REPUBLIC OF KENYA

Paper Laid
By Hon Aden Duale, MP
(LoM) today 12.10.2017

OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA NATIONAL HIGHWAYS AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2016

HARAMBEE

KeNHA Kenya National Highways Authority

Quality Highways, Better Connections

KENYA NATIONAL HIGHWAYS AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

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

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I. KEY KENYA NATIONAL HIGHWAYS AUTHORITY INFORMATION AND MANAGEMENT

(a)Background information

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

(b)Principal Activities

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

(c)Key Management

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

(d)Fiduciary Oversight Arrangements

The Board of Directors exercise the oversight role on the Authority. The Board of Directors who held office during the financial year ended 30th June 2016 were:

No.	Designation	Name
1.	Chairman	Eng.Erastus Mwongera, CBS,FIEK,RCE
2.	Director	Dr. Julius Kibiti M' Ndegwa
3.	Director	Mrs.Bibiana A.R. Omalla
4.	Director	Mrs. Marykaren C. Kigen-Sorobit
5.	Director-Alt. to PS(Infrastructure)	Eng. Philemon C. Kilimo, OGW
6.	Director-Alt. to CS(National Treasury)	Mr. Humphrey Muhu
7.	Director-Alt. to PS(Transport)	Mr. George Wanjau
8.	Director	Mr. Andrew C. Mitei
9.	Director	Ms.Marie Gesare
10	Director General/Board Secretary	Eng. Peter M. Mundinia

The Board of Directors constituted four Board Committees of which the Finance, Human Resource and General Purpose committee and the Audit, Risk and Governance committee perform the financial management oversight roles.

Their key responsibilities are outlined below:

i)Finance, Human Resource and General Purpose Committee

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

➢ Review, approve and/or recommend for Board's approval;

1)Financial, Human Resources, ICT, Legal & Regulatory Affairs and Corporate Communications policies and procedures,
2)Estimates of receipts and expenditures including their revisions,
3)Re-allocation of funds between budget heads,
4)Special funding proposals including borrowings and grants,
5)Proposals for opening bank accounts,
6)Proposals for investments and their returns,
7)Annual Corporate Social Responsibility activities and

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

8)Staff terms and conditions of service.

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

ii)Audit, Risk and Governance committee

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

➢Review, approve and/or recommend for Board's approval;
1)The external auditor's management letter and management's response to the external auditor's findings and recommendations,
2)The Authority's procedures for detecting fraud and to review the investigation and remediation of any alleged or suspected fraud;
3)At least annually, the status of the enterprise risk management program and
4)The annual internal audit work plan.

➢Ensure that;
1)Unsettled and unimplemented Public Investment Committees' (PIC) issues are resolved,
2)Clarity of disclosure in financial reporting and the presentation of a balanced and understandable assessment of the Authority's financial position;
3)Recommendations of the Auditor General are implemented.
4)Integrity of the financial statements of the Authority is maintained at all times
5)Disagreements between management and any auditor regarding the Authority's financial reporting are resolved
6)Special audit/ investigation on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency are conducted

(iii) The other two committees are the Technical and Strategy and the Procurement and Disposal Oversight

(iv) Office of the Auditor General
Within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year, on:
1)Accounts of the national and county governments
2)Accounts of all funds and authorities of the national and county governments;
3)Accounts of all courts
4)Accounts of every commission and independent office established by the Constitution
5)Accounts of the National Assembly, the Senate and the county assemblies
6)Accounts of political parties funded from public funds;
7)Accounts of any other entity that legislation requires the Auditor-General to audit.
8)The public debt

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

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

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

v)Development partner oversight activities

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

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

vi) The Public Investments Committee

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

Its key responsibilities as appertains to the Authority are to;

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

(e)Senior Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General	- Eng. Peter M. Mundinia
2.	General Manager Design & Construction	- Eng. Samuel O. Ogege
3.	General Manager Planning & Environment	- Eng. Samuel O. Omer
4.	General Manager Finance	- CPA James Bowen
5.	Ag.General Manager Special Projects	- Eng. David Muchilwa
6.	Ag. General Manager Maintenance	- Eng. George Kiiru
7.	Head of Internal Audit	- Mr. William Masita
8	Head of Legal & Regulatory Affairs	-Ms. Norah Odingo-Kajwang'

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

(f)Kenya National Highways Authority Headquarters

Blue Shield Towers
Hospital Road
Nairobi, Kenya

(g)Kenya National Highways Authority Contacts

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

(h)Kenya National Highways Authority Bankers`

1.Kenya Commercial Bank Limited
Moi Avenue Branch
P.O Box 30081
GPO 00100
Nairobi, Kenya

2.Co-operative Bank of Kenya
Upper Hill Branch
P.O Box 30415-00100
GPO 00100
Nairobi, Kenya

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

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

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

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

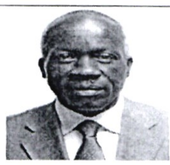
(i)Independent Auditors

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

(j)Principal Legal Adviser

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

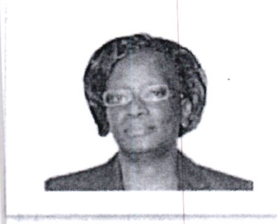
II. THE BOARD OF DIRECTORS

Director	Brief Profile
 1.Eng. Erastus K. Mwongera, CBS, FIEK, RCE Chairman of the Board of Directors	Date of Birth: 2nd December, 1949. Fellow of the Institution of Engineers of Kenya Registered Consulting Engineer BSc (Civil Engineering) HND. Construction Dip. Water Engineering Civil Engineering Consultant 42 years` administration and management experience
 2.Dr. Julius Kibiti M'Ndegwa Director	Date of Birth: 1st January, 1949 Senior Lecturer, Moi University HND (Highway Engineering) PGD (Highway Engineering) M.Sc. (Highway Engineering) PhD (Highway Engineering) Certified Environmental Auditor 42 years` management experience Reappointed 25th June, 2014
 3.Mrs. Bibiana A. R. Omalla Director	Date of Birth: 19th December,1958 MA (Urban and Regional Planning) PGD(Cartography) BSc. (Survey and Photogrammetry) Registered Planner Licensed surveyor Member of the Institution of Surveyors of Kenya Corporate Member Kenya Institute of Planners 33 years` management experience
 4.Mrs. Marykaren C. Kigen-Sorobit Director	Date of Birth: 14th February,1969 LL.B (Hons) PGD. KSL, CPS(K) Advocate of the high court of Kenya Advocate and assisting counsel, Judges & Magistrates Vetting Board Member, Law Society of Kenya 21 years' experience in legal and compliance management.
 5.Eng. Philemon C. Kilimo, OGW Director – Alt. to PS (Infrastructure)	Date of Birth: 22nd August, 1956. Roads Secretary, MOTI BSc.(Hons) Mechanical Engineering Member, Institute of Engineers of Kenya 36 years` management experience
 6.Mr. Humphrey Muhu Director – Alt. to CS (National Treasury)	Date of Birth: 28th August, 1964. Economist and Financial advisor. BSc (Statistics and Mathematics) B.Phil Economics MA (Economics) Dip. Financial Management 24 years` management experience

Director	Brief Profile
 7.Mr. George Wanjau Director – Alt. to PS (Transport)	Date of Birth:19th January, 1962, Economist and Urban Transport Planner. MSc (Project Planning & Financing) BA (Economics) 30 years` management experience
 8.Mr. Andrew C. Mitei Director	Date of Birth: July 1956 Certified Public Accountant Bachelor of Commerce (Accounting) Member, Institute of Certified Public Accountants (K) 37 years` of management experience
 9.Ms. Marie Gesare Director	Date of Birth: 1968 Human Resource & Public Relations Manager Advanced Diploma in Human Resource Management Bachelor of Business Management (On-going) Member, Infrastructure Committee and Devolution and Security Committee (K.A.M) 27 years` of management experience
 10.Eng. Peter M. Mundinia Director General & Secretary to the Board	Date of Birth: 7th December,1963, MBA (Business Management) BSc. (Civil Engineering) Diploma in Theology Member of Institute of Engineers of Kenya Registered Engineer with Engineers Board of Kenya and Member of Kenya Institute of Management (KIM) 27 years` of management experience *(Appointed 28th August, 2015)*
 11.Eng. Linus K. Tonui Ag. Director General	Date of Birth: 30th August, 1955, M.Sc. (Highway Engineering) BSc. (Civil Engineering) Registered Consulting Engineer, Registered Engineer, Corporate member Institution Of Engineers 36 years` of management experience *(Retired August, 2015)*

III. MANAGEMENT TEAM

Manager	Brief Profile
 1.Eng. Peter M. Mundinia Director General	Date of Birth: 7th December,1963, MBA (Business Management) BSc. (Civil Engineering) Diploma in Theology Member of Institute of Engineers of Kenya Registered Engineer with Engineers Board of Kenya and Member of Kenya Institute of Management (KIM) 27 years` of management experience *(Appointed 28th August, 2015)*
 2.Eng. Linus K. Tonui Ag. Director General	Date of Birth: 30th August, 1955, M.Sc. (Highway Engineering) BSc. (Civil Engineering) Registered Consulting Engineer, Registered Engineer, Corporate member Institution of Engineers 36 years of management experience *(Retired August, 2015)*
 3. Eng. Samuel O. Ogege General Manager - Design & Construction	Date of Birth: 3rd June, 1960, BSc. (Civil Engineering) Member of the Engineers Registration Board 29 years of management experience
 4. Eng. Samuel O. Omer General Manager - Planning & Environment	Date of Birth: 17thFebruary 1962, MSc. (Civil Engineering) BSc. (Civil Engineering) Member of The Engineers Registration Board 29 years of management experience
 5.CPA James K. Bowen General Manager – Finance	Date of Birth: 1st January, 1973 MBA, BCom (Accounting) Certified Professional Credit Manager (CMP), Certified Public Secretaries (CPS K), Certified Public Accountant (CPAK) Member of, ICPAK, ICPSK 19 years management experience
 6.Eng. Eng. David Muchilwa Ag. General Manager - (Special Projects)	Date of Birth: 28th December 1964 BSc. Civil Engineering Member of I.E.K 27 years management experience

Manager	Brief Profile
 7.Eng. George Kiiru Ag. General Manager - (Maintenance)	Date of Birth: 3rd July 1958 MSc. Highway Engineering BSc. (Civil Engineering) Member of I.E.K 35 years management experience
 8.Mr. William O. Masita Head, Internal Audit	Date of Birth: 2nd February 1979 MBA, BA (Economics) Certified Information Systems Auditor (CISA) Certified Internal Auditor (CIA) Certified Public Accountant (CPA) Certified Public Secretary (CPS) Member of ICPAK, ISACA, IIA 12 years Management Experience
 9.Ms. Norah Odingo-Kajwang' Head, Legal & Regulatory Affairs	Date of Birth: 27th April 1969 Degrees: MBA (Ongoing) Bachelor of Laws Registered Advocate Member Law Society of Kenya Member Public Secretaries of Kenya 22 years Management Experience.

IV. CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Financial Statement for the Financial Year ended 30th June 2016.

The Financial Year 2015/2016 was an ambitious one for the Authority in many ways. Among the pilot projects that we rolled out during the year was the first batch of the Roads 10,000 programme under the guidance of the parent ministry. This ambitious programme aims at having 10,000 kilometres of roads tarmacked within five (5) years. Out of these, the Authority's network is 1,000 kilometres. The first batch of 210 kilometres was at an advanced stage as of June, 2016 and is expected that the implementation of the projects should commence during 2016/2017 Financial Year under Annuity Programme.

In the year under review, provision of safe, motorable and adequate road infrastructure remained a key priority for the Central Government, with significant funding channelled towards the construction of new roads; and rehabilitation and maintenance of existing roads. The increased attention from the Government has attracted development partners including private investors seeking partnerships and opportunities in developing the national trunk roads under the Public Private Partnership concept.

Worth noting, the central role the country's infrastructure network plays in providing crucial connectivity to the neighbouring countries continued to remain our major focus, thus placing our key projects, especially along the Northern Corridor, South Sudan Link Road and Nairobi Addis Ababa Corridor among others which are key to regional trade and integration. Mombasa and the border towns have also been given attention in capacity enhancement of roads.

One of our key areas of focus during the Financial Year was the management and protection of the National Road Assets. Our approach was guided by the fact that the National Road Assets need to be freed from any illegal and unnecessary encumbrances by unauthorised users. Our approach was also guided by the fact that the Authority would in the future run into head winds with these unauthorised users if it did not take action and ensured that our road reserves remained unoccupied.

In this regard, the Authority mobilised the Road Corridor Management Teams to monitor the main international trunk roads, and ensure that they are protected from overloading, vandalism and illegal occupation. In addition, the Road Corridor Teams were mandated to continuously monitor the road surface conditions, and report back on any surface deterioration to enable the Authority take necessary measures in a timely manner, and restore the integrity of its infrastructure. The approach of Performance Based Contracting is being employed in most of our road corridors.

The Road Corridor Management Teams complement the already established Ten (10) Regional Offices, and we are confident that our approach will in the long-run have a positive impact on lowering road maintenance costs and ensure a well maintained road network.

Other value additions expected to be derived from our new approach will include identifying sections that need improvement within our network, such as areas that may require erection of footbridges, control the erection of illegal bumps, and regulation and control of roadside amenities.

Chairman's Statement (*Continued*)

The Authority will continue identifying value-addition ideas aimed at improving the quality of services it is providing to the *Wananchi*.

A key focus area by the Board within the year was providing an oversight role to Management, to ensure that all projects were implemented as scheduled. To this end, the Board's sustained inspection of the Authority's projects under implementation, throughout the country. These inspections were especially helpful in that apart from brainstorming specific problems affecting specific projects, the Board guided Management to take note of common challenges occurring across various projects, and draw lessons to avoid re-occurrence.

The Board remained satisfied at the implementation pace of the various projects, with a particular mention to the multi-national Mwatate – Taveta corridor, whose implementation is on schedule.

During the Financial Year, the Board hosted H.E. the President launched various projects under the Authority. These projects included the multinational Mwatate – Taveta – Holili corridor, which was jointly commissioned by H.E. President Uhuru Kenyatta and Tanzania's President, H.E. Jakaya Mrisho Kikwete. Others included the Port Reitz – Moi International Airport Road, Nuno – Modogashe Road, Elwak – Rhamu Road in Mandera County, construction of three interchanges along the Nairobi – Nakuru – Mau Summit Road and the Ol Joro Orok – Dundori Road.

The construction of these and all the other projects under implementation shall remain the key focus by the Board of Directors, as we steer the Authority to ensure that it plays its central role in not only infrastructure development, but in also remaining a key facilitator towards both national and regional integration.

The Board of Directors and Management will continue to work together to proactively review and identify areas that need improvement within the Authority, and will continue exploring strategies that will improve performance in project implementation.

More importantly, the Board remains keenly observant of the national values and principles as enshrined under Section 6 of the Constitution. These values guide all Directors and employee actions as we take cognisance of the resources entrusted to the Authority to implement by both the Government and various development partners.

The Board is looking forward to the prospects of the Public Private Partnership (PPP) projects it plans to in the near future. The key PPP projects earmarked for implementation in the initial stages include the Operation and Maintenance of the Nairobi – Thika Super Highway and the Nairobi Southern Bypass, as well as the Capacity Upgrade of the Mombasa – Nairobi and the Nairobi – Nakuru – Mau Summit Highways.

We continue encouraging creative thought process and innovation in the approach to the Authority's business in order to give Kenyans and all those who depend on our infrastructure network more modern solutions to their transport needs.

EKMwongera

Eng. Erastus K. Mwongera, CBS, FIEK, RCE
Chairman of the Board of Directors
23rd September 2016

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

General Overview

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

With funds from the Exchequer and support of development partners, KeNHA has completed key major projects and commenced other very important corridors. The past financial year saw KeNHA delivering a number of key projects aimed at enhancing transport flow across all regions of the country. Projects that were substantially complete by June 2016 include; Timboroa – Eldoret – Webuye road; Marsabit - Turbi road, Siaya - Rwambwa road; Ejinja – Bumala road and Masara – Suna – Kehancha road among others.

Many other projects are at various implementation stages. Key ongoing projects include Nairobi Southern Bypass, Nairobi Western Bypass; Nuno – Modogashe; Mombasa – Mariakani; Access to Moi International Airport – Port Reitz; Phase I of Mombasa bypass; Kisumu – Kakamega – Webuye – Kitale; Webuye – Malaba; Rumuruti – Maralal road; Oljoro-orok – Dundori road; Ndanai – Gorgor road; Rumuruti – Maralal, Oljoro-orok – Dundori; Ndanai – Gorgor; Merille River – Marsabit and Turbi – Moyale roads, among others.

Major Performance Milestones FY 2015/2016

In the financial year under review, the Authority remained focused on its mission of constructing and managing national trunk roads by undertaking various activities aimed at ensuring availability of adequate, safe and quality national roads for our customers. These include enhancing road network capacity and quality; securing and protecting national road reserves and assets; improving road safety and security and ensuring environmental sustainability. Other areas of focus include human resource development, strengthening institutional framework and internal capacity of the Authority and promoting use of local resource in road construction and maintenance.

Since March 2013, the Jubilee Government has invested over Ksh.140 Billion in construction and rehabilitation of 1,358Kms of roads. This has resulted in regional integration, ease of doing business, reduced travel time, reduced vehicle operating costs, improved access to social amenities including government services as well as improved market access to goods and products from the corridor. Several milestones were attained as a result of implementation of our strategic objectives during the year under review. Some our notable achievements were construction of 607.5 lane kms of new sections of national roads, compared to 621.10 lane kms achieved in the previous year and rehabilitation of 100 lane kms on national roads compared to 225.12 lane km achieved in the previous year as articulated in our evaluated performance contracts. Other notable achievements of the year under review were the routine maintenance of 11,758 lane km of national roads and mapping (center lining and digitization) of 235 kms of the trunk road corridor.

Challenges to Development of Quality National Roads

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

- Encroachment on road reserves, resulting in delays in project commencement and implementation
- Inadequate funds to develop and maintain roads. The optimal requirement for maintenance is Ksh.40 billion while the Road Maintenance Levy Fund realizes only Ksh.25 Billion annually. The shortfall for maintenance of existing road network amounts to Ksh.15 Billion annually.

Report of the Chief Executive Officer (Continued)

- Vandalism of road furniture, which continued to be a major challenge, greatly hampering efforts to provide safe and quality highways.

Future Initiatives to Upgrade More Roads

Under the Ministry of Transport, Infrastructure, Housing and Urban Development, there are plans to develop 1000km of roads in FY 2016/2017 under the annuity programme. The Authority further intends to commence with several projects in various parts of the country including: -

- Improvement and dualling of Mombasa – Mariakani section of Nairobi – Mombasa Road
- Improvement and dualling of Kisii – Ahero – Isebania road
- Rehabilitation and upgrading to bitumen standard of Kitale – Endebess – Suam road
- Upgrading to bitumen standards of Eldoret Bypass
- Construction of a head quarter office complex for the road sector institutions in Nairobi.

Additionally, KeNHA identified four projects for implementation under the Public Private Partnership projects as highlighted in the Chairman's Report.

Conclusion

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

Eng. Peter M. Mundinia
Director General
23rd September 2016

VI. CORPORATE GOVERNANCE STATEMENT

The Kenya National Highways Authority is committed to the values and principles of good corporate governance as an integral part of the corporate culture established at the Authority and guides the manner in which its directors, management and staff conduct the business of the organization. As a public sector organization dedicated to providing quality service to its stakeholders, the Authority's decisions are guided by the core tenets prescribed in the Public Officers Ethics Act, the Leadership and Integrity Act, the Authority's code of conduct, corporate governance guidelines and Board and Board Committee Charters. The Authority endeavors to develop, strengthen and sustain the trust that the Government, employees and the public have placed in it. The Board is committed to regularly evaluating national and international standards in responsible, transparent and efficient management with a view of enhancing corporate governance at the Authority and consistently delivering on its statutory mandate.

This report describes the Authority's corporate governance practices that were in place throughout the financial year ended 30th June 2016.

Role of the Board of Directors'

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

Membership of the Board

The KeNHA Board is constituted as per the provisions of the Roads Act, 2007 with membership drawn from both the public and private sector. The Board is composed of nine (9) Directors with six directors having a background or knowledge in the following areas:

- Institution ;
- Highway engineering;
- Transport economics;
- Surveying:
- Accountancy
- Law.

Tenure of Directors

In line with the provisions of the Kenya Roads Act 2007, the Chairman and other members of Board, other than designated public officers, shall hold office for a period of three years from the date of appointment and may be eligible for re-appointment for one further term. The appointment of all members of the Board as first constituted and at every change in membership thereafter shall be by notice published in the Kenya Gazette. The Director General is appointed by the Board in consultation with the Cabinet Secretary in charge of roads following a competitive recruitment process.

Induction, training and development of Directors

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

Corporate Governance Statement (*Continued*)

Committees of the Board

The Board has established four permanent Committees to assist in the execution of its responsibilities. These are the Audit, Risk and Governance Committee, the Finance Human Resource and General Purpose Committee, Procurement and Disposal Oversight Committee and the Technical & Strategy Committee. Each of the permanent Committees operates pursuant to approved terms of reference delegated to them by the Board.

Meetings of the Board

The Board and each committee have scheduled meetings held in every quarter of the financial year. Special meetings are held as and when required. The Chairman of each Committee regularly reports to the full Board on the Committee's deliberations.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As an Authority, we take cognizance of our responsibility to the communities in which we work with. Our CSR ethos is hinged on our obligation to act as responsible corporate citizens. We uphold environmental stewardship as one of our core values, and recognize that our activities as an Authority have an impact on the communities we interact with. We are therefore committed to not only creating a positive impact, but to also utilising available resources to impact life positively.

First Lady Half Marathon (Beyond Zero Campaign)
In the concluded Fiscal Year 2015/2016, the Authority sponsored some of its officers to take part in the Annual First Lady Half Marathon, whose proceeds go towards initiatives to reduce maternal and child mortality in the country. The race seeks to raise funds to increase access to better healthcare through the provision of mobile clinics for expectant mothers.

Donation to Mlolongo Public Schools
The Authority continued its partnership with Mlolongo public schools through donation of various text books and chairs. The 3 public schools, a kindergarten, primary school and secondary schools were built by the Authority during the construction of the JKIA Turnoff – Athi River Interchange (A104) road. The three schools offer learning to more than 2000 pupils combined, largely drawn from the nearby Mlolongo, Sabaki and Athi River areas.

Sponsorship of needy student
The Authority once again responded to the plight of a bright, but needy student who required assistance to continue with his high school education.

CSR activities carried out under Marsabit- Merille River Project
The Authority carried out the following CSR activities under Marsabit – Merille River Project

- Renovation of classes, dormitories Laboratories and buildings in Marsabit Boys
- Construction of 6 (six) new bathrooms in Marsabit Boys
- Construction of 2 (two) classrooms Madrassa
- Construction of 4 (four) toilets in SKM primary school
- Renovation of Al Hidaya Primary School
- Donation of a steel pressed 75,000 litre capacity water Tank to Marsabit Boys
- Donation of a steel pressed 75,000 litre capacity water Tank to Moi Girls
- Renovation of SAKU Primary School
- Construction of 2 No.(two) Chiefs` offices in Jirime and Dahabaricha
- Construction of Eight (8) Green houses
- Construction of a water pan at Gotugardi

CSR activities carried out under Siaya - Ruabwa project
The Authority carried out the following CSR activities under Siaya – Ruabwa project

- Construction of four (4)No. classrooms and Toilets for Boro Primary School

CSR activities carried out under Turbi – Moyale project
The Authority carried out the following CSR activities under Turbi- Moyale project

- Daily supply of water to local communities
- Construction of Water pans for Local communities
- Construction of 2 (two) classrooms at Funanyata and Bori Primary Schools.

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the un-audited financial statements for the year ended 30th June, 2016 which show the state of the Authority's affairs.

Principal activities

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

Results

The results of the Authority for the year ended 30th June, 2016 are set out on page 1

Directors

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

Auditors

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

By Order of the Board

Eng. Peter M. Mundinia
Director General
Director General and Secretary to the Board
Nairobi
23rd September 2016

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Board of Directors is responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on 30th June, 2016. This responsibility includes:

(i)Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
(ii)Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority;
(iii)Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
(iv)Safeguarding the assets of Authority;
(v)Selecting and applying appropriate accounting policies; and
(vi)Making accounting estimates that are reasonable in the prevailing circumstances.

The Board of Directors accepts responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended 30th June, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Authority's financial statements were approved by the Board on **21 st September, 2016** and signed on its behalf by:

Eng. E.K. Mwongera CBS, FIEK, RCE	**CPA. A. C. Mitei**	**Eng. Peter Mundinia**
Chairman of the Board	**Director**	**Director General**

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL HIGHWAYS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya National Highways Authority set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. 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 management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

The property, plant and equipment balance of Kshs.265,512,943,091 as at 30 June 2016 excluded undetermined value of land and houses occupied by staff in south rift region from which the Authority earned an income of Kshs.1,158,200.00 during the year. In the circumstances, the accuracy and correctness of property, plant and equipment balance of Kshs.265,512,943,091 as at 30 June 2016 could not be confirmed.

2. Northern Corridor Transport Improvement Project Credit Nos. 3930-KE and 4571-KE - Special Account Reconciliation Statement

Although the project financial statements shows that Kshs.3,350,700.00 was withdrawn from the special account and paid to the project account, the audited special account statement from the National Treasury shows that USD 0.00 (Kshs.0.00) was withdrawn from the account to finance project activities. Reconciliation between the two records has not been prepared.

3. Kenya Transport Sector Support Programme IDA Credit No. 4926

3.1 Rehabilitation of Kisumu-Kakamega Road Section (Lot 1)

The Contract awarded to M/s China Overseas Engineering Group Co. Ltd at a contract sum of Kshs.4,452,053,438.28 for a contract period of two years. The project commenced on 5 January 2013 and was originally scheduled to be completed in October 2015 after an extension of time was awarded to the contractor revising the completion date to 10 October, 2016.

Monthly progress report No. 41 of June 2016 shows that the percentage of time elapsed was 93% while the physical works completed was at 54% an indication of slow progress in project implementation. Further, audit inspection of the project on 7 October, 2016 revealed that the project was on going at a slow pace.

In addition, the contract sum was revised by an additional Kshs.3,509,473,923 to Kshs.7,961,527,361.84 a variation of 78.8% contrary to the Public Procurement Disposal Act, 2005 thereby contravening the law.

3.2 Rehabilitation of Bachuma Gate-Maji ya Chumvi Section of Nairobi-Mombasa Road (A109)

The project was awarded on 10 December, 2013 to M/s China Dalian International Economic and Technical Co-operation Group Co Ltd at a contract sum of Kshs.4,986,218,100.73 for a period of 24 Months commencing 3 November, 2014 to 2 November, 2016 with a defects liability period of 12 Months. Monthly progress report of June 2016 shows that the percentage of physical works completed was 20% while percentage of time elapsed was 79% an indication of slow progress in project implementation which may lead to escalation of project costs.

3.3 Construction of three (3) interchanges along A104 at Nyahururu turnoff, Njoro turnoff and Mau Summit

The contract was awarded to M/s China Railway No10 Eng Group Co at a contract sum of Kshs.2, 690,008,029.77 for a period of fifteen Months. The project commenced 2 February, 2015 and was originally scheduled to be completed on 2 May, 2016. However, an extension was granted revising the completion date to 2 October, 2016. Monthly progress report no. 13 of June 2016, showed that the percentage of time elapsed was 85% while the physical works completed was 16% an indication of slow progress in project implementation which is likely to lead to escalation of project costs.

3.4 Rehabilitation of Kakamega-Webuye Road

The project was awarded on 18 January 2012 to a construction company at a contract sum of Kshs.2,505,924,536.66. The works commenced on 1 April 2013 for a period of 24 months with a completion date of 31 March 2015. The project is financed by the World Bank and the Government of Kenya at 75% and 25% respectively.

Evidence available indicated that notice of termination of the contract was issued on 8 May 2014 due to contractor's non- performance. However, the contractor obtained a court injuction stopping KeNHA from removing equipment from the site and it is not clear the effect the court decision may have on the project.

4. Kenya Transport Sector Support Programme IDA Credit No. 4926 - Unsupported Expenditure

As reported in previous year, an expenditure of Kshs.3,778,139,482 in the statement of receipts and payments for the year ended 30 June 2015 included an amount of Kshs.11,015,603 described as miscellaneous payments and explained in Note 8.7 as bank corrections. Although management has explained that these were bank corrections, the letter from the bank dated 5 November 2015 clearly stated that the interest rate of 8% was for period November 2013 to July 2014 and not July 2014 to June 2015 which was the period for the financial statements under audit.

In addition, the breakdown of the total of Kshs.11,015,603 as well as the terms between the Authority and the bank were not availed for verification. In the circumstances, the propriety of the expenditure of Kshs.11,015,603 could not be confirmed.

5. Periodic Maintenance of Mombasa Miritini (A 109) Road

As reported in the previous year the contract for the above maintenance works was awarded to M/s Talewa Road Construction Ltd. at a contract sum of Kshs.341,180,245 with commencement and completion dates of 26 January 2012 and September2012 (8 months) respectively. Evidence available indicated that the contract was terminated after poor performance by the contractor when total payment to the contractor stood at Kshs.144,146,778.76 (42.25% of the contract sum).

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

A review of the contract during the year 2014/2015 revealed that the contract sum had been varied by a further Kshs.63,330,409 thereby raising the contract sum to Kshs.355,987,000 and further escalating total expenditure for the Project to Kshs.500,133,777 or 46.60% above original contract price of Kshs.341,180,245.

Although management has explained that the escalation of Project costs was due to configuration of roads, roundabouts and traffic redirection around Changamwe area to facilitate faster exit of trucks due to Government directive, it has not been possible to confirm whether the Authority got value for money on the total expenditure of Kshs.500,133,777.

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

As reported in the previous year, the road was officially opened by His Excellency the President of the Republic of Kenya in 28 November 2012. Examination of records, documents and payment vouchers relating to the above project revealed that the tender committee on its 91st meeting held on 6 November 2012 considered and approved direct procurement of M/s Sinai Construction Co. Ltd of P.O. Box 71273 – 00622 Nairobi to execute Bush Clearing in preparation of official opening of the road. This was contrary to the Secretariats recommendation that a more competitive method of procurement be used. The Authority went ahead and initiated negotiations with Sinai Construction Co. Ltd in which the scope of works, rates and the contract price was agreed at Kshs.11,595,415.50. The negotiated works were approved by the Tender Committee in its meeting held on 22 November 2012.

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

7. Nairobi Southern By Pass Road Project Loan No. China Exim Bank PBC No. (2011) 32 Total No. (183 No. (1402030305201121528) - Project Implementation and Nugatory Expenditure

The Project was awarded to China Road and Bridge Corporation at a contract sum of Kshs.17,199,793,766 which was revised to Kshs.18,790,462,192.83 as at 30 June 2016 and commenced on 2 July 2012 with revised completion date of 30 June 2016. A review of the project during the year under review indicates that although the project was 99.1% complete according to progress report no. 48 of June 2016, the cumulative expenditure of Kshs.18,144,505,971 included an expenditure totaling Kshs.369,675,034 (2014/2015 was Kshs.236,261,048) incurred in payment of interest on delayed certificates which is a wasteful expenditure.

8. Northern Corridor Transport Improvement Project (IDA Credit No. 3930 - KE and 4571 – KE - Rehabilitation of Kericho – Mau Summit (B1) Road Section

As reported in the previous year's audit report, the contract was awarded to a contractor on 26 October 2009 at a contract sum of Kshs.6,832,657,486.36. The contract commenced on September 2010 for a contract period of 24 months with the expected completion date of 15 September 2012. However, a review of the project during the year under review has indicated that after several extension of contract period, the project was inspected for substantial completion on 29 May 2015, and recommended for take over with effect from 4 March 2015. However, an expenditure amounting to Kshs.148,054,139 has been incurred to pay interest on delayed payments which amounts to wasteful expenditure.

9. Construction of Thua Bridge and Approaches

The contract was awarded to M/s KIU Construction at a cost of Kshs.424,605,676.74 for 16 months with 24 months defect liability period. The contract was however extended to 21 August 2015.

As per KeNHA/TC146/A/3358/2015, the tender committee members through circulation for concurrence on 18 February, 2015 considered and approved the interim extension of time of sixty days for works contract from 22 February, 2014 to 21 April 2015 and use of direct procurement method to procure supervision consultancy services for the project.

However, it was observed that the Authority paid interest on delayed payments amounting to Kshs.70,585,085.95, Kshs.53,723,192.77, Kshs.70,333,782.26 to

Contractors awarded rehabilitation of Laruk - Marpello Road Construction of KCC-Sotic/Ndanai - Gorgor Road and Construction of Masara, Suna-Kehancha and Reinstatement of Awendo-Mariwa Road respectively. The total payments amounting to Kshs.194,642,060.98 was wasteful expenditure.

10. Consultancy Services for Management Contracts of Weighbridge Stations across the National Road Network

10.1 The Contract

Kenya National Highways Authority (KeNHA) has privatized the management and operations of all overloading control centers also known as weighbridges on major trunk roads. The objective of this exercise is to attain a sustainable and safe road network by ensuring that axle loads applied to road pavements are not exceeded. The weighbridge stations were divided into five clusters for the purpose of these management consultant contracts.

10.2 Request for Expression of Interest and Request for Proposals

Interested firms were invited for expression of interest after which selected four consultancy firms were shortlisted. The shortlist was approved by the Tender Committee in their meeting held on 21June 2012. Request for Proposals (RFP) were issued to the shortlisted firms on 25 July 2012.

10.3 Proposal Response and Evaluations

The firms returned the RFP depending on the cluster for evaluation and as detailed in table below (10.5). However, only one firm was found to be responsive upon preliminary evaluation in all clusters and was awarded the contracts after technical and financial evaluations. The reasons for the rest being non-responsive were having provided bid bonds valid for 120 days instead of 150 days.

10.4 Tender Committee, Award and Negotiations

The Tender Committee in their meeting No. 92 held on 22 November 2012 approved the award of the five contracts to M/s SGS Kenya Limited being the only evaluated tenderer. The consultant was notified of the award on 22 November 2012. This was followed by negotiations between the KeNHA and the consultant on 11 December 2012. The contracts were later signed between the two parties on 04 February 2013 and order to commence given on the same date.

10.5 Tender Sums Visa Vis Engineers Estimates

Examination of records and documents relating to these consultancy contracts revealed that the tender sums may not have been competitive and consequently exceeded the engineers estimate by a total of Kshs.1,177,105,157.53 as follows:-

No	Weighbridge Station Cluster	Engineer's Estimate	Contractor's Tender Sum	Variance
1.	Webuye, Malaba and Eldoret cluster plus adjacent road network	263,978,880.00	519,321,725.85	255,342,845.83
2.	Gilgil and Mai Mahiu cluster plus adjacent road network	287,508,320.00	508,704,606.32	221,196,286.32
3.	Mariakani and Mtwapa cluster plus adjacent road network	361,605,640.00	532,728,641.29	171,123,001.29
4.	Athi River, Thika Road and Isinya cluster plus adjacent road network	340,277,300.00	650,869,902.86	310,592,602.86
5.	Busia, Isebania and Kisumu cluster plus adjacent road network	233,354,880.00	452,205,301.23	218,850,421.23
	Total	**1,486,725,020.00**	**2,663,830,177.53**	**1,177,105,157.53**

10.6 Exhaustion of Contract Sums

Examination of payment vouchers relating to these consultancy contracts revealed that so far and although the contract sums were not exceeded, the consultant has been paid in excess of the contract amounts in some items as shown below:-

No	Weighbridge Station Cluster	Item Description	PC No	Amount in Contract Kshs.	Amount paid Kshs.	Excess paid Kshs.
1.	Webuye, Malaba and Eldoret cluster plus adjacent road network	Engineer's superintendence	23	30,500,000	51,231,331	20,731,331
2.	Gilgil and Mai mahiu cluster plus adjacent road network	Engineer's superintendence	23	25,250,000	56,779,292	31,529,292
3.	Marakani and Mtwapa cluster plus adjacent road network	Engineer's superintendence	20	41,000,000	64,610,257	23,610,257
4.	Athi River, Thika Road and Isinya cluster plus adjacent road network	Management and Operations		137,005,163	199,238,074	62,232,911
		Engineer's superintendence		41,000,000	75,579,724	34,579,724

5.	Busia, Isebania and Kisumu Cluster plus adjacent road network	Management and Operations Engineer's superintendence	23 23	76,704,263 18,400,000	120,717,343 47,874,683	44,013,080 29,474,683
	Total			**369,859,426**	**616,030,704**	**246,171,278**

In the foregoing, the Authority breached the law and it is not possible to confirm whether the Authority obtained value for money in these contracts.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya National Highways Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Roads Act, 2007.

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

Nairobi

31 July 2017

XI. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2016

	Note	2015-2016	2014-2015
		Kshs	Kshs
Revenue from non-exchange transactions			
Road maintenance contributions	3	9,581,079,900	9,826,847,361
Fines, penalties and levies	4	511,766,259	381,862,502
Transfer from other Government's -Recurrent expenditure	5	344,426,515	203,206,266
		10,437,272,674	**10,411,916,129**
Revenue from exchange transactions			
Rental revenue from facilities and equipment	6	1,158,200	1,173,500
Finance income-external investments	7	621,687,889	463,990,835
Other income	8	44,279,895	27,733,036
		667,125,984	**492,897,371**
Total revenue		**11,104,398,658**	**10,904,813,500**
Expenses			
Road maintenance and axle load expenses	9	8,397,517,376	8,345,022,412
Employee costs	10	1,029,379,626	925,098,989
Board Expenses	11	47,266,390	56,412,245
Depreciation and amortization expense	12	146,101,463	80,860,220
Repairs and maintenance	13	80,264,627	61,767,495
General expenses	14	301,397,824	288,588,681
Project Administration expenses	5	344,426,515	203,206,266
Finance costs	15	3,228,905	3,386,611
Total expenses		**10,349,582,726**	**9,964,342,919**
Other gains/(losses)			
Gain on sale of assets	16	309,894	285,000
Provision for doubtful debtors	17	(7,715,362)	-
Loss on foreign exchange transactions	18	(842,017)	(43,241)
Profit on foreign currency translations	19	12,535,487	706,875
(Deficit)/Surplus for the period		**759,103,934**	**941,419,215**

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

XII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Note	2015-2016	2014-2015
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	20	10,394,535,104	8,725,500,883
Receivables from non- exchange transactions	21	8,244,431,278	12,875,184,718
Receivables from exchange transactions	22	4,273,565,805	1,888,631,130
Inventories	23	4,876,822	4,604,229
Total current assets		**22,917,409,009**	**23,493,920,960**
Non-current assets			
Property, plant and equipment	24	265,512,943,091	215,017,181,726
Intangible assets	25	94,607,318	74,958,545
Total non-current assets		265,607,550,409	215,092,140,271
Total Assets		**288,524,959,418**	**238,586,061,231**
Liabilities			
Current liabilities			
Trade other payables from exchange transactions	26	25,494,924,103	18,837,189,292
Refundable deposits from customers	27	117,245,106	101,296,916
Provisions	28	12,103,191	12,367,161
Total liabilities		**25,624,272,400**	**18,950,853,369**
Net assets		**262,900,687,018**	**219,635,207,862**
Reserves		258,061,269,046	215,604,375,460
Accumulated Surplus		4,839,417,972	4,030,832,402
Total Net assets and Liabilities		**288,524,959,418**	**238,586,061,231**

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

Eng. Peter M. Mundinia
Director General
23 rd September, 2016

Eng. Erastus K. Mwongera, CBS, FIEK, RCE
Chairman of the Board of Directors
23 rd September, 2016

XIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2016

	Accumulated Surplus	Reserves Grants	Total
	Kshs	Kshs	
Balance as at 30th June 2014	**3,085,564,467**	**151,298,648,686**	**154,384,213,153**
Surplus for the period	941,419,215	-	**941,419,215**
Government Grants	-	64,305,726,774	**64,305,726,774**
Transfers from Accumulated Surplus	3,848,720	-	**3,848,720**
Balance as at 30th June 2015	**4,030,832,402**	**215,604,375,460**	**219,635,207,862**
Surplus for the period	759,103,934	-	759,103,934
Government Grants	-	42,456,893,586	42,456,893,586
Transfers to Accumulated Surplus	49,481,636	-	49,481,636
Balance as at 30th June 2016	**4,839,417,972**	**258,061,269,046**	**262,900,687,018**

IV. STATEMENT OF CASH FLOWS
For the year ended 30 June 2016

	Note	2015-2016	2014-2015
		Kshs	Kshs
Net cash flows used by/from operating activities	*31*	**9,202,172,817**	**(13,729,685,856)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(50,594,165,696)	(48,315,010,989)
Proceeds from sale of disposable items		2,094,398	800,000
Purchase of Intangible assets		(19,648,773)	(28,911,584)
Interest Income		621,687,889	463,990,835
Net cash flows used in investing activities		**(49,990,032,182)**	**(47,879,131,738)**
Cash flows from financing activities			
Proceeds from grants		42,456,893,586	64,305,726,774
Net cash flows from financing activities		**42,456,893,586**	**64,305,726,774**
Net increase/(decrease)in cash and cash equivalents		1,669,034,221	**2,696,909,180**
Cash and cash equivalents at the beginning	*20*	8,725,500,883	6,028,591,703
Cash and cash equivalents at end	*20*	**10,394,535,104**	**8,725,500,883**

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	
	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	
Revenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
Road maintenance contributions	15,356,401,815	(2,486,000,000)	12,870,401,815	9,581,079,900	(3,289,321,915)	*a*
Fines, penalties and levies	225,000,000	206,000,000	431,000,000	511,766,259	80,766,259	*b*
Government grants	344,426,515	-	344,426,515	344,426,515	-	
Rental revenue from facilities	319,500	-	319,500	1,158,200	838,700	
Finance Income	250,000,000	300,000,000	550,000,000	621,687,889	71,687,889	*c*
Other Income	39,680,500	(36,850,000)	2,830,500	44,279,895	41,449,395	*d*
Total income	**16,215,828,330**	**(2,016,850,000)**	**14,198,978,330**	**11,104,398,658**	**(3,094,579,672)**	
Expenses						
Road maintenance & Axle Load	13,954,767,934	(2,086,000,000)	11,868,767,934	8,397,517,376	3,471,250,558	*e*
Compensation of employees	1,233,350,661	40,325,150	1,273,675,810	1,029,379,626	244,296,184	*f*
Finance cost	3,760,345	109,611	3,869,957	3,228,905	641,052	
Board expenses	66,868,245	190,000	67,058,245	47,266,390	19,791,855	*g*
Repairs and renewals	112,544,893	(2,389,215)	110,155,678	80,264,627	29,891,051	*h*
Depreciation	-	-	-	146,101,463	(146,101,463)	*i*
General Expenses	395,348,687	23,265,720	418,614,407	301,397,824	117,216,583	*j*
Government grants	344,426,515	-	344,426,515	344,426,515	-	
Capital Expenditure	104,761,050	7,648,734	112,409,784	-	112,409,784	
Gain on disposal of asset	-	-	-	309,894	309,894	
Provision for doubtful debts	-	-	-	(7,715,362)	(7,715,362)	*k*
Loss on foreign exchange	-	-	-	(842,017)	(842,017))	l
Gain on foreign currency translation	-	-	-	12,535,487	12,535,487	m
Total expenditure	**16,215,828,330**	**(2,016,850,000)**	**14,198,978,330**	**10,345,294,724**	**3,853,683,606**	
Surplus / (Deficit) for the period	**-**	**-**	**-**	**759,103,934**	**759,103,934**	

NOTES ON MATERIAL VARIANCES BETWEEN BUDGETED & ACTUAL AMOUNTS.

a)Road Maintenance Contributions

The variance was due to the fact the budgeted amounts included carryover funds from FY 2014/2015 which had already been realised as income in that year.

The significant change from the original budget was occasioned by the budget reallocation of road maintenance levy allocation from recurrent to development vote of Kshs. 2,486,000,000 by Parliament during the budget revision.

b)Fines , Penalties & Levies

The income from weighbridges was substantially above budget due to the authority's continued enforcement of the Kenya National Highways Authority Regulations; legal notice no.86 of 10th May 2013. The ongoing installation of fibre optic, underground power transmission lines and water pipes enhanced road cutting fees collection as well.

c)Finance Income

The favourable variance was as a result of increased interest mainly from the call deposit investments. The Authority endeavoured to negotiate the best rates in the market. This coupled with the high interest rates experienced in the market during the second and third quarters led to the favourable performance.

d)Other Income

The performance of these incomes was above the budgeted level in the year due to the income realised from liquidated damages and from disposal of assets.

e)Road Maintenance & Axle Load Expenses

The unfavourable variance was as a result of some road maintenance works stretching over to the following financial year 2016/2017. Procurement for the works was done in the last quarter of the year.

f)Compensation of Employees

The budgeted amounts included an amount for staff bonus whose approval process had not been completed by 30.06.2016 thus the slight below budget performance.

g)Board Expenses

Board activities took place within the financial year as planned. However, overseas travel was minimal within the year thus the variance.

h)Repairs & Renewals

Repairs and maintenance activities were undertaken within the year as planned with some of the contracts stretching to the financial year 2016/2017.

i)Depreciation

The depreciation charge is a non-cash item not usually budgeted for.

j)General Expenses

The variance was a result of contracts for professional fees, research and strategy and rent stretching to the financial year 2016/2017.

k)Provision for doubtful debts

This was a specific provision for road reserve use fees as per petition nos.300 of 2014 and 490 of 2014 which restrained the Authority from levying charges on outdoor advertisements which is an exclusive function of the county governments.

l)Loss on foreign exchange transactions

This emanated from transactions in our dollar denominated account at NIC bank. These transactions were weighbridge transgression fees deposits.

m)Profit on foreign currency transactions

This emanated from transactions in our dollar denominated account at NIC bank for weighbridge transgression fees deposits and a liquidated contract advance guarantee that was translated at contract rate. The profit was as a result of the rate used for translation at the reporting date.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1.(a)Statement of compliance and basis of preparation

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

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

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

1 (b) Standards and interpretations affecting the reported results of financial position
The International Public Sector Accounting Standards Board (IPSASB) has not issued any new standards that are effective in the year ended 30 June, 2016.

2.Summary of significant accounting policies

a) Revenue recognition

i)Revenue from non-exchange transactions

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

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

ii)Revenue from exchange transactions
a)Interest and other incomes
Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Other income relates to incomes that arise from miscellaneous activities that are not primarily aimed at raising revenue.

b)Budget information
The annual budget is prepared on the accrual basis where all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis for timing differences

on the Authority that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

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

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

An item of property and equipment is de-recognised upon disposal. Any gain or losses on de-recognition of the asset is included in the Statement of Financial Performance in the year the asset is de-recognised.

d) Leases
Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.
Non-cancellable operating lease rentals are payable as follows

	2016	2015

	Kshs	Kshs
Not Latter than one year	67,766,677	89,714,915
Later than one year and not later than three years	133,441,625	186,441,625
	201,208,302	**276,156,540**

The Authority leased head office premises under two operating lease. The leases typically runs for 6 years with an option for renewal upon expiry on 30 November, 2017 and 30 March 2019 respectively.
Lease payments are increased according to the contract stipulations. The Board does not have an option to purchase the leased asset at the expiry of the lease period. There are no contingent rents recognised in the statement of financial performance.

e) Intangible assets

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

f) Research and development costs

The Authority expenses research costs as incurred.

g) Financial instruments

Financial Assets

Initial recognition and measurement

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

Impairment of financial assets

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

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

h) Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.
Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Financial Risk Management

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 Authority'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 following risks arise in regard to financial instruments such as payables, receivables and cash and cash equivalents held by the Authority;

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.

Below is the undiscounted cash flows on the Authority's financial assets and liabilities on the earliest possible contractual/maturity date. The liquidity ration in FY 2015/16 is 0.90 (FY 2014/2015 : 1.24)

	Note	2015-2016	2014-2015
		Kshs	**Kshs**
Financial Assets			
Cash and cash equivalents	*20*	10,394,535,104	8,725,500,883
Receivables from non- exchange	*21*	8,244,431,278	12,875,184,718

transactions			
Receivables from exchange transactions	22	4,316,998,177	1,888,631,130
Total financial assets		**22,955,964,559**	**23,489,316,731**
Financial Liabilities			
Trade other payables from exchange transactions	26	25,494,924,103	18,837,189,292
Refundable deposits from customers	27	117,245,106	101,296,916
Total financial liabilities		**25,612,169,209**	**18,938,486,208**
NET LIQUIDITY		**-2,656,204,650**	**4,550,830,523**
LIQUIDITY RATIO		**0.90**	**1.24**

The primary sources of revenue for the Authority are receipts from fuel levy fund and government exchequer. Other sources include fines and penalties as approved by the subsidiary legislation through legal notice no 86 of 2013.

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 Authority is exposed to the following market risks:-

(i) Currency Risk

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

(ii) Interest Rate Risk

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

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

The interest rate risk is minimal as the 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
- Development of Business Contingency Plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where it is effective.

Operational risks are documented in the 'Enterprise Risk Management' and are managed by the Enterprise Risk Management Section 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 liability to control the rights to assets of the Authority (including intellectual property right), changes in law, or jurisdictional risk.

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

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

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

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

k) Provisions

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

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

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

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

Contingent assets

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

l) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. The Authority maintains grants and surplus reserves. The grant reserves are exchequer and donor funds received from the Government and Development Partners for development of roads. The surplus reserve represents the surplus or deficit of Road maintenance contributions and other internally generated funds against road maintenance and operation expenses.

m) Changes in accounting policies and estimates

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

n) Employee benefits

Retirement benefit plans

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

o) Foreign currency transactions

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

p) Related parties

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

q) Cash and cash equivalents

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

r) Comparative figures

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

s) Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur as per IPSAS 1.140

Useful lives and residual values

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

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

Provisions

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

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

t) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

u) Capital Commitments

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

3.Road maintenance contributions

	2016 Kshs	2015 Kshs
Road Maintenance Funds	8,214,076,709	8,209,568,126
Administration & Operations Fund	912,675,190	912,174,236
Transit Tolls	454,328,001	454,229,999
RMLF Allocation from 10% of Fund	-	250,875,000
Total maintenance contributions	**9,581,079,900**	**9,826,847,361**

4.Fines, penalties and levies

	2016 Kshs	2015 Kshs
Overload	203,676,600	80,162,190
Transgression fees	39,628,372	59,513,161
Parking fees	43,849,013	53,332,107
Exemption permit fees	175,569,084	137,602,356
Road cutting fees	47,166,365	37,002,910
Road reserve user fees	1,160,700	9,355,291
Sale of tender documents	716,125	4,894,487
Total	**511,766,259**	**381,862,502**

5. Transfer from other Government's-Recurrent expenditure/ Project administration expenses

	2016 Kshs	2015 Kshs
Northern Corridor Transport Improvement Project	36,547,135	18,473,866
Consultancy & Design	29,162,736	11,033,974

Road Network Management Systems	16,912,445	4,618,315
Monitoring & Evaluation	19,373,806	-
Mombasa-Mariakani	16,484,126	8,628,069
Mwatate-Taveta	25,835,639	4,026,415
Mukuyu-Kisii-Ahero	10,016,619	33,600
Kenya Transport Sector Support Project	28,933,074	58,140,145
South Sudan-EARTTDF/SS	22,682,776	-
Nairobi Urban Transport Improvement Project	46,510,822	28,147,325
Other Gok Development Projects	91,967,337	70,104,557
Total government grants and subsidies	**344,426,515**	**203,206,266**

6. Rental revenue from facilities and equipment

	2016 Kshs	2015 Kshs
Rental income	1,158,200	1,173,500
Total rentals revenue	**1,158,200**	**1,173,500**

7.Finance income-external investments

	2016 Kshs	2015 Kshs
Call deposits	423,362,769	291,335,651
Mortgage interest income	9,805,858	4,541,114
Bank account interest	188,519,262	168,114,070
Total finance income–external investments	**621,687,889**	**463,990,835**

8. Other income

	2016 Kshs	2015 Kshs
Interest on salary advances	30,791	80,500
Sale of disposable items	3,562,215	-
Payment in Lieu of notice	138,615	-
Recovery surcharge	-	1,278,940
Liquidated Damages	40,548,274	26,373,596
Total other income	**44,279,895**	**27,733,036**

9. Road maintenance and axle load expenses

	2016 Kshs	2015 Kshs
Road maintenance works	7,461,005,189	7,372,452,934
Emergency road works	316,196,400	153,993,415

Weighbridges management contract	608,104,816	808,697,906
Weighbridge operational expenses	12,210,971	9,878,157
Total road maintenance and axle load expenses	**8,397,517,376**	**8,345,022,412**

10.Employee costs

	2016 Kshs	2015 Kshs
Salaries & allowances	813,648,622	742,460,912
Pension & gratuity	50,299,768	52,717,847
Training & subscription	55,563,377	32,143,252
Welfare	22,739,272	23,692,851
Staff medical & group life insurance	81,475,611	72,571,607
Recruitment	5,497,980	852,450
Staff mobile phone handsets	154,996	660,070
Total employee costs	**1,029,379,626**	**925,098,989**

11. Board expenses

	2016 Kshs	2015 Kshs
Salaries & allowances	13,433,067	12,679,576
Honoraria & telephone	1,044,000	817,740
Lunch allowance	742,950	444,000
Transport, travelling & accommodation	14,829,435	22,190,385
Insurance	21,513	111,080
Training	3,235,595	6,820,647
Refreshments	682,450	490,381
Induction	480,000	449,200
Ministerial & other official functions	12,070,391	11,950,172
Gratuity	726,989	459,064
Total board expenses	**47,266,390**	**56,412,245**

12. Depreciation and amortization expense

	2016 Kshs	2015 Kshs
Property, plant and equipment	146,101,463	80,860,220
Total depreciation and amortization	**146,101,463**	**80,860,220**

13.Repairs and maintenance

	2016 Kshs	2015 Kshs
Repairs property , plant and equipment	2,209,082	1,818,125
Vehicles	69,934,322	55,104,950

Renewals	8,121,223	4,844,420
Total repairs and maintenance	**80,264,627**	**61,767,495**

14. General expenses	**2016**	**2015**
The following are included in general expenses:	**Kshs**	**Kshs**
Postage & courier services	1,174,336	919,317
Reference material	476,652	81,130
Telephone & Wide Area Network connectivity	15,534,528	12,575,489
Newspapers & magazines	2,661,350	2,663,772
Drinking water	1,190,719	1,113,176
Printing & photocopy	841,316	956,390
Hire of transport	562,058	438,891
Kitchen utensils	150,939	164,446
General insurance	510,904	595,924
Stationery & consumables	16,229,876	17,319,819
Cleaning & sanitation	7,315,770	6,048,402
Security expenses	28,008,707	24,528,990
Professional fees	41,474,570	34,652,228
Conference & seminars	19,242,929	13,755,297
Advertising , publicity& Corporate Social Responsibility	23,713,555	29,664,326
Anti-Corruption & Integrity Issues	5,638,393	-
Staff Uniforms	1,587,200	-
Field activities	64,415,864	45,794,293
Research and development	-	4,781,420
Utilities	2,901,481	2,820,456
Rent	67,766,677	89,714,915
Total general expenses	**301,397,824**	**288,588,681**

15. Finance costs

	2016	**2015**
	Kshs	**Kshs**
Bank Charges	3,228,905	3,386,611
Total finance costs	**3,228,905**	**3,386,611**

16.Gain on sale of assets

	2016	**2015**
	Kshs	**Kshs**
Property, plant and equipment	309,894	285,000
Total gain on sale of assets	**309,894**	**285,000**

17. Provision for doubtful debtors	**2016**	**2015**

	Kshs	Kshs
Provision for doubtful debtors	7,715,362	-
Total provision for doubtful debtors	**7,715,362**	-

18. Loss on foreign exchange transactions

	2016 Kshs	2015 Kshs
loss on foreign exchange transactions	842,017	43,241
Total loss on foreign exchange transactions	**842,017**	**43,241**

19. Profit on foreign currency translation

	2016 Kshs	2015 Kshs
Profit on foreign currency translation	12,535,487	706,875
Total Profit on foreign currency translation	**12,535,487**	**706,875**

20. Cash and cash equivalents

	2016 Kshs	2015 Kshs
Cash-on-hand	1,001,458	864,976
NIC Bank	268,890,792	520,357,710
Co-operative Bank	5,005,483,812	2,916,405,245
National Bank	824,225,235	1,742,271,105
Kenya Commercial Bank	364,869,710	265,935,950
Equity Bank	230,064,097	279,665,897
Cash on hand & at Bank	**6,694,535,104**	**5,725,50,883**
Short-term deposits		
Co-operative Bank	2,000,000,000	2,200,000,000
Family Bank	-	300,000,000
National Bank	500,000,000	100,000,000
Housing Finance	300,000,000	300,000,000
Chase Bank	100,000,000	100,000,000
Commercial Bank of Africa	300,000,000	-
NIC Bank	500,000,000	-
Total Short-term deposits	**3,700,000,000**	**3,000,000,000**
Total cash and cash equivalents	**10,394,535,104**	**8,725,500,883**

21. Receivables from non-exchange transactions

	2016 Kshs	2015 Kshs
Current receivables		
Voi – Mwatate-Wundanyi	96,683,286	-

Loruk-Barpelo	117,270,758	270,589,440
KCC (Sotik) - Ndanai-Gorgor	70,783,707	100,176,804
Webuye - Malaba	286,208,076	569,310,301
Eldoret-Turbo-Webuye	-	434,010,025
Chiakariga - Mitunguu-Meru	257,360,554	354,584,149
Chebilat - Ikonge-Chabera	-	108.609,780
Kangema - Gacharage	345,093,827	298,146,814
Thua Bridge & approach road	-	7,679
Chepterit – Baraton - Kimondi	3,608,299	37,335,620
Timboroa-Eldoret	43,997,268	43,997,268
Kaloleni-Kilifi	75,378,395	162,301,818
Webuye-Kitale	70,336,955	79,415,000
Modika –Nuno	-	22,209,796
Turbi-Moyale	65,132,288	1,035,115,330
Chebilat-Ikonge-Chabera	310,975,844	-
One-Stop Border Post –Malaba	22,388,144	37.388,144
One-Stop Border Post –Busia	1,249,900	28,643,707
One-Stop Border Post –Lunga-Lunga	6,365,126	6,365,126
Rehabilitation of Kisumu-Kakamega	112,251,462	162,392,651
Kakamega-Webuye	-	205,974,053
Rehabilitation of Ndhiwa Karungu	92,640,554	129,156,845
Renovation of MoR/MoP offices in Homabay, Oyugis, Kisumu	7,735,779	7,735,779
Mbita causeway replacement bridge & approach roads on Homabay – Mbita	12,257,338	53,280,685
Rumuruti - Maralal	139,781,906	263,392,965
Siaya-Ruambwa C29	120,164,315	181,258,141
Masara – Suna - Kehancha/Awendo Mariwa	36,674,633	456,145,145
Mombasa Port Area Devt Road	2,320,392,660	2,553,942,797
Marsabit-Turbi	13,157,383	-
Oljoro – Orok - Dundori	135,277,427	191,106,741
Merille - Marsabit A2	893,521,035	2,308,097,494
Pedestrian Crossing at Bellevue	-	17,736,892
Pedestrian Crossing at GM Junction	-	18,587,404
Mwatate –Taveta	533,333,288	1,217,630.618
Bachuma Gate –Maji ya Chumvi	391,652,777	409,846,388
Construction of three interchanges on A104	259.150,803	259.150.803
Isiolo-Nginyang	-	7.751,432
Athi River Weighbridge	101.408,899	105.178,439
Mariakani Weighbridge	143,998,184	143.998,184
Garissa-Isiolo(Turbi-Moyale)	35.053.945	35,053,945
Bomas Karen Kikuyu	58,000,000	-
Nuno-Modogashe	595,788.527	-
Mombasa-Mariakani Dualling	45.713,982	-
Port Reitz/Moi International Airport Access Road	423.643.954	559,560,516
Total receivables from non-exchange transactions	**8,244,431,278**	**12,875,184,718**

22. Receivables from exchange transactions

Current receivables

	2016 Kshs	2015 Kshs
Interest receivable on call deposits	27,793,155	31,923,438
Travel imprest	2,916,302	9,759,745
Bank guarantee and deposits	9,040,976	9,424,714
Advertising receivables	279,511,975	289,719,241
Road maintenance funds	3,421,250,968	1,466,414,440
Weighbridge Receivables	1,534,700	-
Staff mortgage deposit fund with HFCK	355,579,957	350,000,000
Debtors & Prepayments	20,482,586	18,963,618
Receivable from Sapon Insurance Brokers	500,000	-
Receivable from MOTI	450,244,614	-
Current receivables	**4,568,855,233**	**2,176,205,196**
Less: Provision for doubtful debtors	(295,289,428)	(287,574,066)
Total Current receivables from exchange transactions	**4,273,565,805**	**1,888,631,130**

23. Inventories

	2016 Kshs	2015 Kshs
Stationaries and Consumable stores	4,876,822	4,488,999
Fuel supplies	-	115,230
Total inventories at the lower of cost and current replacement cost	**4,876,822**	**4,604,229**

Notes to the Financial Statements (*Continued*)

24. Property, plant and equipment

	Work -in-progress Road assets*	Office equipment	Office partitions and fixtures	Computer equipment and accessories	ICT infrastructure and accessories	Furniture and fittings	Motor vehicles	Plant and machinery	Buildings	Total
Cost	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At1July2014	166,029,916,264	30,579,903	63,989,021	119,001,297	41,949,565	46,941,086	148,732,291	541,691,542	40,515,322	167,063,316,290
Additions	48,133,501,874	2,871,683	3,704,845	46,574,019	14,396,130	2,055,650	14,923,242	100,832,266	-	48,318,859,710
Disposals	-	-	-	-	-	-	(1,030,000)	-	-	(1,030,000)
Transfers/adjustments	-	-	-	-	-	-	-	-	-	-
As at 30 June2015	214,163,418,138	33,451,586	67,693,866	165,575,316	56,345,695	48,996,736	162,625,533	642,523,808	40,515,322	215,381,146,000
Additions	50,239,679,371	57,647,061	874,000		13,548,395	2,137,971	210,587,689	122,172,445	-	50,646,646,932
Disposals		(628,278)		(5,630,322)	(18,496)	(1,161,180)	(3,150,000)			(10,588,276)
Transfer/adjustments				(3,269,710)						(3,269,710)
As at 30 June2016	264,403,097,509	90,470,369	68,568,266	156,675,284	69,875,594	49,973,527	370,063,222	764,696,253	40,515,322	266,013,935,346
Depreciation and impairment										
As at 1July2014		13,518,773	39,805,695	75,223,041	17,185,315	18,053,252	109,231,575	9,749,593	851,808	283,619,052
Depreciation	-	3,560,899	7,739,170	25,325,312	16,467,500	5,006,691	16,564,572	5,183,195	1,012,883	80,860,22
Disposal	-	-	-	-	-	-	(515,000)	-	-	(515,000)
Transfer/adjustment	-	-	-	-	-	-	-	-	-	-
As at 30 June2015	-	17,079,672	47,544,865	100,548,353	33,652,815	23,059,943	125,281,147	14,932,788	1,864,691	363,964,274
Depreciation		9,025,212	7,312,242	25,862,236	18,424,084	5,446,974	50,928,820	28,089,012	1,012,883	146,101,463
Disposals		(265,071)		(5,584,979)	(18,498)	(1,081,184)	(2,123,750)			(9,073,482)
Transfer/adjustment										
As at 30 June2016		25,839,813	54,857,107	120,825,610	52,058,401	27,425,733	174,086,217	43,021,800	2,877,574	500,992,255
Net book values										
As at 30 June2016	264,403,097,509	64,630,556	13,711,159	35,849,674	17,817,193	22,547,794	195,977,005	721,674,453	37,637,748	265,512,943,091
As at 30 June2015	214,163,418,138	16,371,914	20,149,001	65,026,963	22,692,880	25,936,793	37,344,386	627,591,020	38,650,631	215,017,181,726

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

	2016 Kshs	2015 Kshs
GoK Payments		
Other GoK development projects	18,984,708,937	19,295,481,299
NCTIP	5,505,774,887	1,507,066,241
Nairobi - Thika highway development project	-	-
Nairobi Southern by pass	4,807,591,508	1,280,593,806
Kenya Transport Sector Support Project	588,125,091	258,443,784
NUTRIP	117,180,074	58,217,401
EATTFP	435,876,019	215,456,911
South Sudan EARTTDFP	129,150	6,250,000
Total expenditure including pending bills	**30,439,385,666**	**22,621,509,442**
Foreign Direct Payments		
Northern Corridor Transport Improvt. Project.	47,954,161	3,710,239,360
Other development projects	13,182,334,310	14,968,666,882
Nairobi Southern by pass	1,461,982,470	2,923,964,940
EATTFP	691,421,800	660,268,589
Mombasa Southern by pass	1,192,356,978	175,209,044
Kenya Transport Sector Support Project	3,224,243,986	3,073,643,618
Total Foreign Direct Payments	**19,800,293,705**	**25,511,992,433**
Grand total	**50,239,679,371**	**48,133,501,875**

25. Intangible assets-software

Cost		**Kshs**
As at 1 July2014		**46,046,961**
Additions		
Computer software and licences		14,964,027
Procurement module software		570,000
Microsoft premier support services		5,761,652
Audit Management System		700,560
AutoCAD Civil 3D software		2,824,700
Ms Office professional & Ms Project Prof.		4,090,645
Total additions		**28,911,584**
As at 30 June2015		**74,958,545**
As at 1 July 2015	**74,958,545**	
Additions		
Sage evolution upgrade from 24 users to 50 users	1,631,633	
Office 365 software	17,292,140	
Fleet Management System	725,000	
Total additions	**19,648,773**	
As at 30 June2016	**94,607,318**	

Amortization and impairment

As at 1 July2013	-
Amortization	-
As at 30 June2014	-
Amortization	-
Impairment loss	-
As at 30 June2015	-
Net book values	
As at 30 June2016	**94,607,318**
As at 30 June 2015	**74,958,545**

26. Trade and other payables from exchange transactions

	2016 Kshs	2015 Kshs
Other GoK development projects	9,529,397,820	6,068,800,836
Nairobi – Thika highway devpt. Project	1,172,145,387	2,472,546,091
Northern Corridor Transport Improvement Project	4,182,522,594	2,189,734,353
Retention monies	3,312,485,075	3,947,348,063
Road maintenance contractors	161,946,829	554,303,195
Southern bypass	3,544,875,294	1,194,441,846
Kenya Transport Sector Support Project	768,714,331	240,887,231
Sundry creditors	91,246,591	121,630,655
East Africa Trade & Transport Facilitation Project	96,904,686	249.494,929
Nairobi Urban Transport Improvement Project	1,076,240,294	-
Mombasa bypass	1,558,445,202	1,798,002,093
Total trade and other payables	**25,494,924,103**	**18,837,189,292**

27. Refundable deposits from customers

	2016 Kshs	2015 Kshs
Road cutting deposits	117,245,106	101,296,916
Total deposits	**117,245,106**	**101,296,916**

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

28 Current provisions

	Gratuity Kshs	Audit fees Kshs	Total Kshs
Balance at the beginning of the year	**6,767,161**	**5,600,000**	**12,367,161**
Utilized during the year	(922,935)	(3,000,000)	**(3,922,935)**
Provisions reversed	(109,160)	-	**(109,160)**
Additional provisions raised	368,125	3,400,000	**3,768,125**
Balance as at 30 June 2016	**6,103,191**	**6,000,000**	**12,103,191**

29. Related party disclosures

	2016 Kshs	2015 Kshs
Receivables from Kenya Roads Board (note 22)	3,421,250,968	1,466,414,440
Receivables from MOTI(note 22)	450,244,614	-
Transactions with related parties		
i)Kenya Roads Board	10,300,358,484	10,826,847,361
ii)Exchequer Receipts	22,764,345,014	35,444,424,852
iii)Key Management Compensation	185,991,610	180,534,805

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

30. contingencies

It is estimated that the Authority has contingent liabilities amounting to approximately KShs. 15,314,755,818.57arising from land compensation claims, contractors' claims resulting from foreign exchange fluctuations, interest on delayed payments charged by contractors, leave days and other court awards. The exact amount will however be established on occurrence of the events.

31.Surplus for the period

The surplus for the period of kshs.759,103,934 is arrived after charging expenses from the revenues of the Authority as stated in the Statement of Financial Performance.

32. Cash generated from operations

	Note	2016 Kshs	2015 Kshs
(Deficit) Surplus for the year before tax	31	**759,103,934**	**941,419,215**
Adjusted for:			
Depreciation	*12*	*146,101,463*	*80,860,222*
Gains and losses on disposal of assets	*16*	*(309,894)*	*(285,000)*
Finance income	*7*	*(621,687,889)*	*(463,990,835)*
Changes in working capital balances:			
Decrease in inventory		(272,593)	37,949

Decrease in receivables- non-exchange transactions	4,630,753,440	(1,869,713,985)
Increase in receivables- exchange transactions	(2,384,934,675)	(1,224,913,253)
Increase/(Decrease) in payables	6,673,683,001	(11,191,794,877)
Decrease in payments received in advance	(263,970)	(1,305,292)
Net cash flows from operating activities	**9,202,172,817**	**(13,729,685,856)**

33.Transfers to accumulated surplus

The transfers to accumulated surplus of Kshs. 49,481,636 relate to a reversal of leave days provision for prior years of Kshs. 52,481,636 which has since been accounted for as a contingent liability and de-recognition of an income of Ksh.3,000,000 that was refunded to the road user advertiser in part settlement of a litigation that had an un-favourable outcome against the Authority.

34.Events after the reporting period

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

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Ref. No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1	**Financial position** The Statement of financial position as at 30 June 2014 reflects currents liabilities of Ksh.30,143,953,538 which exceed current assets of Kshs.17,702,422,491 resulting to negative working capital of Kshs. 12,441,531,047 (2013-negative Kshs. 3,863,123,331). In the circumstances, the Authority is technically insolvent and may face difficulties in settling financial obligations as and when the same fall due.	We agree. The situation was occasioned by inadequate budgetary provision for development works. Exchequer streams could not match contractors' and consultants' claims hence the reported pending bills. The government has developed a policy on annuity financing programs and public private partnerships which would reduce the strain on Exchequer funds for road works.	General Manager (Planning & Environment)	Not Resolved	The Annuity financing and Public Private Partnership frameworks are at infancy stage of implementation. This will reverse the situation in due course as new projects will be undertaken through these frameworks.

2	**Property, Plant and Equipment** The Property, Plant and Equipment balance of Kshs. 166.779,697,238 as at 30 June 2014 excludes undetermined value of land and houses occupied by staff in South Rift Region form which the Authority earned an income of Kshs. 1,181,000 during the year. As such, the accuracy and correctness of property, plant and equipment balance of Kshs. 166.779.697,238 as at 30 June 2014 cannot be confirmed.	These houses were built by the road contractor as resident engineer's premises through bill 1 of the road construction contract. The undetermined value of land relates to land previously acquired by the Government prior to the establishment of the Authority. These values alongside the development expenditures met by the Government over the years were not made available to the Authority.	General Manager (Planning & Environment)	Not Resolved	Although the data was not provided by the parent ministry to the Authority, management will establish the fair values of these premises and recognize them appropriately in its books of accounts in the near future. The Authority will continue with this consistent treatment of computer software in its books while expensing the annual licence fees in the year they are incurred. The current computer software is therefore deemed to provide economic benefits to the authority for an indefinite period. This treatment is consistent with *IPSAS 31 paragraphs 88, 96-105.*
3	**Trade and other receivables.** Receivables from exchanges transactions balance of Kshs. 663,717,877 as at 30 June 2014 reflected in the statement of financial position includes travel imprests of Kshs.389,408.00 issued to staff of the former Ministry of Roads between June 2012 and August 2013 that has remained outstanding.	The outstanding imprests were issued to staff members of the Parent Ministry and the Attorney General's office who were performing official functions on behalf of the Authority. Several reminder letters have been made to their employers to effect recoveries but positive outcome is outstanding.	General Manager (Finance)	Not Resolved	We will continue reminding their employers to implement recoveries of the outstanding imprests from their employees.

	In the circumstance, it has not been possible to confirm recoverability of receivable amounting to Kshs. 389,408.	Please find the attached herewith reminder letters issued to the Accounting officers of the relevant institutions for reference.			
4.0 4.1	**Nugatory expenditures – Interest on late payments** The Authority incurred and expenditure of Kshs. 2,594,567.00 and Kshs. 4,780,516.41 in respect of interest on delayed payments relating to Kaloleni-Kilifi Road project and Magumu-Njabini (C68) Road project respectively.	We agree with your observation that a total of Kshs. 7,375,083.41 was incurred as interest on delayed payment against the mentioned two projects. This scenario was occasioned by inadequate and delayed Exchequer releases for development works. Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects. Interest on delayed payments is actually provided for in the contract document.	General Manager (Planning & Environment)	Not Resolved	It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future.

4.2	Included in the Project's expenditure of Kshs. 3,055,446,301.00 for Mombasa-Nairobi-Addis Ababa Road Project (Marsabit-Turbi Road) is interest charges of Kshs. 4,497,964.76 (12 October 2012) and Kshs. 18,775,310.13 (14 September 2013) totaling to Kshs.23,273,277.76 paid to the contractor for delayed payment dues.	We agree with your observation that a total of Kshs. 23,273,277.76 was incurred as interest on delayed payment against the mentioned project since inception. This scenario was occasioned by inadequate and delayed Exchequer releases for development works. Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects. Interest on delayed payments is actually a contractual obligation of the employer as provided for in the contract document.	General Manager (Planning & Environment)	Not Resolved	It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future.
4.3	In addition, an amount of Kshs.33,144,940.23 has been incurred as payment of interest on delayed payments in respect of Rehabilitation of Kericho-Mau Roads section.	We agree with your observation. Delay in completion of the project is occasioned by various circumstances beyond the control of the parties such as adverse climatic	General Manager (Planning & Environment)	Not Resolved	The contract is still alive and liquidated damages clause will be applied unless there will be an addendum to extend the completion date.

		conditions, delay by other authorities to relocate utilities, inadequate exchequer and land acquisition. Percentage of physical works completed is computed from certified payments for the works. A comparison of time elapsed against physical works completed may not always provide a just measure of progress because the works done early in the project are relatively cheaper but take longer to complete. The works done in the later stages are faster to implement but are more costly. In effect therefore faster progress will be registered towards completion potentially closing the gap with time elapsed We agree with your observation that a total of Kshs. 33,144,940.23 was incurred as interest on			The co-financier in the project IDA, has appreciated the challenges faced by the Government in mobilizing adequate exchequer and has since agreed to finance 100% of the IPCs upfront to the limit of the credit advanced.

		delayed payment against the mentioned project since inception. This scenario was occasioned by inadequate and delayed Exchequer releases for development works. Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects. Interest on delayed payments is actually a contractual obligation of the employer as provided for in the contract document.			
4.4	Also, the Contract carrying out Rehabilitation of Nyamasaria-Kisumu-Kisian Road including Kisumu bypass road has presented eighteen (18) Interim payment materials on-site. Include in the certificates is an amount of Kshs.59,032,806.67 certified for payment as interest on delayed payments which is an avoidable	We do have an Addendum No. 1 extending the contract period from 8th Aug. 2014 to 6th Nov. 2014. We agree with your observation. Delay in completion of the project is occasioned by various circumstances beyond the	General Manager (Planning & Environment)	Not Resolved	The contract is still alive and liquidated damages clause will be applied unless there will be an addendum to extend the completion date.

	charge to public funds.	control of the parties such as adverse climatic conditions, delay by other authorities to relocate utilities, inadequate exchequer and land acquisition. Percentage of physical works completed is computed from certified payments for the works. A comparison of time elapsed against physical works completed may not always provide a just measure of progress because the works done early in the project are relatively cheaper but take longer to complete. The works done in the later stages are faster to implement but are more costly. In effect therefore faster progress will be registered towards completion potentially closing the gap with time elapsed We agree with your observation that a total of			The co-financier in the project IDA, has appreciated the challenges faced by the Government in mobilizing adequate exchequer and has since agreed to finance 100% of the IPCs upfront to the limit of the credit advanced.

		Kshs. 59,032,806.67 was incurred as interest on delayed payment against the mentioned project since inception. Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects. Interest on delayed payments is actually a contractual obligation of the employer as provided for in the contract document.			
4.5	The Authority further paid the contractor carrying out rehabilitation of Webuye-Malaba Road an amount of Kshs. 9.529,382.69 vide interim certificate No. 19 being interest on delayed payments on completed works. If the Authority had paid contractors dues within the stipulated time frames, the above	Delay in progress of works is attributed to inadequate budgetary provisions coupled with delayed Exchequer releases invariably leads to slow progress of works and interest on late payment which is an employer's contractual responsibility. (i)The Project Designs	General Manager(Plannin g & Environment)	Not resolved	It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future.

	nugatory payments totaling to Kshs.132,355,490.76 should not have been a charge to public funds.	were carried out in 2007. (ii)Given the long procurement process, the works construction commenced on 26 January 2011, at contract sum of Kshs. 3,848,928,516.25. The same was to be financed through a grant from European Union in addition to small portion contribution from the Government of Kenya. (iii)However, in the course of the project design review, it was noted among other issues, road pavement had deteriorated. This necessitated issuance of Administrative Order 1 which relates to modifications of works in accordance with article 37 of the conditions of works. A contract addendum was issued to change the scope works (A No objection for the same was obtained from the co-financiers). The same reduced the length			

		of the road by 8kms thus from 61 kms to 58 Kms, owing to funding limits of the credit agreement. (iv)On completion of 58 Kms, it was found necessary to complete the remaining part of the Road. The Financier was requested to extend the grant against un-completed part of the road that culminated into processing of addendum No. 1 to cover additional works that were not covered by original contract..			
5	**Periodic Maintenance of Mombasa Miritini(A109) Road.** As reported in the previous year the contract for the above maintenance works was awarded to M/s Talewa Road Construction Ltd at a contract sum of Kshs. 341.180.245 with commencement and completion dates of dates of 26 January 2012 and 26 September 2012 (8 months)	The project was substantially completed by M/s Mehta and Sons on 24th December. 2013, four days before the planned completion date of 24th December, 2013. End of Defects Liability Period Certificate was subsequently issued on 29th August 2014. see attached copy.	General Manager (Maintenance)	Not Resolved	The project was on course

	respectively. Evidence available indicates that the contract was terminated after poo performance by the contractor when total payment to the contractor stood at Kshs.144,146,778.76 (42.25 % of the contract sum). After termination, the remaining works were repackaged and awarded to M/s S.S. Mehta through direct procurement at a negotiated contract sum of Kshs. 292,656,590 contrary to Section 50 of the Public, Procurement and Disposal Act, 2005. Further, the negotiated contract sum of Kshs.292,656,590 brings the total contract expenditure to Kshs. 436,803,368, an increase of Kshs. 95,623,123 or approximately 28% from the original contract sum of Kshs. 341,180,245. A review of the contract during the year under audit revealed that the contract sum had been varied by a further Kshs. 63,330,409 thereby raising the contract sum to				

	Kshs.355,987,000 and further escalating total expenditure for the project to Kshs.500,133,777 or 46.60% above original contract price of Kshs. 341,180,245. Although management has explained that the escalation of project costs was due to configuration of roads, roundabouts and traffic redirection around Changamwe area to facilitate faster exit of trucks after a directive by the Government, it has not been possible to confirm whether the Authority got value for money in incurring the total expenditure of Kshs. 500,133,777.				
6	**Bush Clearing in preparation of official opening of the Multinational Arusha – Namanga – Athi River** As reported in the previous year, the road was officially opened by His Excellency the President of the Republic of Kenya on 28 November 2012. Examination of records, documents and payment vouchers relating to the above project revealed that the tender	We agree with your observation that the above contractor was procured directly as opposed to a competitive procurement process. The above was necessitated by the fact that the Authority received a short notice on the upcoming official opening of the road by His Excellency the President of the Republic	General Manager (Design & Construction)	Not Resolved	

	committee on its 91st Meeting held on 6 November 2012 considered and approved direct procurement of M/s Sinai Construction Co. Ltd of P. O. Box 71273-00622 Nairobi to execute bush clearing in preparation of official opening of the Road. This was contrary to the secretariats recommendation that a more competitive method of procurement be used. Kenya National Highways Authority went ahead and initiated negotiations with Sinai Construction Co. Ltd in which the scope of work, rates and the contract price was agreed at Kshs. 11,595,415.50. The negotiated works were approved by the tender committee in its meeting held on 22 November 2012. Although management has explained that the direct procurement was occasioned by information that the Head of States of East African Community were to travel by road for double launch of the road at Kenya-	of Kenya flanked by his four counterparts from the larger East African Community. Considering that this was a high level activity, the Authority had to move with speed and procure a contractor who was near the site to urgently undertake bush clearing to enhance security. The only feasible procurement method which will have facilitated prompt mobilization was direct procurement. The use of this method of procurement was guided by section 74 of the Public Procurement and Disposal Act, 2005. The contract cost agreed at Kshs. 11,595,415.50 was fair and reasonable. The Authority received full value for the money paid under this project			

	Tanzania Border and subsequently at Athi River and the visibility along the corridor had to be enhanced for security purpose, it was not possible to confirm that the Authority got value for money for the expenditure of Kshs. 11,595,415.50.				
7.0 7.1	**Northern Corridor Rehabilitation Programme Phase III (Eldoret-Turbo-Webuye-Malaba Road) Improvement Project.** **Rehabilitation of Eldoret – Turbo-Webuye (A 104) Road-Contract No. KeNHA/ICB/51/2010.** The contract was awarded to a contractor on 19 November 2010 at a contract sum of Kshs. 3,383,387,115.63 while the contract agreement was signed on 26 November 2010. The contractor commenced work on 26 January 2011 and the contract duration was 18 months. However, the contract was not	Delay in progress of works is attributed to inadequate budgetary provisions coupled with delayed Exchequer releases (i)The Project Designs were carried out in 2007. (ii)Given the long procurement process, the works construction commenced on 26 January 2011, at contract sum of Kshs. 3,383,387,115.00. The same was to be financed through a grant from European Union in addition to small portion contribution from the Government of Kenya. (iii)However, in the	General Manager (Design & Construction)	Not Resolved	The Authority is making a lot of effort, liaising with line Ministry and National Treasury, to make sure that payments are made for all the certified works. This will resolve cash flow problems and the Contractor will be able to work smoothly and improve on progress The addendum was processed and by extension the procurement of the works was in accordance with the EU CONTRACT PROCEDURES FOR EXTERNAL ACTIONS, with the decentralized

	completed within the stipulated time and the contractor was awarded two extensions under claims 1 and 2 of 45 and 115 days respectively. Although the contract was supposed to have been completed by 9 February 2013, as at 30 November 2014, the works had not been completed. Further, although the original project length was 95 km at a contract sum of Kshs. 3,383,387,115.63 the length was reduced by 18 km to 41km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately. It is doubtful if the Authority got the value for its money. Evidence available indicates that through Addendum No. 1 dated 20 June 2014, the contract sum for the project has been revised upwards by Kshs. 2,005,552,882.86 or 18 kilometers earlier scaled down as reported in 1.2 above and the works are	course of the project design review, it was noted among other issues, road pavement had deteriorated. This necessitated issuance of Administrative Order 1 which relates to modifications of works in accordance with article 37 of the conditions of works. A contract addendum was issued to change the scope works (A No objection for the same was obtained from the co-financiers). The same reduced the length of the road by 18kms thus from 59 kms to 41 Kms, owing to funding limits of the credit agreement. (iv)Thereafter, on completion of 41 Kms, it was found necessary to complete the remaining part of the Road. The Financier was requested to extend the grant against un-completed part of the road that culminated into processing of addendum No. 1 to cover additional			ex-ante management mode that subsequently led to the issuance of no objection from the Development Partner concerned. The European Union has further availed Eur. 11,625,580 to finance the increased scope under addendum 1.

	expected to take 15 months with a commencement date of 1 August 2014 and a completion date of 31 October 2015. It is not clear and the management has not satisfactory explained the rationale of scaling down the project and awarding and addendum with variation of the contract sum by 59.3% thereby breaching the Public Procurement and Disposal Act, 2005. In the circumstances, it has not been possible to confirm that the Authority will obtain value for money in implementing the above Project.	works that were not covered by original contract.			

7.2	**Rehabilitation of Webuye-Malaba (A 104) Road – Contract NO.KENHA/ICB/52/2010.** The contract was awarded to a contractor on 19 November 2010 at a contractor sum of Kshs. 3,848,928,516.25. The contract agreement was signed on 26 November 2010 with a commencement date of 26 January 2011. The project was scheduled for completion on 31 August, 2012 when the eighteen (18) months contract period expired. However, the contract was not completed in time and the contractor was awarded two extension of time totaling to twelve and half (12.5) months. According to monthly progress report No. 40 of June 2014, works completed stood at 87.57% against certified payments of Kshs.3,469,656,939.41	Delay in progress of works is attributed to inadequate budgetary provisions coupled with delayed Exchequer releases invariably leads to slow progress of works and interest on late payment which is an employer's contractual responsibility. (i)The Project Designs were carried out in 2007. (ii)Given the long procurement process, the works construction commenced on 26 January 2011, at contract sum of Kshs. 3,848,928,516.25. The same was to be financed through a grant from European Union in addition to small portion contribution from the Government of Kenya. (iii)However, in the	General Manager(Special Projects)	Not Resolved	The Authority is making a lot of effort, liaising with line Ministry and National Treasury, to make sure that payments are made for all the certified works. This will improve progress of works and alleviate payment of interest. The addendum was processed and by extension the procurement of the works was in accordance with the EU CONTRACT PROCEDURES FOR EXTERNAL ACTIONS, with the decentralized ex-ante management mode that subsequently led to the issuance of no objection from the Development Partner concerned. The European Union has further availed Eur. 12,374,420.00 to finance the increased scope under addendum 1

	representing 90% of the original contract sum. Further, although the original contract length was 61km at a contract sum of Kshs.3,848,928,516.25, the length was scaled down by 8km to 53km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately. In the circumstances, it is doubtful if the Authority will get value for its money. Evidence available indicates that through Addendum No. 1 dated 23 July 2014, the contract sum for the Project has been revised upwards by Kshs. 2,106,120,003.46 or 55% to Kshs.5,955,048,519.47. Addendum No. 1 is for among other things completion of the 8 kilometers earlier scaled down as reported above and the works are expected to take 12 months with a commencement date of 14 August 2014 and completion date of 13	course of the project design review, it was noted among other issues, road pavement had deteriorated. This necessitated issuance of Administrative Order 1 which relates to modifications of works in accordance with article 37 of the conditions of works. A contract addendum was issued to change the scope works (A No objection for the same was obtained from the co-financiers). The same reduced the length of the road by 8kms thus from 61 kms to 58 Kms, owing to funding limits of the credit agreement. (iv)On completion of 58 Kms, it was found necessary to complete the remaining part of the Road. The Financier was requested to extend the grant against un-completed part of the road that culminated into processing of addendum			

	August 2015. It is not clear and the management has not satisfactory explained the rationale of scaling down the project and awarding an addendum with variation of the contract sum by 55% thereby breaching the Public Procurement and Disposal Act, 2015. In the circumstances, it has not been possible to confirm that the Authority will obtain value for money in implementing the above Project.	No. 1 to cover additional works that were not covered by original contract.			
7.3	**Nugatory Payment of Interest**	Delay in progress of works is attributed to	General Manager(Plannin	Not Resolved	It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate

	The Authority paid the contractor an amount of Kshs. 9,529,382.69 vide interim certificate No. 19 being interest on delayed payments on completed works. If payments had been made within the stipulated period, the Authority would have made a saving on Public resources of Kshs. 9,529,382.69.	inadequate budgetary provisions coupled with delayed Exchequer releases invariably leads to slow progress of works and interest on late payment which is an employer's contractual responsibility. (i)The Project Designs were carried out in 2007. (ii)Given the long procurement process. the works construction commenced on 26 January 2011, at contract sum of Kshs. 3,848,928,516.25. The same was to be financed through a grant from European Union in addition to small portion contribution from the Government of Kenya. (iii)However, in the course of the project design review. it was noted among other issues, road pavement had deteriorated. This necessitated issuance of Administrative Order 1	g & Environment)		interest on delayed payments on development projects in the future.

		which relates to modifications of works in accordance with article 37 of the conditions of works. A contract addendum was issued to change the scope works (A No objection for the same was obtained from the co-financiers). The same reduced the length of the road by 8kms thus from 61 kms to 58 Kms, owing to funding limits of the credit agreement. (iv)On completion of 58 Kms, it was found necessary to complete the remaining part of the Road. The Financier was requested to extend the grant against un-completed part of the road that culminated into processing of addendum No. 1 to cover additional works that were not covered by original contract..			
8.0	KENYA TRANSPORT SECTOR SUPPORT PROGRAMME PROJECT (KTSSP) IDA	The above contract was awarded on 18 January 2012 to M/s Vil Ltd	General Manager(Special Projects)	Not Resolved	Matter under litigation

8.1	**CREDIT NO. 4926:** **Rehabilitation of Kakamega-Webuye Road (Lot 2)** The above contract was on 18 January 2012 awarded to M/s Vil Ltd (Formerly Vijay Infrastructure Ltd) at a contract sum of Kshs. 2.505.924.66. The works commenced on 1 April 2013 for a contract period of 24 months with a completion date of 31 March 2015. The project is financed by the World Bank and the Government of Kenya at 75% and 25% respectively. Evidence available indicates that a notice of termination of the contract was issued on 8 May, 2014 due to contractor's non-performance. However, the contractor obtained a court injunction to stop the employer from directing the contractor to remove equipment from the site. By the time the notice to terminate was issued, 53% of the contract period had elapsed and the	(Formerly Vijay Infrastructure Ltd) at a contract sum of Kshs. 2,505,924,536.66. The works commenced on 1 April 2013 for a contract period of 24 months with a completion date of 31 March 2015. The project is financed by the World bank and the Government of Kenya at 75% and 25% respectively. We acknowledge that a notice of termination of the contract was issued on 8th May, 2014 due to contractor's non-performance. By the time the notice to terminate was issued, 53% of the contract period had elapsed and the contractor had only achieved 1% physical progress despite having been paid an advance of Kshs. 205,974,052.89 for mobilization and cash flow support. However. the Contractor obtained a court			

	contractor had only achieved 1% physical progress despite having been paid an advance Kshs.205,974,052.89 for mobilization and cash flow support. As at 30 November 2014, the matter was still pending in court and it was not clear the effect the court determination may have on implementation of the Project.	injunction to stop the employer from terminating the contract. However, we further wish to clarify as follows. (i)Advance payment which is normally guaranteed by payee's banker, represents agreed percentage out of the contract sum either recoverable from the subsequent payment certificates in full or made good by the payee's guarantor. (ii)We further wish to clarify that the contract is still alive and contractual provisions to cover damages will be applied subject to the outcome of the court's ruling. As at 30 November 2014, the status of the Project implementation had not been determined and it			

		was not clear the effect the status may have on financing the project. KeNHA's Response:- As 30th November, 2014 the matter was still in court.			
9.0 9.1	**NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT (NCTIP) IDA CREDIT NO. 3930/4571 KE:** **REHABILITATION OF KERICHO – MAU SUMMIT (BI) ROAD SECTION** As reported in the previous audit report, the contract was awarded to a contractor on 26 October 2009 at a contract sum of Kshs. 6,832,657,486.36.The contract commenced on September 2010 for a contract period of 24 Months with the expected completion date 15 September 2012. The contractor has, however, been	The contents of this paragraph are correct. According to the Progress REPORT No. 45 for August 2014, 1445 days had elapsed representing 97.04% of the revised contract period, while the actual progress of works stood at 81.78% implying that the works are still behind schedule. The indicated observation that monthly progress Report No. 45 of August 2014 shows that 1445 days had elapsed representing 97.04% of the revised contract period while the actual progress of works stood at 81.78% implying that the works are still behind schedule is	General Manager(Special Projects)	Not Resolved	The contractor also has an incentive to escalate progress since failure to complete works within stipulated period will have a negative effect on his financial proceeds in terms of charges of liquidated damages

	awarded extension of time for 759 days thus revising the completion date to 14 October 2014. According to the Progress Report No. 45 for August 2014, 1445 days had elapsed representing 97.04% of the revised contract period, while the actual progress of works stood at 81.78% implying that the works are still behind schedule. In addition, an amount of Kshs.33,144,940.23 has been incurred as payment of interest on delayed payments which should have been avoided had the payments been made with the stipulated timelines.	acknowledged. However, it is worth nothing the following. Delay in completion of the project is occasioned by various circumstances beyond the control of the parties such as adverse climatic conditions, delay in exchequer releases and delay by other authorities to relocate utilities and land acquisition. (i)We further wish to clarify that the contract is still alive and liquidated damages clause will be applied unless there will be an addendum to extend the completion date. Percentage of physical works completed is computed from certified payments for the works. A comparison of time elapsed against physical works completed may not always provide a just measure of progress because the works done			

		early in the project e.g diversions and earthworks are relatively cheaper but take longer to complete. The works done in the later stages e.g Asphalt Concrete surfacing are faster to implement but are more costly. In effect therefore faster progress will be registered towards completion potentially closing the gap with time elapsed.			
9.2	**REHABILITATION OF NYAMASARIA – KISUMU – KISIAN (A1/B1) ROAD INCLUDING KISUMU BYPASS ROAD – CONTRACT NO. RD 0505:** The project is financed by World Bank and Government of Kenya at 67% and 33% respectively. The contract was awarded to M/s Sinohydro Corporation Ltd on 31 March 2011 for a contract sum of Kshs. 5,788.202,418.54 being the second lowest bidder and the contract signed on 31 August 2011.	(i) Contract Period and Works Progress. The project commenced on 09 February 2012 for a contract period of 30 months with an expected completion date of 08 August 2014. KeNHA's Response:- The contents of this paragraph are correct. According to the progress report No. 27 for June 2014, achieved progress is approximately 88% compared to 96.7% of the contract period elapsed.	General Manager(Plannin g & Environment)	Not Resolved	It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future.

	(i)Contract Period and Works Progress The project commenced on 9 February 2012 for a contract period of 30 months with an expected completion date of 8 August 2014 extended to 6th November, 2014 but as at 31 January 2015, the Project had not been completed. **(ii)Nugatory Payments to the Contractor** The Contractor has so far presented eighteen (18) Interim Payment Certificates (IPC's) amounting to Kshs.4,632,740,214.90 for works done and materials on-site. Included in the certificates is an amount of Kshs.59,032,086.67 certified for payment as interest on delayed payments which is an avoidable charge to public funds.	i)Delay in completion of the project is occasioned by various circumstances beyond the control of the parties such as adverse climatic conditions, delay in exchequer releases and delay by other authorities to relocate utilities and land acquisition. (ii)We further wish to clarify that the contract is still alive and liquidated damages clause will be applied unless there will be an addendum to extend the completion date. As correctly noted, interest on delayed payments is a nugatory payment which should not have been incurred had the dues been paid timely. However, we wish to clarify that the delay in payment was occasioned by delay in exchequer			

		release and the remedy for delayed payment to the Contractor is claim for interest as provided for in the Conditions of Contract. We further wish to clarify that the payment of interest on delayed payment is a contractual obligation on part of the Employer. The Authority has engaged all stakeholders in various forums to have delay in exchequer release addressed. This has not only been of great concern to our Development Partners but is also causing unnecessary increase in the costs of construction in terms of interest on delayed payments that is having adverse effect on implementation of the projects.			
9.3	**Supply of Computer Servers**	The Supplier delivered the	General	Not Resolved	Failure to pay for goods delivered as per the

	(Rack-Mount) Standard Desktop Computers, Touch Smart Desktop Computers, Laptop Computers and Integrated Services Routers for the Mechanical and Transport Department of the Ministry of Roads (Lot 1) Included in Annex 2A-Analysis of Pending Bills is Invoice No. 812 form M/s Intermass Technologies (E.A) Limited dated 19 November 2013. The supplier was competitively awarded the contract for the supply of the 3 No. Rack-Mount type computers server; 94No. Standard Desktop Computers: 12 No. Touch Smart Desktop Computers; 8 No. Laptop Computers and 46 No Integrated Service Routers on 13 June 2013 at their tender sum of Kshs. 25,564,350.00. The supplier is said to have delivered the goods to Mechanical and Transport Department of Ministry of Transport and	goods in quantities as per the contract. The delivery note was subsequently issued and signed. The delivery and receipt of the goods on 19th November 2013 was further confirmed in writing by the Beneficiary (Mechanical and Transport Department of Ministry of Transport & Infrastructure). However, due to exigencies of work, there were delays in conducting the inspection and acceptance exercise. Prior to inspection and acceptance, the Beneficiary/Custodian reported that the goods had been stolen. The same was reported to the Kenya Police and Investigations are yet to be completed. The Inspection Team proceeded to inspect the remaining Goods; the 8No. Laptops and 19 No. (Not 9 No as mentioned	Manager(Special Projects)		contract will expose the Authority to unnecessary litigations and claims.

	Infrastructure on 19 November 2013 vide delivery note No. 1063. The Inspection and Acceptance committee inspected and accepted only 8 No. laptop computers and 19No integrated service routers all valued at Kshs.2,975,150.00. It's reported that the rest of the goods though delivered were stolen before they could be inspected by the inspection and acceptance committee. Despite the forgoing and although the goods received notes were issued, the Authority paid for all the goods vide Payment Voucher Number 17690 dated 23 July 2014 for Kshs. 22,589,200.00. In the circumstances, no value for money was obtained from the expenditure of Kshs. 22.589,200. **Qualified Opinion**	above) Integrated service routers. The goods inspected were all found to conform to the technical specifications as per the contract hence there was no ground that could influence management in believing that the stolen goods were of different or inferior specs. The payment of the referenced amount was done on the basis of the delivery note, user's confirmation of delivery and the contract document. Further, the Authority was obliged to settle the amount given that the delivery conditions had been met as per contract terms, and to forestall the accrual of interests on delayed payments as well as the potential risk of protracted court cases, as the vendor was not responsible for the provision of security for goods in government			

	Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements presents fairly, in all materials respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Kenya Roads Act, 2007.	warehouses. We would further wish to clarify that the amounts paid were within the contract sum.			

Eng. Erastus K. Mwongera, CBS, FIEK, RCE
Chairman of the Board of Directors
September 2016

Eng. Peter M. Mundinia
Director General
September 2016