

REPUBLIC OF KENYA



*Paper Laid*  
*By Hon. Wadiali MP*  
*on behalf of LMP at*  
*the table of the House*  
*on 13/6/2018*

OFFICE OF THE AUDITOR-GENERAL



PARLIAMENT  
OF KENYA  
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**REPORT**

**OF**

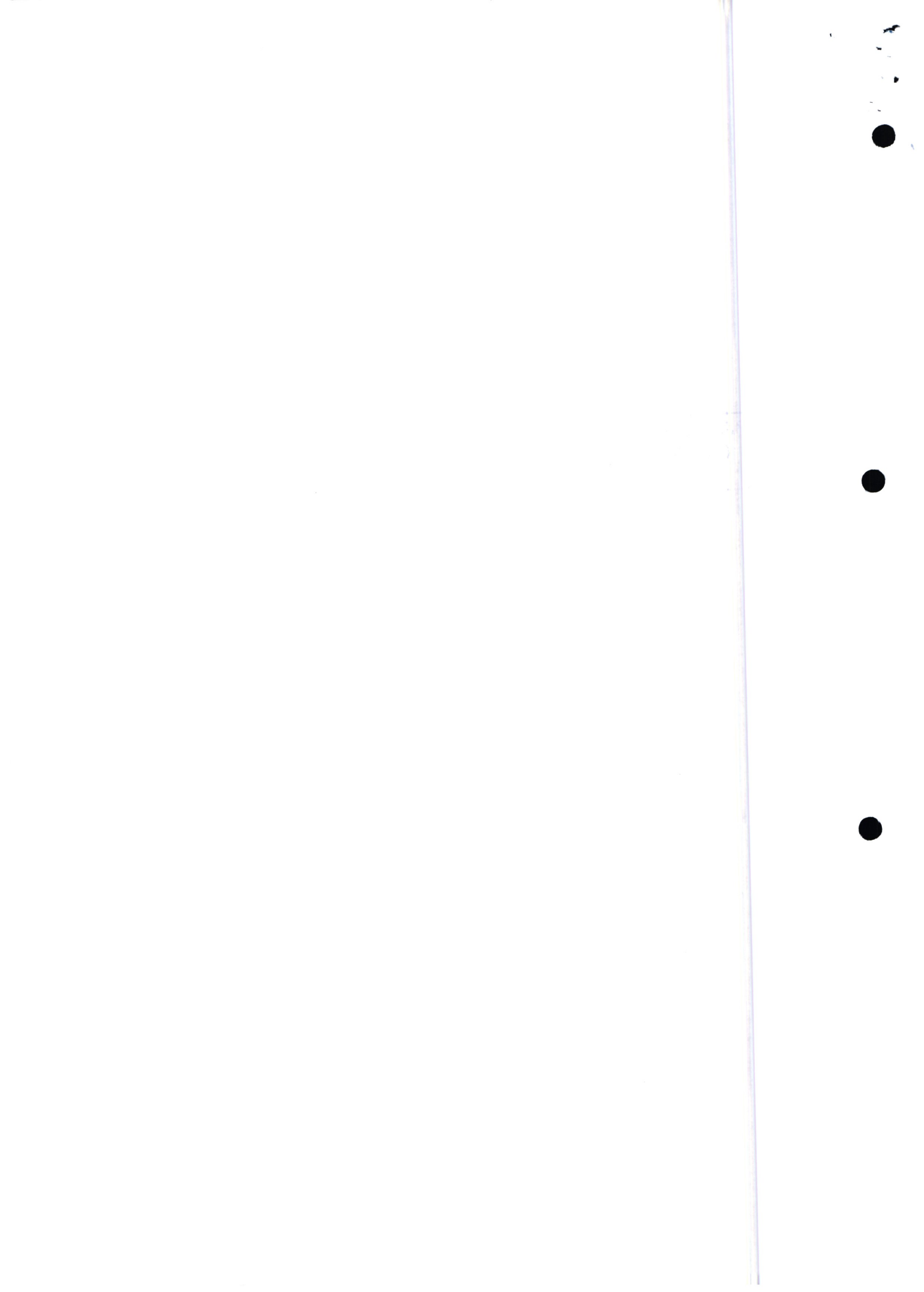
**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
RAILWAY DEVELOPMENT LEVY FUND  
(OPERATIONS ACCOUNT)**

**FOR THE YEAR  
ENDED 30 JUNE 2017**

**STATE DEPARTMENT OF TRANSPORT**





**RAILWAYS DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)  
IMPLEMENTED BY MINISTRY OF TRANSPORT, INFRASTRUCTURE,  
HOUSING AND URBAN DEVELOPMENT  
STATE DEPARTMENT FOR TRANSPORT**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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



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**1. FUND INFORMATION AND OVERALL PERFORMANCE**

KEY ENTITY INFORMATION AND MANAGEMENT

**(a) Background information**

Railway Development fund Levy was set up on 5<sup>th</sup> July 2013, by Gazette Supplement No. 99. The regulations may be sited as customs and Excise (Railway Development fund Levy) Regulations 2013.

The fund consists of:

1. The proceeds of railway development levy charges under Section 117A of the customs and Excise Act
2. Grants or donations made to the fund and
3. Any income generated from the proceeds of the fun
4. Proceeds from foreign borrowings(A.I.A)



**RAILWAY DEVELOPMENT FUND LEVY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

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**(b) Principal Activities**

The objective and purpose of the fund shall be to provide funds for the construction of the Standard Gauge Railway network in order to facilitate the transportation of goods.

**(c) Key Management**

The officer administering the Fund is the Principal Secretary responsible for matters relating to transport.

<b>Names</b>	<b>Title designation</b>	<b>Key qualification</b>	<b>Responsibilities</b>
Dr. Kamau Thugge	Principal Secretary- In charge of Finance	Qualified	In charge of Finance (Chairperson)
Prof. Paul Maringa	Principal Secretary- In charge of Transport	Qualified	In charge of Transport
Eng. John Mosonik	Principal Secretary- In charge of Infrastructure	Qualified	In charge of Infrastructure
Atanus Maina	Managing Director- Kenya Railways Corporation	Qualified	Kenya Railways Corporation

**(d) Fiduciary Management**

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

<b>No.</b>	<b>Designation</b>	<b>Name</b>
1.	Principal Secretary	<b>Prof.Paul Maringa</b>

**(e) Entity Headquarters**

Transcom Building,  
Upperhill  
Nairobi, Kenya.

**(f) Entity Contacts**

P.O. Box 30007-00100  
Nairobi, Kenya.

Telephone: +254 20 338111  
Fax: +254 20 228861



**(g) Bankers**

1. Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya

**(h) Independent Auditors**

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

**(i) Principal Legal Adviser**

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



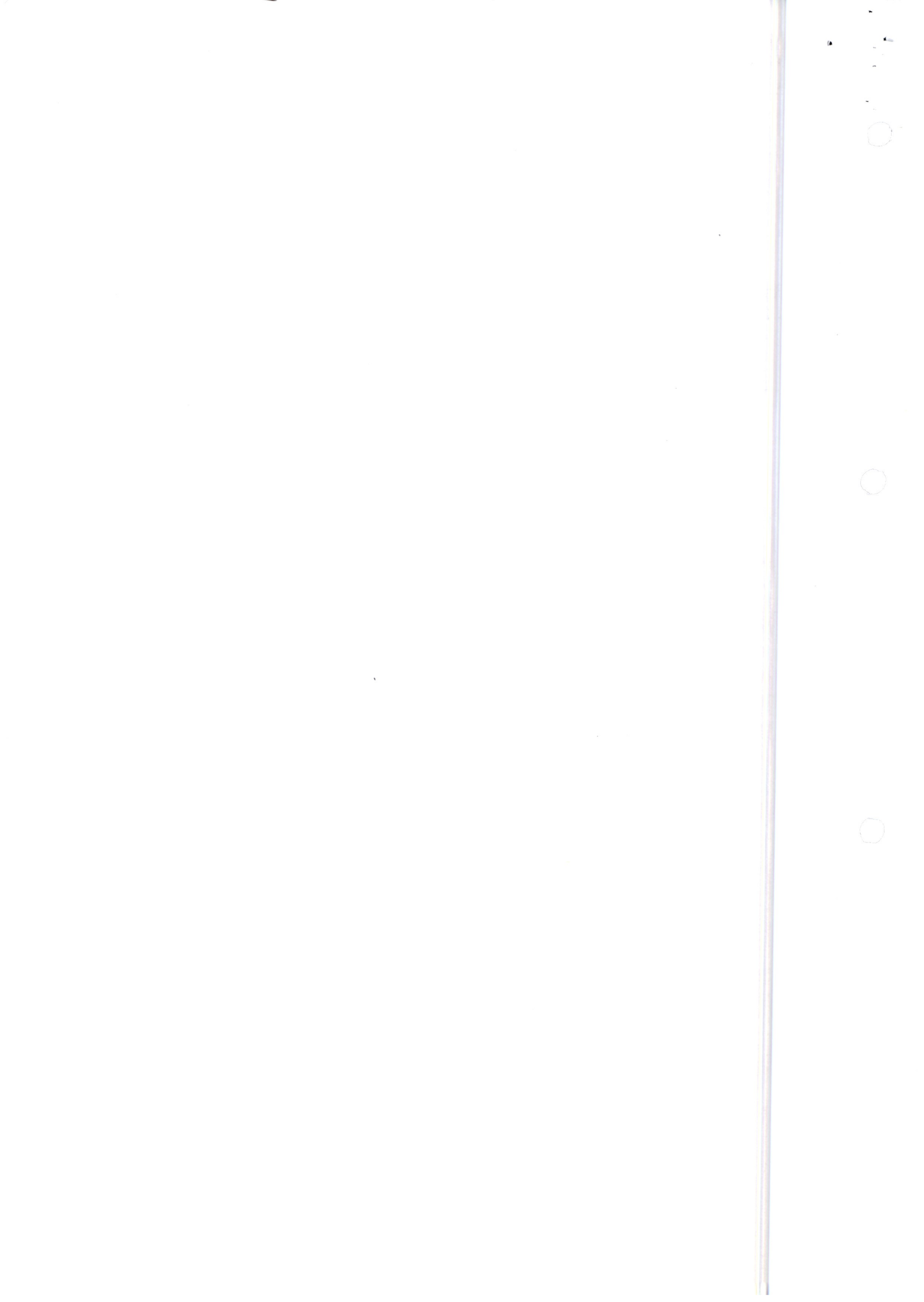
**RAILWAY DEVELOPMENT FUND LEVY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

**1.1 Fund Information**

Fund Start Date:	December 2013
Fund End Date:	December 2022
Fund Manager:	Eng. Maxwell Mengich
Fund Sponsor:	Government of Kenya

**1.2 Fund Overview**

Line Ministry/State Department of the Fund	The Fund is under the supervision of the State department of Transport.
Project number	-
Strategic goals of the Fund	The objective and purpose of the fund shall be to provide funds for the construction of the Standard Gauge Railway network in order to facilitate the transportation of goods.
Achievement of strategic goals	The Fund management aims to achieve the goals through funding development of SGR.
Other important background information of the Fund.	<p>Railway Development fund Levy was set up on 5<sup>th</sup> July 2013, by Gazette Supplement No. 99. The regulations may be sited as customs and Excise (Railway Development fund Levy) Regulations 2013.</p> <p>The fund consists of:</p> <ol style="list-style-type: none"> <li>1. The proceeds of railway development levy charges under Section 117A of the customs and Excise Act</li> <li>2. Grants or donations made to the fund and</li> <li>3. Any income generated from the proceeds of the fun</li> <li>4. Proceeds from foreign borrowings(A.I.A)</li> </ol>
Current situation that	(i) Ease transportation of people and goods



**RAILWAY DEVELOPMENT FUND LEVY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

the Fund was formed to intervene	(ii) Economic development
Fund duration	The Fund started on 1st December 2013 and is expected to run until December 2022

**(a) Key Management**

The officer administering the Fund is the Principal Secretary responsible for matters relating to transport.

<b>Names</b>	<b>Title designation</b>	<b>Key qualification</b>	<b>Responsibilities</b>
Dr. Kamau Thugge	Principal Secretary- In charge of Finance	Qualified	In charge of Finance (Chairperson)
Prof. Paul Maringa	Principal Secretary- In charge of Transport	Qualified	In charge of Transport
Eng. John Mosonik	Principal Secretary- In charge of Infrastructure	Qualified	In charge of Infrastructure
Athanus Maina	Managing Director- Kenya Railways Corporation	Qualified	Kenya Railways Corporation



**RAILWAY DEVELOPMENT FUND LEVY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

**1.3 Funding summary**

The Fund is for duration of 9 years from 2013 to 2022 with an approved budget of US\$ 3.27B (use donor currency) equivalent to Kshs 327B as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (30-06- 2017)		Undrawn balance to date (30-06- 2017)	
	Donor currency US\$	KShs	Donor currency US\$	KShs	Donor currency	KShs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')- (B')
<b>(i) Loan</b>						
Peoples Republic of China (90%)	3.27B	294.3B	158,289,615,183			136B
<b>(ii) Counterpart funds</b>						
Government of Kenya ( 10%)		32.7B	37,653,072,270			
<b>Total</b>	<b>3.27B</b>	<b>327B</b>	195,942,687,453			136B

**1.4 Summary of Overall Fund Performance**

- Budget performance against actual amounts for current year and for cumulative to-date is at 91%.
- Completion level of Track and Railway stations is 100% .
- The value for money achievement is 60%
- Completion level of facilities and rolling stock is 75% .

**1.5 Summary of Fund Compliance:**

- The Program has ensured that all its activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed.
- There is no significant case of non-compliance with applicable laws and regulations and essential external financing agreements /covenants was reported during the year



## **2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Principal Secretary for the State Department for Transport and the Project Coordinator for Railways Development Levy Fund are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the State Department for Transport the Project Coordinator for Railways Development Levy Fund are responsible for the preparation and presentation of the Project's financial statements, which give accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the State Department for Transport and the Project Coordinator for Railways Development Levy Fund are responsible for the preparation and presentation of the Project's financial statements, which give are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2017, and of the Project's financial position as at that date. The Principal Secretary for State Department for Transport and the Project Coordinator for Railways Development Levy Fund further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the State Department for Transport and the Project Coordinator for Railways Development Levy Fund confirm that the Fund has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements



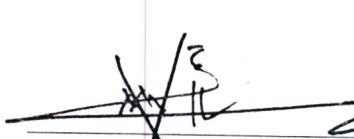
**RAILWAY DEVELOPMENT FUND LEVY**

**Reports and Financial Statements**

**For the year ended June 30, 2017**

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The Project financial statements were approved by the Principal Secretary for the State Department for Transport and the Project Coordinator for Railways Development Levy Fund on 30th September 2017 and signed by them.



Principal Secretary  
Name

Prof. Paul M. Mairinga



Fund Coordinator

Name S.G. Hunda



Fund Accountant:

Name: Jackie Habari  
ICPAK Member Number:



# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT) FOR THE YEAR ENDED 30 JUNE 2017 - STATE DEPARTMENT OF TRANSPORT

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Opinion

I have audited the accompanying financial statements of the Railway Development Levy Fund (Operations Account) set out on pages 1 to 16, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows 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 provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Railway Development Levy Fund (Operations Account) as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Legal Notice No. 118 of 2013 and the Public Finance Management Act, 2012.

In addition, as required by Article 229 (6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

##### Basis for Opinion

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

##### Key Audit Matters

Key Audit Matters are those that, in my professional judgement, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

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*Report of the Auditor-General on the Financial Statements of Railway Development Levy Fund (Operations Account) for the year ended 30 June 2017 - State Department of Transport*

## **Other Matter**

### **Prior Year Matter - Variances between amounts paid from Railway Development Levy Fund (RDLF) and amount reflected as received in Kenya Railways Corporation Financial Statements**

As reported in the previous year, the Fund's statement of receipts and payments for the year ended 30 June 2016 reflected payments for acquisition of non-financial assets totalling Kshs.4,320,984,173 out of which payments totalling Kshs.393,443,835.55 made up of Kshs.205,363,954.90; Kshs.161,748,697.70 and Kshs.26,331,182.95 as shown in Note 5 of the Notes to the financial statements were paid during the year 2015/2016 for consultancy services relating to Standard Gauge Railway Project. However, the financial statements for Kenya Railway Corporation for the year ended 30 June 2016 reflected work-in-progress amount of Kshs.453,201,880.53 as having been paid during the year 2015/2016 thus resulting in a variance of Kshs.59,758,044.98 which was not explained. A review of the issue in the year 2016/2017 revealed that the matter is still outstanding.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Government intends to cease operations of the Fund, or has no realistic alternative but to do so.

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

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

### **Auditor General's Responsibilities for the Audit of the Financial Statements**

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

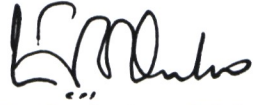
individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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



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

**Nairobi**

**07 May 2018**

**STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2017**

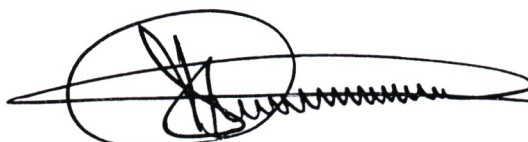
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	Not e	2016/17		2015/16		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
<b>RECEIPTS</b>						
Transfer from Government entities	8.3	23,299,550,338	108,184,916,183	14,353,521,932	50,047,764,000	215,194,928,298
<b>TOTAL RECEIPTS</b>		<b>23,299,550,338</b>	<b>108,184,916,183</b>	<b>14,353,521,932</b>	<b>50,047,764,000</b>	<b>215,194,928,298</b>
<b>PAYMENTS</b>						
Purchase of goods and services		-	-	450	-	1,350
Acquisition of non-financial assets	8.6	20,735,539,508	108,184,916,183	4,320,984,173	50,047,764,000	184,771,544,202
Transfers to other government entities	8.7	2,557,800,000	-	10,029,217,520	-	28,037,465,382
<b>TOTAL PAYMENTS</b>		<b>23,293,339,508</b>	<b>108,184,916,183</b>	<b>14,350,202,143</b>	<b>50,047,764,000</b>	<b>212,809,010,934</b>
<b>SURPLUS/DEFICIT</b>		<b>6,210,830</b>	<b>-</b>	<b>3,319,790</b>	<b>-</b>	<b>2,385,917,364</b>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



Principal Secretary  
Name *Prof. Paul M. Maringa*



Fund Coordinator  
Name *D.G. Hundla*



Fund Accountant:  
Name: *Jackie Naburi*  
ICPAK Member Number:



**RAILWAY DEVELOPMENT FUND LEVY**

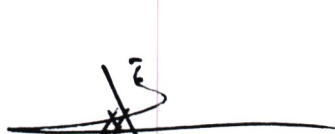
**Reports and Financial Statements**

**For the year ended June 30, 2017**

**5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2017**

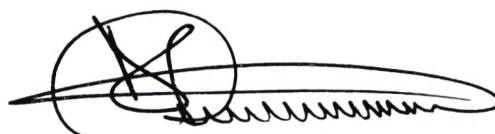
	Note	2016/17 KShs	2015/16 KShs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	8.8.A	14,797,357	8,586,528
<b>Total Cash and Cash Equivalents</b>		<b>14,797,357</b>	<b>8,586,528</b>
<b>TOTAL FINANCIAL ASSETS</b>		<b>14,797,357</b>	<b>8,586,528</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd	8.9	8,586,528	5,266,738
Surplus/Deficit for the year		6,210,830	3,319,790
<b>NET FINANCIAL POSITION</b>		<b>14,797,358</b>	<b>8,586,528</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30<sup>th</sup> September 2017 and signed by:



Principal Secretary

Name Prof. Paul M. Maniga



Fund Coordinator

Name B. G. Hunda



Fund Accountant:

Name: Jackline Nabun

ICPAK Member Number:



**RAILWAY DEVELOPMENT FUND LEVY**


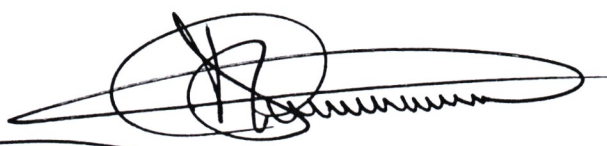

**Reports and Financial Statements**

**For the year ended June 30, 2017**

**6. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2017**

	Note	2016/17 KShs	2015/16 KShs
<b>Receipts for operating activities</b>			
Transfer from Government entities	8.3	23,299,550,338	14,353,521,932
		<b>23,299,550,338</b>	<b>14,353,521,932</b>
<b>Payments for operating activities</b>			
Purchase of goods and services		-	450
Transfers to other government entities	8.7	2,557,800,000	10,029,217,520
		<b>2,557,800,000</b>	<b>10,029,217,520</b>
<b>Net cash flow from operating activities</b>		<b>20,741,750,338</b>	<b>4,324,303,963</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of Non-Financial Assets	8.10	20,735,539,508	(4,320,984,173)
<b>Net cash flows from Investing Activities</b>		<b>(20,735,539,508)</b>	<b>(4,320,984,173)</b>
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
<b>Net cash flow from financing activities</b>		-	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
		<b>6,210,830</b>	<b>3,319,790</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>		<b>8,586,528</b>	<b>5,266,738</b>
<b>Cash and cash equivalent at END of the year</b>		<b>14,797,358</b>	<b>8,586,528</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th Sept 2017 and signed by:

 _____ Principal Secretary Name <u>Prof. Paul M. Maringa</u>	 _____ Fund Coordinator Name <u>D.G. Hunds</u>	 _____ Fund Accountant: Name: <u>Jackline Nabuni</u> ICPAK Member Number:
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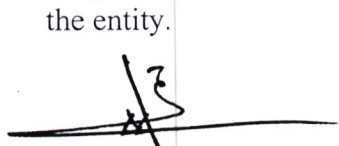
**RAILWAY DEVELOPMENT FUND LEVY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

**7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Transfer from Government entities	36,169,000,000	2,169,000,000	34,000,000,000	23,299,550,338	10,700,449,662	69%
Loan from External development partners	118,226,000,000	(41,652,000,000)	115,102,388,216.75	108,184,916,183.75	6,917,472,033	94%
Miscellaneous receipts						
<b>Total Receipts</b>	<b>154,395,000,000</b>	<b>43,821,000,000</b>	<b>110,574,000,000</b>	<b>131,541,401,521</b>	<b>9,984,148,817</b>	<b>91%</b>
<b>Payments</b>						
Acquisition of non-financial assets	141,340,595,459	-	141,340,595,459	128,977,390,691	12,363,204,768	91%
Transfers to other government entities	2,557,800,000	-	2,557,800,000	2,557,800,000	-	100%
<b>Total Payments</b>	<b>143,898,395,459</b>	<b>-</b>	<b>143,898,395,459</b>	<b>131,535,190,691</b>	<b>12,363,204,768</b>	

**Note:** The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.

Acquisition of non-financial assets comprises of both direct payments and those made in cash by the entity.



Principal Secretary  
 Name **Paul M. Maninga**



Fund Coordinator  
 Name **B. G. Hunda**



Fund Accountant:  
 Name: **Jackline Nabin**  
 ICPAK Member Number:



## **8. NOTES TO THE FINANCIAL STATEMENTS**

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

### **8.1. Basis of Preparation**

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

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

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

The accounting policies adopted have been consistently applied to all the years presented.

#### **8.1.2. Reporting entity**

The financial statements are for the Railways Development Levy Fund under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

#### **8.1.3. Reporting currency**

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Fund and all values are rounded to the nearest Kenya Shilling.

### **8.2. Significant Accounting Policies**

#### **a) Recognition of receipts**

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

- **Transfers from the Exchequer**

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

- **External Assistance**

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



partners.

## SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Donations and grants

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

### Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

### Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

#### • **Other receipts**

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

#### **b) Recognition of payments**

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

#### • **Compensation of employees**

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

#### • **Use of goods and services**

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

#### • **Interest on borrowing**

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

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

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

**c) In-kind donations**

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

**d) Cash and cash equivalents**

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

**Restriction on cash**

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits



**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Accounts receivable**

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

**f) Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Fund at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

**g) Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

**h) Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs 108,184,916,183 being loan disbursements were received in form of direct payments from third parties.



**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

**j) Comparative figures**

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

**k) Subsequent events**

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2017.

**l) Errors**

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.



**RAILWAY DEVELOPMENT FUND LEVY**  
**Reports and Financial Statements**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**8.3. RECEIPTS FROM GOVERNMENT OF KENYA**

These represent counterpart funding and other receipts from government as follows:

	2016/17 KShs	2015/16 KShs	
<i>Counterpart funding through State department for Transport.</i>			
Counterpart funds Quarter 1	6,410,724,640	10,362,089,313	23,315,485,400
Counterpart funds Quarter 2	11,801,490,553	3,991,432,620	28,502,492,571
Counterpart funds Quarter 3	3,855,833,769	-	3,855,833,769
Counterpart funds Quarter 4	1,231,501,376	-	1,231,501,376
	<u>23,299,550,338</u>	<u>14,353,521,932</u>	<u>56,905,313,115.3</u>
<i>Other transfers from government entities</i>			
Appropriations-in-Aid	108,184,916,183.75	50,047,764,000	
	<u>131,484,466,521</u>	<u>64,401,285,932</u>	<u>56,905,313,116</u>

**Note:**

Appropriation in Aid of Kshs. 108,184,916,183 and Kshs. 50,047,764,000 represent direct payments for the Financial years 2016/2017 and 2015/2016 made through the National Treasury respectively.

<b>Appropriations-in-Aid</b>	<b>2016/2017</b>
China roads and Bridge Corporation (K)	24,857,350,000
China roads and Bridge Corporation (K)	19,856,112,967
China roads and Bridge Corporation (K)	24,943,065,000
China Communications construction Company Ltd	38,528,388,216
<b>Total</b>	<b>108,184,916,183</b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 8.4. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2017 we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
			KShs		FY16/17	FY15/16
<b>Loans Received from Bilateral Donors (Foreign Governments)</b>						
CHINESE GOVERNMENT					108,184,916,183	50,047,764,000
<b>Loans Received from Multilateral Donors (International Organisations)</b>						
Insert name of international organization						
<b>Total</b>					<b>108,184,916,183</b>	<b>50,047,764,000</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.5. PURCHASE OF GOODS AND SERVICES

	FY 2016/17			FY 2015/16	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Other operating payments				450	1,350
<b>Total</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>450</b>	<b>1,350</b>

**Note:**

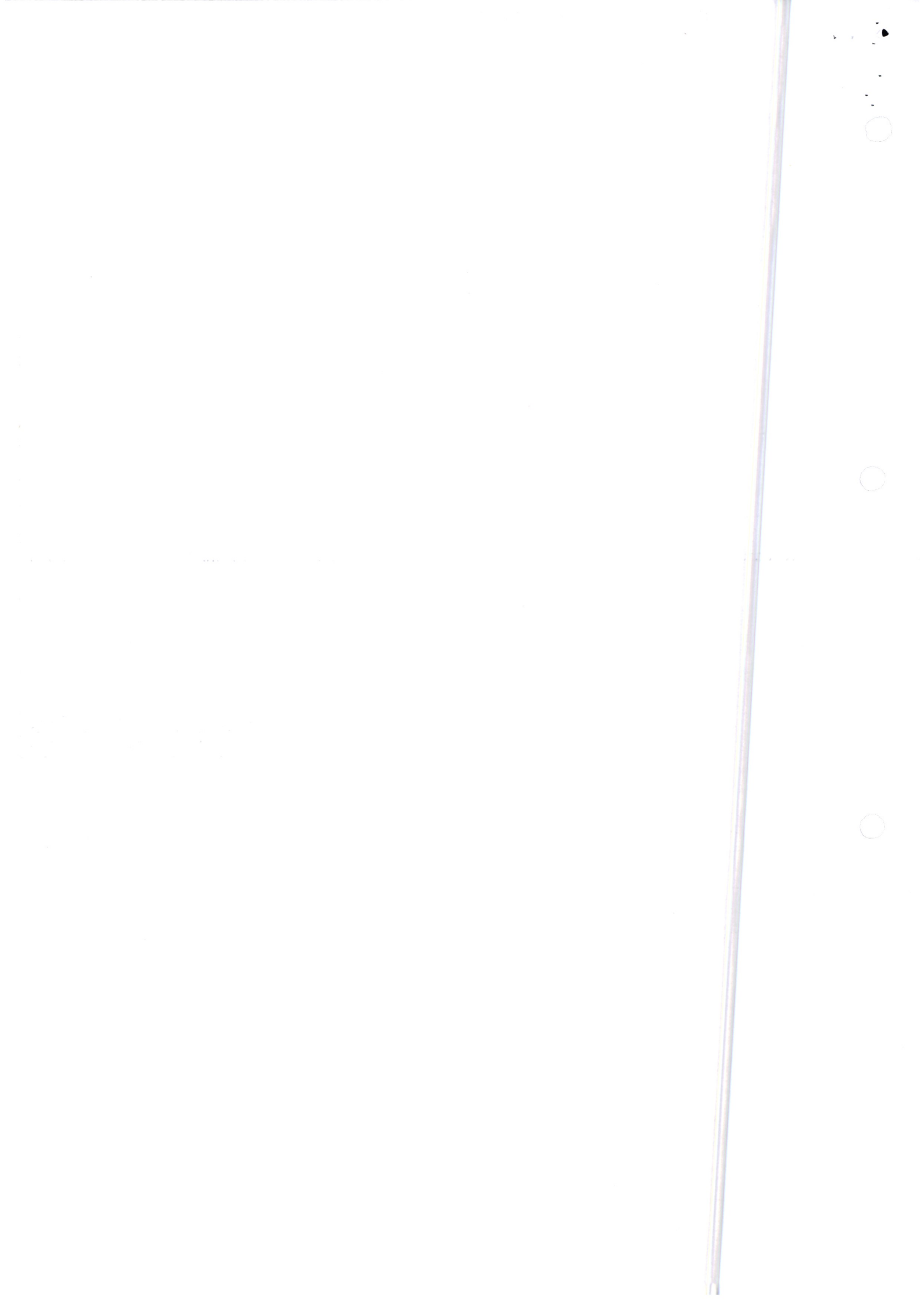
There were no operating expenses during the financial year 2016/2017.

8.6. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2016/17			FY 2015/16	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Construction of civil works-Rail	13,885,077,773	108,184,916,183	122,069,993,956	3,367,568,906	181,583,556,800
Consultancy Supervision	1,876,579,696		1,876,579,696	553,415,267	3,187,987,350
Acquisition of Land	4,973,882,039		4,973,882,039	6,353,022,834	11,326,904,800
<b>Total</b>	<b>20,735,539,508</b>	<b>108,184,916,183</b>	<b>128,920,455,691</b>	<b>10,274,007</b>	<b>196,098,449,000</b>

**Note:**

- Direct payments for FY 2015/2016 were Kshs. 50,047,764,000
- Total payments of Kshs. 128,977,390,691 comprise of both payments by the Entity in cash and Direct payments made by the National Treasury.
- The comparative figures for Construction of civil works-Rail, Consultancy Supervision, Acquisition of Land are Kshs 3,767,568,906, Kshs 553,415,267 and Kshs.6,353,022,834.35 respectively.
- Acquisition of Land was previously classified under transfers to other Government entities.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7. TRANSFERS TO OTHER GOVERNMENT ENTITIES

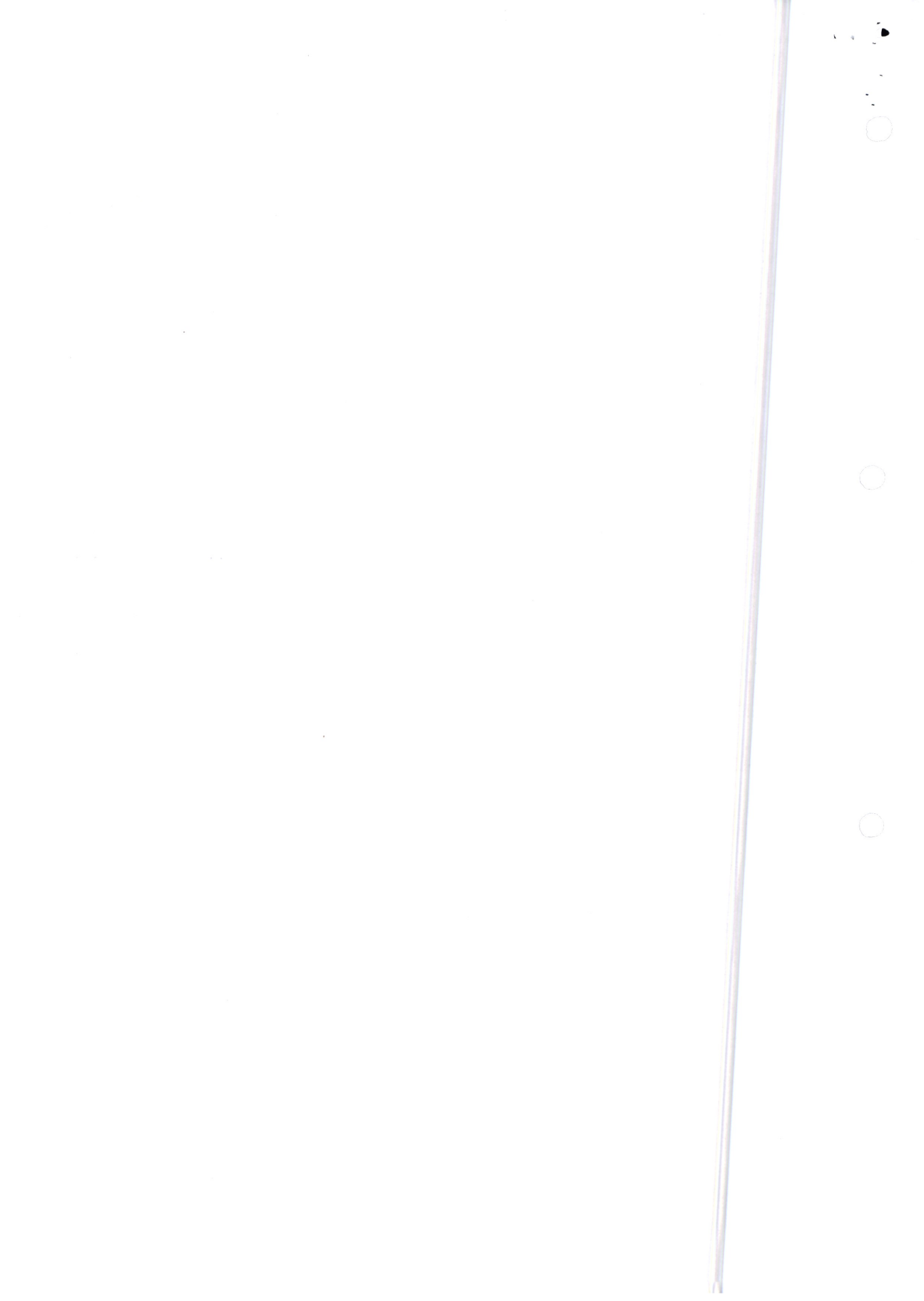
During the 12 months to 30 June 2017, we transferred funds to reporting government entities as shown below:

	FY 2016/17			FY 2015/16	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
<b>Transfers to National Government entities</b>					
Kenya Wildlife services	-	-	-	-	2,469,000,000
KRC Escrow Account	2,557,800,000		2,557,800,000	2,527,560,000	8,158,919,999
National Land Commission	-	-	-	-	1,864,516,110
KRC Land Compensation	-	-	-	6,353,022,834	14,396,394,588
Kenya Forest Services	-	-	-	203,006,300	203,006,300
Kenya Power	-	-	-	945,628,385	945,628,385
	<b>2,557,800,000</b>		<b>2,557,800,000</b>	<b>10,029,217,519</b>	<b>28,037,465,382</b>
<b>TOTAL</b>	<b>2,557,800,000</b>		<b>2,557,800,000</b>	<b>10,029,217,519</b>	<b>28,037,465,382</b>

**Note:**

Transfers listed below are categorised under acquisition of Non-Financial Assets in this financial year. However, during 2015/2016 FY they were generally classified under transfers to other government entities.

Kenya Wildlife services	1,094,100,000.0
National Land Commission	1,864,516,110
KRC Land Compensation	240,691,234.0



NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.8. CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2016/17	2015/16
	KShs	KShs
Bank accounts	14,797,357.49	8,586,528.0
<b>Total</b>	<b>14,797,357.49</b>	<b>8,586,528.0</b>

The project has one number of project accounts spread within the project implementation area and one number of foreign currency designated accounts managed by the National Treasury as listed below:

8.8 A Bank Accounts

Project Bank Accounts

	2016/17	2015/16
	KShs	KShs
<b><u>Local Currency Accounts</u></b>		
Central Bank of Kenya [A/c No1000215879]	14,797,357.49	8,856,528.0
<b>Total local currency balances</b>	<b>14,797,357.49</b>	<b>8,856,528.0</b>
<b>Total bank account balances</b>	<b>14,797,357.49</b>	<b>8,856,528.0</b>

**Note:**

RDLF Operations Account holds only one project Account operated by this department.



**RAILWAY DEVELOPMENT FUND LEVY****Reports and Financial Statements**

For the year ended June 30, 2017

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****8.8 Cash equivalents (short-term deposits)**

	2016/17	2015/16
	KShs	KShs
Central Bank of Kenya [A/C No 1000215879]	8,586,528.0	5,266,738.0
<b>Total</b>	<b>8,586,528.0</b>	<b>5,266,738.0</b>

**8.9. FUND BALANCE BROUGHT FORWARD**

	2016/17	2015/16
	KShs	KShs
Bank accounts	8,586,528.0	5,266,738.0
<b>Total</b>	<b>8,586,528.0</b>	<b>5,266,738.0</b>

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**RAILWAY DEVELOPMENT FUND LEVY**

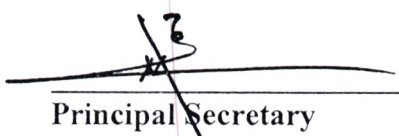
**Reports and Financial Statements**

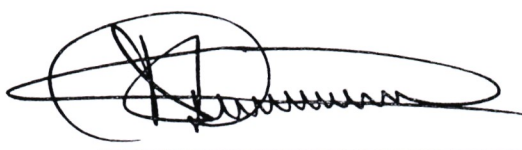
**For the year ended June 30, 2017**

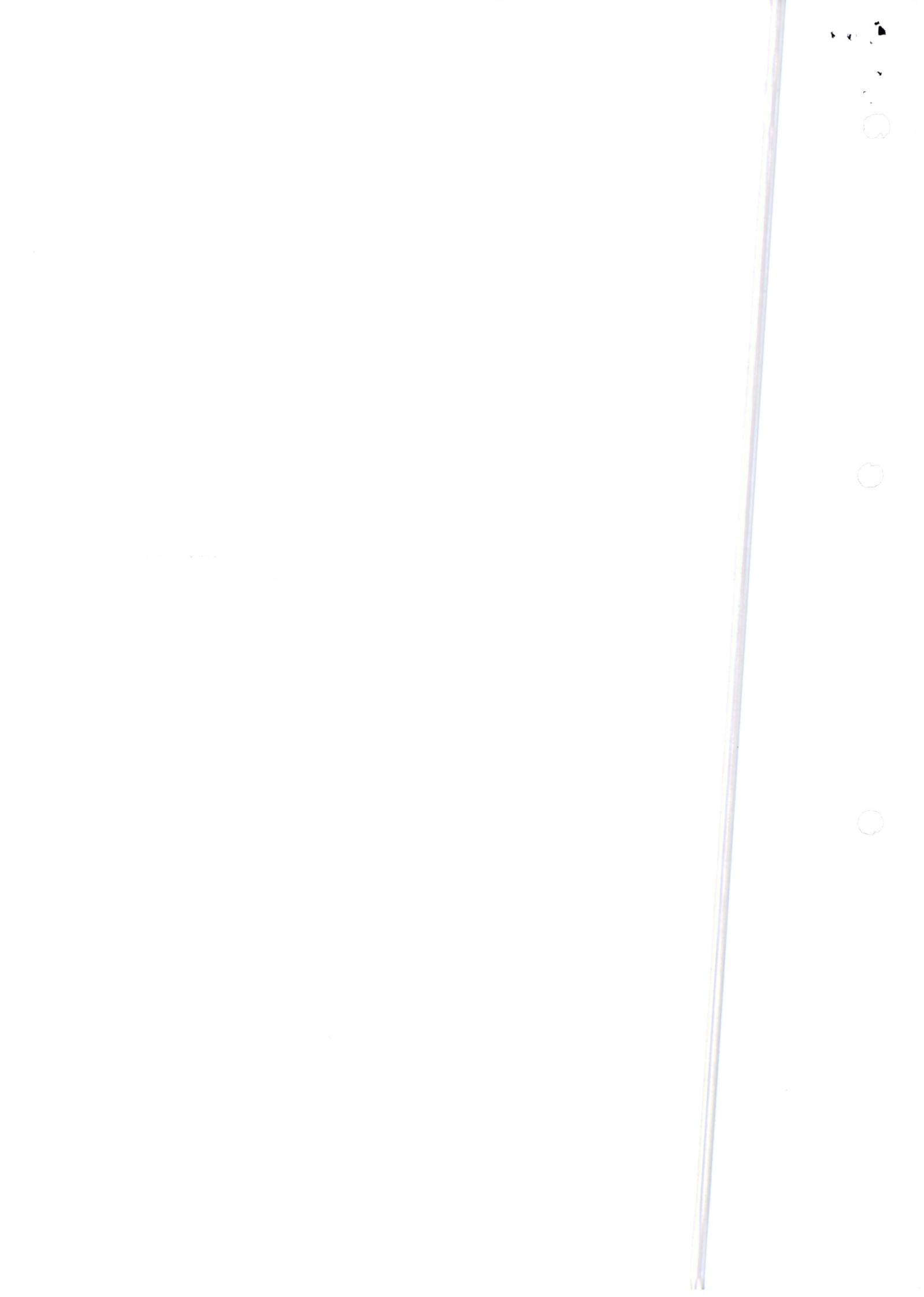
**9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Variance between amounts paid from Railway Development Levy Fund and amount reflected as received in Kenya Railways Corporation Financial Statements	Qualified Opinion	Head of Accounting Unit	This was brought about by exchange rate differences by the time the funds were reflected in KRC books. Not resolved	By 31 <sup>st</sup> December 2017

  
 Principal Secretary  
 16/03/2018  
 Date

  
 Fund Coordinator  
 16/03/2018  
 Date



**RAILWAY DEVELOPMENT FUND LEVY**  
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**ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER**

Asset class	Opening Cost (KShs) 2015/2016 (a)	*Purchases/Additions in the Year (KShs) 2016/2017 (b)	**Disposals in the Year (KShs) 2016/2017 (c)	Closing Cost (KShs) 2016/2017 (d)= (a)+ (b)-(c)
Land	6,353,022,834	1,876,579,696	-	8,229,602,530
Buildings, facilities and structures	3,367,568,906	122,126,928,956	-	125,494,497,862
<b>Total</b>	9,720,591,740	124,003,508,652	-	133,724,100,392

**INTER ENTITY TRANSFERS**

NAME	AMOUNT	DATE TRANSFERED
	633,014,734	28/09/2016
	124,783,437	02/03/2017
	1,649,791,258	02/03/2017
	1,231,501,376	12/06/2017
National Land Commission		
Kenya Wildlife Service	94,100,000	25/08/2016
	1,000,000,000	21/02/2017
Kenya Railways Commission- Escrow Account	2,557,800,000	
Kenya Railways -Land Compensation	240,691,234	10/05/2017

