff mortgage Fund.

25. Analysis of Accumulated Surplus

	Gok development Funds Shs'000	RMLF-22% Constituency Roads Fund Shs'000	RMLF-10% Critical Link Roads Shs'000	Donor Funded Projects Shs'000	AIA Shs'000	Total Shs'000
<b>Year ended 30th June 2014</b>						
<b>At 1st July 2013</b>	3,138,103	2,961,794	2,543,517	166,590	124,488	8,934,492
Income	14,572,841	5,009,384	4,257,669	683,022	150,562	24,673,478
Expenditure	(13,680,571)	(6,183,705)	(4,905,933)	(644,824)	(275,050)	(25,690,083)
Transfer to Staff Mortgage Fund	-	-	-	-	-	-
<b>Fund balance as at 30th June 2014</b>	<u>4,030,373</u>	<u>1,787,472</u>	<u>1,895,253</u>	<u>204,788</u>	<u>-</u>	<u>7,917,887</u>
<b>Year ended 30th June 2013</b>						
<b>At 1st July 2012</b>	1,013,469	1,921,913	2,304,967	583,522	128,565	5,952,437
Income	12,688,067	5,287,378	3,747,356	1,136,021	171,918	23,030,741
Transfer to Staff Mortgage Fund	-	-	-	-	(175,996)	(175,996)
Expenditure	(10,563,433)	(4,247,498)	(3,508,805)	(1,552,953)	-	(19,872,689)
<b>Fund balance as at 30th June 2013</b>	<u>3,138,103</u>	<u>2,961,794</u>	<u>2,543,517</u>	<u>166,590</u>	<u>124,488</u>	<u>8,934,492</u>

**26. Related Parties**

Kenya Rural Roads Authority (KeRRA) is a State Corporation established under the Kenya Roads Act 2007. The Authority falls under the Ministry of Transport and Infrastructure under the National Government.

**a) Related Parties Transactions**

The following transactions were carried out with related parties:

**i) Receipts and Transfers**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
The Government of Kenya	14,572,841	12,688,067
Kenya Roads Board	<u>9,267,053</u>	<u>9,745,874</u>
	<u><u>23,839,893</u></u>	<u><u>22,433,941</u></u>

**ii) Key management personnel compensation**

Short term employee benefits	56,937	52,369
Post employment benefits	<u>10,386</u>	<u>8,387</u>
	<u><u>67,324</u></u>	<u><u>60,757</u></u>

Key management includes the directors and other members of key management.

**b) Outstanding balances resulting from related parties transactions**

Receivable from related parties	<u>5,361,537</u>	<u>2,489,384</u>
Payable to related parties	<u>11,418</u>	<u>11,418</u>

The receivables from related parties arising from non exchange transactions are interest free, unsecured and have no specific dates of receipt.

Receivables from related parties can be analysed as follows:

The Government of Kenya	5,200,841	1,672,313
Kenya Roads Board	160,696	817,071
Key management personnel	<u>-</u>	<u>-</u>
	<u><u>5,361,537</u></u>	<u><u>2,489,384</u></u>

Receivables from related parties can be analysed as follows:

	2013-2014 Shs'000	2012-2013 Shs'000
Key management personnel	11,418	11,418
	<u>11,418</u>	<u>11,418</u>

## **27. Comparison of Budget And Actual Amount**

Following the enactment of the PFM Act 2012 the authority is required to prepare its financial statements on accrual basis in accordance with International Public Sector Accounting Standards.

The variances noted in the statement of budget and the actual amounts are attributed to the change in the reporting framework. The budget for the financial year 2013-2014 was prepared on cash basis as per the Government financial regulations in force at the time while the actual income and expenditure has been accounted for on accrual basis as per the requirements of the Public Sector Accounting Standards Board (PSAB) resulting in unfavourable variances in some expenditure lines with an overall variance of 2%.

## **28. Contingent assets & liabilities**

### *Legal matters*

The Authority is a defendant in various legal proceedings. The directors believe, based on the information currently available, and after taking appropriate legal advice that these proceedings do not present contingent liabilities which are likely to have a material effect on the results of the Authority's operations, financial position or liquidity as a result of these cases. Therefore no provision has been made in the financial statements.

### *Guarantees*

The Authority had given cash backed guarantees amounting to Shs175,995,500 (2012/2013: Shs 175,995,500 ) to Kenya Commercial Bank in respect of staff mortgage scheme in the ordinary course of business from which no material loss is anticipated.

## **29. Commitments: operating lease rentals**

The Authority has leased office premises under an operating lease. The lease typically runs for 6 years with an option for renewal. Lease payments are increased accordingly to reflect market rentals. The Authority does not have an option to purchase the leased asset at the expiry of the lease period. There are no contingent rents recognized in the Statement of Financial Performance.

Non-cancellable operating lease rentals are payable as follows:

	2013-2014	2012-2013
	Shs'000	Shs'000
Not later than one year	19,854	17,766
Later than one year and not later than five years	99,272	-
<b>Total</b>	<u>119,126</u>	<u>17,766</u>

**30. Fair value**

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

**31. Capital commitments**

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

**32. Post balance sheet events**

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

**33. Currency**

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

**XVI. Progress on Follow up of auditor recommendations**

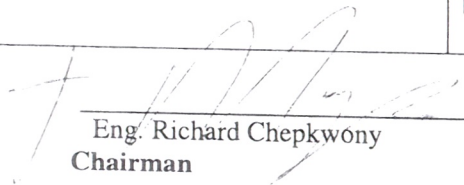
Reference No.	Auditor's observation	Management Comments	Responsible Person	Status	Time Frame
1.1	Unsupported Balances Ksh 718,932,855	Supporting documents availed for verification.	Finance manager	Resolved	14 Days
1.3	Outstanding Bank Certificates	Bank certificates availed for verification.	Finance manager	Resolved	14 Days
2.0	Difference between Financial Statements balances and the supporting Schedules- cash and cash equivalents	Differences have since been reconciled and amendments reflected in the financial statements.	Finance manager	Resolved	14 Days
3.0	Variances between Financial Statements balances and the expenditure supporting Schedules	The difference was as a result of grouping of different expense lines for the purposes of complying with IPSAS reporting format. Differences have since been reconciled and amendments reflected in the financial statements.	Finance manager	Resolved	14 Days
4.0	Rental Income- Rent for House No. 24 Naivasha.	House No. 24 was initially under the ministry of Housing and the said tenant has been paying the rent to the ministry.	Finance manager	Resolved	14 Days
5.0	Other Income- difference with the Schedule	The correct amount is Kshs 76,996,574 as reported in the financial statements. Tender sales for Siaya and West Pokot Regions amounted to Ksh918000, and 1,177,000 and forms part of the above figure.	Finance manager	Resolved	14 Days

*Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014  
Progress on Follow up of auditors recommendations*

6.0	Variance in Interest Income	The correct amount is Ksh 67,082,480 as reported in the financial statements and is fully supported by the bank statement.	Finance manager	Resolved	14 Days
7.0	Un reconciled Variance in employment costs	The differences were noted, reconciled and adjusted in the financial statements.	Finance manager	Resolved	14 Days
8.0	Difference in RMLF released by KRB and the financial statements.	Following the enactment of the PFM Act 2012 the authority is required to prepare its financial statements on accrual basis in accordance with International Public Sector Accounting Standards. The revenue indicated in the financial statements includes accrued revenue for the current year as well as adjustments for accrued revenue in the prior year. The KRB report on the other hand includes only the disbursements for the year and is prepared on cash basis. Reconciliation availed for verification	Finance manager	Resolved	14 Days
9.0	Difference in Government Grants Released and the financial statements.	The difference was as a result of overstatement in accrued revenue for the year which has since been reconciled and reconciliation availed.	Finance manager	Resolved	14 Days
10.0	Inventories – variances in the supporting schedules	The inventory values have been adjusted to reflect the correct amounts of inventory in the financial statements with all the supporting schedules.	Finance manager	Resolved	14 Days

*Kenya Rural Roads Authority  
Annual Report and Financial statements  
For the year ended 30<sup>th</sup> June 2014  
Progress on Follow up of auditors recommendations*

11.1	Omitted Payables	The regional reports and the financial statements have been adjusted to reflect these amounts.	Finance manager	Resolved	14 Days
11.2	Unsupported regional payables	Most of the balances relate to withholding taxes outstanding as at the year end. Supporting schedules are availed for verification.	Finance manager	Resolved	14 Days
11.3	Payables amounts in the financial statements	The financial statements have been adjusted to reflect the correct amounts of payables.	Finance manager	Resolved	14 Days
11.5	Unsupported Contract Retention Money	The financial statements have been adjusted to reflect the correct amount of 1,347,588,644. Supporting documents availed for verification.	Finance manager	Resolved	14 Days
12.0	Creditors accounts with debit balances	These relate to brought forward balances and have been adjusted to reflect the correct balances for the affected accounts.	Finance manager	Resolved	14 Days

  
Eng. Richard Chepkwony  
Chairman

\_\_\_\_\_  
Eng. F.D Karanja  
Director General

