

REPUBLIC OF KENYA



24 JUL 2018

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REPORT

OF

THE AUDITOR-GENERAL

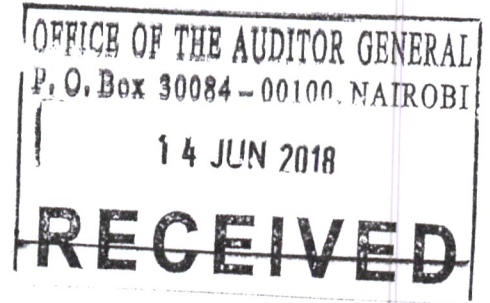
ON

**THE FINANCIAL STATEMENTS OF
KENYA NATIONAL HIGHWAYS
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**

*Paper Laid on the
Table of the House
by the Leader of the
Majority Party on
Tuesday 24th July
2018 (Afternoon)*





Kenya National Highways Authority

Quality Highways, Better Connections

KENYA NATIONAL HIGHWAYS AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

TABLE OF CONTENTS

PAGE

I. KEY AUTHORITY INFORMATION AND MANAGEMENT	ii
II. THE BOARD OF DIRECTORS.....	vi
III. MANAGEMENT TEAM	viii
IV. CHAIRMAN'S STATEMENT	x
V. REPORT OF THE CHIEF EXECUTIVE OFFICER	xii
VI. CORPORATE GOVERNANCE STATEMENT	xiv
VII. MANAGEMENT DISCUSSION AND ANALYSIS	xvi
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT	xxi
IX. REPORT OF THE DIRECTORS	xxii
X. STATEMENT OF DIRECTORS' RESPONSIBILITIES	xxiii
XI. REPORT OF THE INDEPENDENT AUDITORS ON THE AUTHORITY	xxiv
XII. STATEMENT OF FINANCIAL PERFORMANCE	1
XII. STATEMENT OF FINANCIAL POSITION	2
XIII. STATEMENT OF CHANGES IN NET ASSETS	3
XIV. STATEMENT OF CASH FLOWS	4
XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	6
XVI. NOTES TO THE FINANCIAL STATEMENTS	9
XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	33
XVIII. Appendix 1: PROJECTS IMPLEMENTED BY THE AUTHORITY.....	84
XIX. Appendix 2: INTER ENTITY TRANSFERS	89

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

I. KEY 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, Housing & Urban Development 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 2017 were:

No.	Name	Board Position
1.	Eng. Erastus K. Mwongera, CBS, FIEK, RCE	Chairman (<i>non-executive</i>)
2.	Mrs. Marykaren C. Kigen-Sorobit	Director
3.	Mr. Humphrey Muhu	Director-Alt. to CS(National Treasury)
4.	Mr. George Wanjau	Director-Alt. to PS(Transport)
5.	Mr. Andrew C. Mitei	Director
6.	Ms. Mary Gesare	Director
7.	Dr. Lydia Muriuki	Director-Alt. to PS(Infrastructure) (<i>Appointed on 29th March 2017</i>)
8.	Dr. Julius Kibiti M' Ndegwa	Director (<i>Retired on 23rd June 2017</i>)
9.	Mrs. Bibiana A.R. Omalla	Director (<i>Retired on 25th June 2017</i>)
10.	Eng. Peter M. Mundinia	Director General/Board Secretary (<i>ex-officio member</i>)

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.

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;

KEY AUTHORITY INFORMATION AND MANAGEMENT (CONTINUED)

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

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

- 8) Staff terms and conditions of service.

➤ 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 Committees.

KEY AUTHORITY INFORMATION AND MANAGEMENT (CONTINUED)

(iv) Office of the Auditor General

The Annual Report and Financial Statements of the Kenya National Highways Authority are audited in accordance with Article 229 subsection 7 of the Constitution and Section 35 of the Audit Act 2015

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 2017 and who had direct fiduciary responsibility were:

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

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

KEY 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

(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




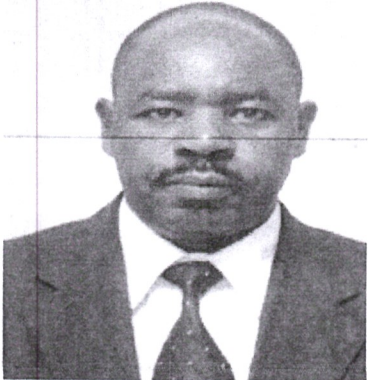
The Attorney General
State Law Office,
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017





II. THE BOARD OF DIRECTORS

Director	Brief Profile
 <p>1. Eng. Erastus K. Mwongera, CBS, FIEK, RCE Chairman of the Board of Directors</p>	<p>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 43 years' administration and management experience</p>
 <p>2. Mrs. Marykaren C. Kigen-Sorobit Director</p>	<p>Date of Birth: 14th February, 1969 LL.B (Hons) PGD. KSL, CPS(K) Member, Law Society of Kenya 22 years' experience in legal and compliance management.</p> <p>Chairman of the Audit, Risk and Governance Committee and member of the Finance, Human Resource & General Purpose and the Technical and Strategy Committees</p>
 <p>3. Dr. Lydia Muriuki Director – Alt. to PS (Infrastructure)</p>	<p>Date of Birth 28th November, 1958 Director of Administration (MOTIHUD) Doctor of Philosophy in Business Management (Strategic Management Option) Kenya Institute of Management (KIM) 29 years' of experience in Strategic leadership Public Administration & Security Management</p> <p>Member of the Finance, Human Resource & General Purpose, the Technical, Strategy and Procurement and Oversight committees <i>(Appointed 29th March, 2017)</i></p>
 <p>4. Mr. Humphrey Muhi Director – Alt. to CS (National Treasury)</p>	<p>Date of Birth: 28th August, 1964. Economist and Financial advisor. BSc (Statistics and Mathematics) B.Phil (Economics) MA (Economics) Dip. Financial Management 25 years' management experience</p> <p>Member of the Finance, Human Resource & General Purpose, Procurement and Oversight and the Audit, Risk and Governance committees</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements



For the year ended 30th June 2017

Director	Brief Profile
 <p>5.Mr. George Wanjau Director – Alt. to PS (Transport)</p>	<p>Date of Birth: 19th January, 1962, Economist and Urban Transport Planner. MSc (Project Planning & Financing) BA (Economics) 31 years' management experience</p> <p>Member of the Technical , Strategy , Procurement and Oversight committees and the Audit , Risk and Governance committees</p>
 <p>6.Mr. Andrew C. Mitei Director</p>	<p>Date of Birth: 9th June 1956 Certified Public Accountant Bachelor of Commerce (Accounting) Member, Institute of Certified Public Accountants (K) 38 years' of management experience</p> <p>Chairman of the Finance, Human Resource & General Purpose and member of the Technical , Strategy and Audit , Risk and Governance committees</p>
 <p>7.Ms. Marie Gesare Director</p>	<p>Date of Birth: 31st January, 1968 Human Resource & Public Relations Manager Advanced Diploma in Human Resource Management Bachelor of Business Management Chair of Procurement & Oversight committee from 25th June, 2017 28 years' of management experience Member of the Finance, Human Resource & General Purpose , Procurement and Oversight committees and Audit , Risk and Governance committees</p>
 <p>8.Dr. Julius Kibiti M'Ndegwa Director</p>	<p>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 43 years' management experience Member of the Technical , Strategy , Procurement and Oversight and the Audit , Risk and Governance committees (Retired 23rd June, 2017)</p>

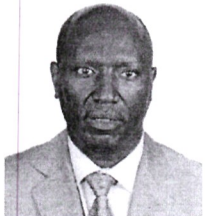

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

Director	Brief Profile
 <p>9. Mrs. Bibiana A. R. Omalla Director</p>	<p>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 34 years` management experience</p> <p>Chairman of the Procurement and Oversight committee and member of the Finance, Human Resource & General Purpose and the Technical , Strategy committees (Retired 25rd June, 2017)</p>
 <p>10. Eng. Peter M. Mundinia Director General & Secretary to the Board</p>	<p>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)</p> <p><i>Ex-officio</i> member of the Board 28 years` of management experience</p>







III. MANAGEMENT TEAM

Manager	Brief Profile
 <p>1. Eng. Peter M. Mundinia Director General</p>	<p>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) 28 years` of management experience</p>
 <p>2. Eng. Samuel O. Ogege General Manager - Design & Construction</p>	<p>Date of Birth: 3rd June, 1960, BSc. (Civil Engineering) Member of the Engineers Registration Board 30 years of management experience</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

Manager	Brief Profile
 <p>3. Eng. Samuel O. Omer General Manager - Planning & Environment</p>	<p>Date of Birth: 17thFebruary 1962, MSc. (Civil Engineering) BSc. (Civil Engineering) Member of The Engineers Registration Board 30years of management experience</p>
 <p>4.CPA James K. Bowen General Manager - Finance</p>	<p>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 20 years management experience</p>
 <p>5.Eng. David Muchilwa General Manager - Special Projects</p>	<p>Date of Birth: 28th December 1964 BSc. (Civil Engineering) Member of I.E.K 28 years management experience</p>
 <p>6.Eng. Njuguna Gatitu General Manager -Maintenance</p>	<p>Date of Birth: 1965. BSc (Civil Engineering) Post Graduate Diploma in Computer Science General Manager, Maintenance Member, Institution of Engineers of Kenya 28 years' management experience</p>
 <p>7.CPA. William O. Masita Head, Internal Audit</p>	<p>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 13 years Management Experience</p>
 <p>8.Ms. Norah Odingo-Kajwang' Head, Legal & Regulatory Affairs</p>	<p>Date of Birth: 27th April 1969 Degrees: MBA Bachelor of Laws Registered Advocate Member Law Society of Kenya Member Public Secretaries of Kenya 23 years Management Experience.</p>

IV. CHAIRMAN'S STATEMENT

It is with great pleasure that I present the Annual report and Financial Statement for the year ended 30th June 2017 on behalf of the Board of Directors, Management and Staff of the Kenya National Highways Authority.

In the year under review, provision of safe, motorable and adequate road infrastructure remained a top priority for the government, with significant funding channelled towards the construction of new roads, rehabilitation and maintenance of existing roads to make them motorable. The increased attention from the government has attracted development partners including private investors seeking partnerships and opportunities in the sector under the Public Private Partnership concept.

The year saw the Authority re-categorized from PC3A to PC7A1 by the State Corporations Advisory Committee. This will no doubt go a long way in motivating our dedicated staff who work hard to ensure we construct and manage national trunk roads that enhance socio-economic growth and prosperity, as well as implementing extensive road network expansion projects that enable improved connectivity to inaccessible areas in the country.

All the road projects we are undertaking are aimed at ensuring the turnaround time within the country will be reduced significantly and the move will catalyse industrial development, while minimizing on transportation costs by mitigating the loss of man hours. Kenya's infrastructure network is currently adjudged to be of good quality, with adequate connectivity, but low on density. As an Authority, we are addressing this by increasing the intensity and functionality of the road network in the country so as to bring the entire national road network to a good motorable condition for enhancement of inter-county and regional connectivity.

We have implemented the Performance Based Maintenance Contract (PBC) on major roads and this has resulted in efficient customer service delivery through cost savings, risk sharing, assurance of quality, achievement of a sustainable road management system, increased flexibility and transparency. The Board of Directors and management continue to proactively review and identify areas that need improvement. We shall continue implementing strategies that ensure projects are completed within the stipulated timelines to ensure that the public gets value for money. This will include close supervision of all ongoing projects and maintenance of existing road networks, as well as regular updates with the public and development partners to ensure that they remain appraised on project implementation progress.

According to World Bank's Kenya Economic Update (KEU) of April 2017, Kenya's economic performance remained solid, with an estimated growth rate of 5.9% in 2016 partly attributed to an ambitious public investment drive, among other contributors. However, the country's growth is expected to decelerate to 5.5% in 2017. Continued road infrastructure development, as an enabler for economic growth and national as well as regional development, will go a long way in facilitating and enhancing economic growth. As we embark on this Financial Year 2017/2018, we shall remain committed to delivering value to all Kenyans. We firmly remain committed to fulfilling our mandate of managing, developing, rehabilitating and maintaining our National Trunk Roads.

The future of the Authority is bright; we have embraced the Public Private Partnership PPP model to help address the acute mismatch between traffic needs, existing infrastructure and financial deficits. We believe working with the private sector through this PPP model will offer the best solution to meeting our infrastructural needs that will move the country towards attainment of envisaged economic growth. Under the model, the developers will construct and maintain the road and thereafter recover the construction costs by collecting toll proceeds. We have thus identified

KENYA NATIONAL HIGHWAYS AUTHORITY

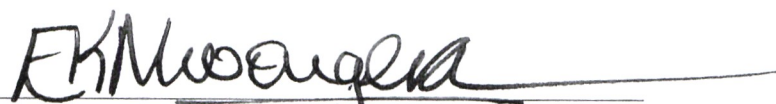
Reports and Financial Statements

For the year ended 30th June 2017

Chairman's Statement (Continued)

the First Mover PPP program for the road sector which is the Nairobi – Nakuru – Mau Summit Highway (A8). This is one of the four major projects that the Government has prioritized to be undertaken on a PPP basis. The other three are the Nairobi-Thika Highway, the second Nyali Bridge and the Mombasa-Nairobi highway. We have invested significantly in the preparation of this PPP project and we are eager to partner with world class developers, operators and financiers in order to deliver this project for the benefit of all Kenyans and the region. The Authority established a dedicated PPP department to actualize this aspiration and continue to pursue the construction and maintenance of several projects for financing through PPP arrangements.

I would like to thank all those who supported the Authority in the year including our customers, the Government, development partners, our staff and other stakeholders. I also wish to thank my fellow Board members for their invaluable support and contribution during the year.



Eng. Erastus K. Mwangera, CBS, FIEK, RCE

Chairman of the Board of Directors

12th Sep 2017

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

General Overview

The Kenya Vision 2030 seeks to transform the country into a modern, globally competitive and prosperous nation with a high quality of life. Road infrastructure is a key component of our economic development. The Government aspires for a country firmly interconnected through a network of roads, railways, ports, airports, water and sanitation facilities and telecommunications. Under our parent Ministry of Transport, Infrastructure, Housing and Urban Development, the Government has created synergies within the various infrastructure sub-sectors, in order to meet these goals.

Major Performance Milestones FY 2016/2017

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 2017 include Voi - Mwatate road, with additional town roads constructed; Mwatate – Taveta road; Merille River – Marsabit road; Turbi – Moyale road; Mbita Causeway Bridge; Athi River and Mariakani Axle Load Control Stations.

Many other projects are at various implementation stages. Key ongoing projects include Nuno – Modogashe road; Package I of Mombasa Southern Bypass; Port Reitz road; Bachuma Gate – Maji ya Chumvi road; James Gichuru Junction – Rironi road; Kisumu – Kakamega – Webuye – Kitale road; Isebania – Kisii – Ahero, Chiakariga – Meru, Mombasa Port Area Road Development(MPARD) ,Dualling of Athi River –Machakos Turn off, Upgrading of Kalobeiyei River — Nadapal (88 km) road section, Upgrading of Lokitaung Junction to Kalobeiyei River (80 km) road section, Replacement of Kainuk Bridge,Dualling of Mombasa-Mariakani,Kibwezi-Mutomo-Kitui and Kisian-Busia road projects.

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 as well as securing and protecting national road reserves and assets. 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.

Challenges to Development of Quality National Roads

The Authority faced various challenges during the year under review which included encroachment on road reserves resulting in delays in project commencement and implementation. In addition funds received were inadequate to develop and maintain roads. Vandalism of road furniture continued to be a major challenge greatly hampering efforts to provide safe and quality highways.

Future Initiatives to Upgrade More Roads

The Authority further intends to commence with several projects in various parts of the country including: -

- Rehabilitation of South Sudan Link Road by World Bank/KfW/GoK
- Rehabilitation and upgrading to bitumen standard of Kitale – Endeless – Suam road by AfDB
- Upgrading to bitumen standards of Eldoret Bypass by AfDB
- Rehabilitation of Magongo road, MPARD, among others-these projects will complement the SGR which ends at Miritini.

The Authority has identified four projects for implementation under Public Private Partnerships (PPP). KeNHA launched the procurement process for one of the first mover roads PPP project in

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

November 2016 by inviting interested parties to participate in the prequalification for the Nairobi – Nakuru – Mau Summit PPP project. The Government has also earmarked the following PPP pipeline projects which have been found to be financially and economically bankable:

- Package 1 Design, Build, Finance, Operate and Transfer of Mombasa - Nairobi
- Package 2 Design, Build, Finance, Operate and Transfer of Mombasa - Nairobi
- Package 3 Design, Build, Finance, Operate and Transfer of Mombasa - Nairobi
- Operation and Maintenance of Nairobi - Thika - Sagana Road

Conclusion

The Board milestones and achievements highlighted would not have been possible without the dedication of the staff of the Authority. I also sincerely appreciate the support that we received from the Board of Directors and our parent Ministry of Transport, Infrastructure, Housing and Urban Development. We look forward to a great year as work towards ensuring that no part of Kenya is called remote by the year 2030.



Eng. Peter M. Mundinia
Director General

12th Sep 2017

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 2017.

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:

- Business Industry;
- 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.

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

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.

A schedule of individual board members, their position and number of meetings attended and held are as per schedule below.

No.	Name of Director	Board Position	No. of Meetings Attended/Held
1	Eng. Erastus K.Mwongera, CBS, FIEK, RCE	Chairman	24/24
2	Dr. Julius Kibiti Ndegwa (<i>Retired on 23rd June 2017</i>)	Member	11/24
3	Mrs. Bibiana A.R.Omalla (<i>Retired on 25th June 2017</i>)	Member	23/24
4	Mrs. Marykaren C. Kigen-Sorobit	Member	20/24
5	Mr. Humphrey Muhu	Member	14/24
6	Mr. George Wanjau	Member	16/24
7	Mr. Andrew C.Mitei	Member	23/24
8	Ms. Mary Gesare	Member	24/24
9	Dr. Lydia Muriuki (<i>Appointed on 29th March, 2017</i>)	Member	4/ 6

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017**VII. MANAGEMENT DISCUSSION AND ANALYSIS****Mandate**

To manage, develop, rehabilitate and maintain national roads.

SECTION A**The entity's operational and financial performance****Road Maintenance**

The Authority is undertaking numerous road maintenance projects on our entire road network as summarized in the table below.

S/No.	Project Activity	Ongoing Projects Targeted Output(km)	Source of Funding
1.	Periodic maintenance	2,218.16	Road Maintenance Levy Fund
2.	Routine maintenance	8,798.40	Road Maintenance Levy Fund
3.	Performance Based Contracts	5,584.54	Road Maintenance Levy Fund
	Total	16,601.10	

Development & Rehabilitation projects

The Authority is implementing a number of development projects across the country. A number of these projects are co-funded with our key Development Partners namely IDA, AfDB, EU, TMEA, Spanish Kingdom, EXIM Bank etc. There are also a number of projects which are fully funded by the Government of Kenya through the Exchequer. Project funding and expected targets during the current financial year are summarized in the table below.

S/No.	Project	Ongoing Projects Targeted Output(km)	Source of Funding
1.	Mombasa-Mariakani	-	AfDB/GoK
2.	Nuno-Modogashe	1	BADEA/KUWAIT/GOK
3.	Merille-Marsabit	22	EU/GoK
4.	Kitale-Kisumu	9	KTSSP_IDA/GoK
5.	Interchanges	3 No.	KTSSP_IDA/GoK
6.	Bachuma Gate – Maji Ya Chumvi	20	KTSSP_IDA/GoK
7.	Sudan Link	-	EARTTDFP_IDA/GoK
8.	Miritini-Mwache-Kipevu	7	MPARD_JICA/GoK
9.	James Gichuru-Rironi	-	NUTRIP_IDA/GoK
10.	Port Reitz	2	TMEA/GoK
11.	Chebilat - Ikonge - Chabera	2.5	GoK
12.	Ruiru - Githunguri - Uplands	-	GoK
13.	Chiakariga - Meru Road	12.5	GoK
14.	Oljororok - Ndundori Road	6	GoK
15.	Loruk - Barpelo Road	10	GoK
16.	Garsen - Witu - Lamu Road(C112)	-	GoK

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

17.	Busia - Malaba	-	GoK
18.	Narok - Sekenani	-	GoK
19.	Naibor - Kisiriri	-	GoK
20.	Nyaru - Iten	-	GoK
21.	Ugunja - Ukwala - Ruambwa	-	GoK

SECTION B

Entity's compliance with statutory requirements

The Authority has complied with all statutory requirements which include: -

- 1) Accurate and timely remittance of monthly
 - i. National Hospital Insurance Fund contributions,
 - ii. National Social Security Fund contributions,
 - iii. Pay As You Earn recoveries
 - iv. Withholding Tax
 - v. Value Added Tax
 - vi. Training Levy

- 2) Payment of contractual obligations and claims to all vendors

There are however material contingent liabilities in excess of Kshs. 10 billion arising from: -

- a) Foreign exchange losses from Development Projects that were co-funded by Development Partners and were partly paid with hard currency,
- b) Contractual claims for old projects that had not been resolved during the project life cycle,
- c) Additional awards granted or likely to be granted to Project Affected Persons resulting from delayed payments,
- d) Ongoing court cases and awards yet to be concluded etc.

SECTION C

Key projects and investment decisions the entity is planning/implementing

The Authority is planning/ implementing over 30 key projects using funds from Development Partners and the Government of Kenya as summarized in the table below.

S/No	Planned Projects	Source of Funding
1.	4	AfDB/GoK
2.	7	KTSSP_IDA/GoK
3.	6	EARTTDFP_IDA/GoK
4.	3	NUTRIP_IDA/GoK
5.	3	JICA/GoK
6.	1	EXIM/GoK

SECTION D

Major risks facing the Authority

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following outlines what the Board and Management currently believe are the key risks that could impact KeNHA's operations and mandate. Other risks that may be unknown to the Authority could negatively impact KeNHA. Therefore, the risks highlighted below should not be considered a complete narration of all the risks and uncertainties that KeNHA may face.

A) OPERATIONAL RISKS

a) Employee Risk

KeNHA's success is highly dependent on our ability to attract and retain qualified employees. We compete with other reputable organizations in the economy for talented individuals and have in the past lost valuable employees due to an inadequate organizational structure that did not provide room for career growth as well as non-competitive remuneration as compared to similar public organizations in the infrastructure sector. To address this risk, the Authority sought and was re-categorized from PC3A to PC7A. This will ensure that the Authority offers a good working environment nationwide, with room to grow one's career as well as competitive salaries and benefits.

b) Road Reserve Encroachment

The Road Sector typically elicits interest from all members of the public since everyone uses roads to move from place to another. The public will typically tend to set up their businesses next to the carriageway in order to attract motorists to purchase their goods. Additionally, road reserves are considered as prime places to advertise. In recent years, the public has tended to react to accidents and incidents on highways by placing humps, which are usually unmarked and not built to specification. All the aforementioned issues hamper road safety. The Authority has created an internal unit to undertake road asset management and ensure the public is adequately sensitized on the importance of steering clear of our road reserves. As an organization, we continue to evolve and have rolled out Performance Based Maintenance Contracts (PBCs) which have greatly enhanced protection of our road reserves.

c) Overloading (Axle Load Control)

Over 90% of cargo from our ports to the Kenyan and Regional Markets is transported through our highways. Overloading on our roads continues to be a challenge to KeNHA as some transporters disregard axle load limits. KeNHA has instituted high speed weigh in motion (HSWIM) at Mariakani, Athi River and Gilgil to facilitate compliant transporters to proceed with their journey. Transporters found to be overloaded pay fines and must redistribute their cargo before proceeding with their journey. At KeNHA's encouragement, various transporters have now established SACCOs which have greatly enhanced self-regulation and compliance. In the future, it is expected that cargo will increasingly be carried by rail, resulting in longer lasting roads and enhanced road safety.

d) Vandalism of Road Furniture

Vandalism of road furniture such as guard rails and road signs negatively impacts the safety of our roads and our reputation. KeNHA has increasingly been using alternative materials to curb vandalism. The PBCs have also served to minimize vandalism on our roads and enhance road safety.

e) Contract Management

KeNHA outsources the construction and maintenance of roads to contractors. Major road design and supervision of key projects is also outsourced to consultants. Our success is highly dependent on how well we manage the contracts we enter into with various providers. It has been observed that most of our contracts experience time and cost overruns. To enhance contract management, a

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

critical number of staff have been trained on contract management. We ensure inclusion of all required skills in project implementation and supervision teams. Experts in communication, environment, finance, legal, procurement and sociology are included in

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

project implementation supervision teams during certain phases of the projects. The Authority also subjects all designs to reviews by 3rd parties within and without KeNHA in order to minimize cases of cost and time overruns occasioned by costly review of designs.

B) FINANCIAL RISKS

a) Access to Capital

In 2013, the GoK budget allocation for KeNHA was cut by half while there were ongoing projects. This has had a ripple effect, with the Authority having pending bills running into billions of shillings. This challenge is likely to continue unless the Government provides funds to clear the current amount of outstanding bills in its entirety. The Authority has minimized commencement of new GoK funded projects in order to utilize available funds to clear these pending bills. KeNHA is currently working on proposals for partnering with the private sector to develop, operate and maintain key roads in the economy. This alternative source of funding, or Public Private Partnerships (PPPs) will ensure KeNHA continues to enhance the capacity of key roads without the initial significant capital outlay typically required to undertake development.

C) LEGAL RISK

Legal suits against the Authority have on occasion resulted in stoppage or delay on delivery of projects, loss of reputation and incurring of additional expenditure in legal fees. The Authority has been proactively sensitizing the public and project affected persons in order to address issues of potential contention in a timely manner. Additionally, we emphasize and encourage alternative dispute resolution mechanisms in existing contracts. We also undertake Legal Audits, implement recommendations and report on compliance by Authority.

SECTION E

Material arrears in statutory/financial obligations

The Authority has a large stock of pending development bills amounting to Kshs. 22.3 billion. This is made up of payment certificates and fee notes for certified development works and outstanding dues to Project Affected Persons as a result of inadequate GOK Development Budget and delayed release of Exchequer funds. This has led to accumulation of interest on delayed payments and other contractual claims.

SECTION F

The Authority's financial probity and serious governance issues

The Board of Directors takes overall responsibility for establishing systems of internal control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management.

The systems, which have been in place throughout the financial year and up to the date of approval of these financial statements, include the following: -

- The Audit, Risk & Governance Committee of the Board provides oversight over the internal and external audit work and implementation of recommendations contained in audit reports.
- The Risk Management Committee comprising of senior management is responsible for

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

ensuring that controls are in place to identify, evaluate and manage risk.

- Enterprise Risk Management Section documents risks and the responses to them, carry out risk assessments annually and report to the Risk Management Committee and the Audit, Risk & Governance Committee of the Board on how effectively risks have been managed during the year.
- Periodic reviews of performance and quality in road construction and maintenance are carried out by the Quality Assurance Section.
- Internal Audit Section reviews the effectiveness of the financial and operational systems and controls throughout the Authority and reports to the Audit, Risk & Governance Committee.
- External auditors comprising of the Office of the Auditor General, Office of the Internal Auditor General, Kenya Roads Board and Development Partners review the Authority's financial statements and effectiveness of systems of internal controls.

The Authority's systems of internal control and corporate governance arrangements in operation during the year were reviewed based on these institutional arrangements and found to be effective. Our internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives or in the case of financial controls, the risk of material misstatement in our financial statements. Accordingly, they provide reasonable but not absolute assurance against such failure or material misstatement.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KeNHA's Corporate Social Responsibility embodies its commitment to the Authority social mandate of being a responsible corporate citizen, conducting itself ethically, contributing to the well-being of communities, contributing to economic sustainability and instituting environmental safeguards in all our projects.

The Authority endeavours to act ethically, be socially and environmentally responsible while conducting its business. In the concluded fiscal year, our CSR focused on three major areas of Promoting education especially in marginalized areas, providing accesses to social amenities within the vicinity of our projects and responding to the plight of the needy amongst us through charitable donations.

Promoting Education

We at KeNHA believe that a learning environment which is conducive is necessary to produce quality students. To this end, the Authority constructed a classroom 2 ablution facilities and provided 29 desks at Kandutura Primary School in Laikipia County; transforming Mwoki Primary School in Vihiga County to an ultramodern school by upgrading the classrooms, dining hall, ablution units, water points and boundary fence; Construction of 2 classrooms at Chepilat Primary School in Baringo County, Construction of 6 classrooms at Boro Primary in Siaya County and Construction of two classrooms each for Nomad Girls and Funyatta Primary schools in Marsabit County.

Further, the Authority sponsored a needy student Silas Ambata at Kakamega High School. The student had passed the Kenya Certificate of Primary Education but could not afford school fee to continue with his education.

Access to social amenities

In our endeavour to improve quality of life for our people, we constructed access roads to Laikipia West Medical Centre, Prison, Sub County offices, Police Post and Kenya Wildlife Services in Laikipia County, construction of a bus park at Kamukuywa in Kakamega County; and construction of market stalls at Kiminini, Sikhendu and Misikhu, construction of public ablution facilities, lorry park and a police station at Turbi.

Provision of Water and Sanitation

The Authority, through various projects provided water to communities at Masani and Mwoki areas of Vihiga County by constructing a borehole; construction of 2 boreholes and a water pan in

Corporate Social Responsibility Statement (Continued)

Taita Taveta County; several boreholes and water pans in Marsabit County, ablution facilities along Isiolo-Moyale corridor.

Charity Donations

The Authority staff visited and spent time with children and caregivers of Nyumbani Children's Home in Lower Eastern (Kitui County). The Home takes care of the over 1000 children who lost parents to HIV. The home takes care of their grandparents as well. The children range from 5 years to 22 years. Staff donated dry foodstuffs, clothing, story books, toys and other assorted of their own volition, to add onto donations by the Authority.

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the un-audited financial statements for the year ended 30th June, 2017 which show the state of the Authority's affairs.

Principal activities

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

Results

The results of the Authority for the year ended June 30th 2017 are set out on page 1

Directors

Directors of the Board who served during the year are shown on page vi and vii. During the year Dr. Julius Kibiti M' Ndegwa and Mrs. Bibiana A.R. Omalla -Retired on 23rd June 2017 and 25th June 2017 respectively while Dr. Lydia Muriuki was appointed with effect from 29th March 2017.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30th 2017.

By Order of the Board



Eng. Peter M. Mundinia

Director General

Director General and Secretary to the Board

Nairobi

12th 5 September 2017

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations 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, 2017. This responsibility includes:

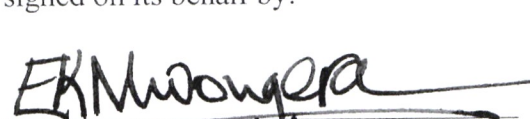
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority;
- (iii) Designing, 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, 2017, 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.

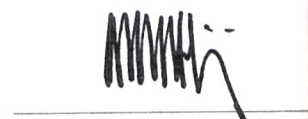
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on **12th September 2017** and signed on its behalf by:


Eng. E.K. Mwongera CBS, FIEK, RCE
Chairman of the Board


CPA. A. C. Mitei
Director


Eng. P.M. Mundinia
Director General

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR GENERAL ON KENYA NATIONAL HIGHWAYS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Highways Authority, set out on pages 1 to 83, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, the statement of cash flows, the statement of changes in net assets and the statement of comparison of budget and actual amount 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, except for the effects matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya National Highways Authority 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 (Accrual Basis) and comply with the Kenya Roads Act, 2007.

In addition, as required by Article 229 (6) of the Constitution, Except for the matters described in the Basis for Qualified Opinion Section of my report, 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 Qualified Opinion

1. Property, Plant and Equipment

1.1 Undetermined value of Rental Property

The Property, Plant and Equipment balance of Kshs.315,677,638,402 as at 30 June 2017 excluded undetermined value of land and houses occupied by staff in South Rift Region from which the Authority earned an income of Kshs.1,076,000.00 during the year under audit. As such, the accuracy and correctness of Property, Plant and Equipment balance of Kshs.315,677,638,402 as at 30 June 2017 could not be confirmed.

Kenya Transport Sector Support Programme IDA Credit No. 4926 Projects

2. Rehabilitation of Kisumu-Kakamega Road Section (Lot1)

As reported in the previous year, 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 period of two years. The project commenced on 5th 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. The project was behind schedule. Review of the progress in the year under audit revealed that Monthly progress report No. 41 of June 2017 shows that the percentage of time elapsed was 115% while the physical works completed were at 64% an indication of slow progress in project implementation.

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

As reported in the previous year, the project was awarded on 10th 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 3rd November, 2014 and a defects liability period of 12 Months. The project was behind schedule. Review of the progress in the year under audit revealed that the Monthly progress report no.32 of June 2017 showed that the percentage of physical works completed was 85% while percentage of time elapsed was 128%, an indication of slow progress in project implementation.

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

As reported in the previous year, 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. The project was behind schedule. Review of the progress in the year under audit revealed that Monthly progress report No. 24 of May 2017 shows that the percentage of time elapsed was 80% while the physical works completed were at 56.5% an indication of slow progress in project implementation.

5. 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 injunction stopping KeNHA from removing equipment from the site. The contractor later formally proposed to the employer a negotiated settlement to the dispute which resulted into a Deed of Settlement and Release. In view of the development, it was not clear when the project would be completed.

Review of the project in the year under audit revealed that a negotiated contract was awarded on 26 August 2016 to M/s Jiangxi Zhongmei Eng to complete the works at a contract sum of Kshs.4,168,686,096.23 for a period of 24 Months ending 30 November, 2018. Progress report no.6 of May 2017 shows that the percentage of time elapsed was 24.56% while the physical works completed were at 7.1% an indication of slow progress in project implementation which may further lead to escalation of project costs.

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

Kenya National Highways Authority (KeNHA) has privatized the management and operations of all overloading control centres also known as weighbridges on major trunk roads. The objective of this 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.

6.1 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 21 June 2012. Request for Proposals (RFP) were issued to the shortlisted firms on 25 July 2012.

6.2 Proposal Response and Evaluations

The firms returned the RFP depending on the cluster for evaluation and as detailed in table below (4.4). 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.

6.3 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 for a period of three (3) years ending 04 February 2016.

6.4 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

6.5 Exhaustion of Contract Sums

It was observed that three (3) year contract period ended on 31 December 2015 and as at the end of contract period, the consultant had 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	34	30,500,000	58,028,748	27,528,748
2.	Gilgil and Mai mahiu cluster plus adjacent road network	Engineer's superintendence	34	25,250,000	62,214,275	36,964,275
3.	Marakani and Mtwapa cluster plus adjacent road network	Engineer's superintendence	33	41,000,000	71,390,898	30,390,898
4.	Athi River, Thika Road and Isinya cluster plus adjacent road network	Management and Operations Engineer's superintendence	31 31	137,005,163 41,000,000	293,064,158 85,056,500	156,058,995 44,056,500
5.	Busia, Isebania and Kisumu cluster plus adjacent road network	Management and Operations Engineer's superintendence	31 31	76,704,263 18,400,000	183,960,109 51,332,138	107,255,846 32,932,138
	Total			369,859,426	805,046,826	435,187,400

In the foregoing, it was not possible to confirm whether the Authority obtained value for money in incurring the above expenditure.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya National Highways Authority 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 qualified 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there were no Key Audit Matters to communicate in my report.

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 (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.

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

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 Authority'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. 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 and weakness 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.

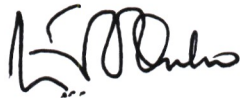
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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 Authority'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 Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.
- 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 Authority to express an opinion on the financial statements.

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

02 July 2018

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017**XII. STATEMENT OF FINANCIAL PERFORMANCE****For the year ended 30 June 2017**

	Note	<u>2016-2017</u>	<u>2015-2016</u>
		Kshs	Kshs
Revenue from non-exchange transactions			
Road maintenance contributions	5	17,645,828,000	9,581,079,900
Fines, penalties and levies	6	570,361,054	511,766,259
Transfer from other Government's -Recurrent Revenue	7	649,619,565	344,426,515
		18,865,808,619	10,437,272,674
Revenue from exchange transactions			
Rental revenue from facilities and equipment	8	1,076,000	1,158,200
Finance income-external investments	9	444,204,301	621,687,889
Other income	10	70,622,629	44,279,895
		515,902,930	667,125,984
Total revenue		19,381,711,549	11,104,398,658
Expenses			
Road Maintenance and Axle Load expenses	11	11,754,089,545	8,397,517,376
Employee costs	12	1,259,945,483	1,029,379,626
Board Expenses	13	71,673,144	47,266,390
Depreciation and amortization expense	14	217,423,614	146,101,463
Repairs and maintenance	15	89,055,490	80,264,627
General expenses	16	383,168,270	301,397,824
Project Administration expenses	7	649,619,565	344,426,515
Finance costs	17	3,169,528	3,228,905
Total expenses		14,428,144,639	10,349,582,726
Other gains/(losses)			
Gain on sale of assets	18	1,256,048	309,894
Provision for doubtful debtors	19	(4,923,265)	(7,715,362)
Loss on foreign exchange transactions	20	(537,001)	(842,017)
Profit on foreign currency translations	21	2,636,784	12,535,487
Surplus for the period		4,951,999,476	759,103,934

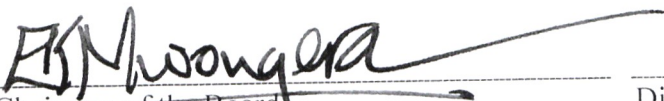


The notes set out on pages 9 to 30 form an integral part of the Financial Statements

KENYA NATIONAL HIGHWAYS AUTHORITY
Financial Statements for the year ended 30th June 2017

XII.STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	<u>2016-2017</u>	<u>2015-2016</u>
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	22	11,732,046,105	10,394,535,104
Receivables from non- exchange transactions	23	18,430,754,231	8,244,431,278
Receivables from exchange transactions	24	9,853,873,353	4,273,565,805
Inventories	25	4,953,919	4,876,822
Total current assets		40,021,627,608	22,917,409,009
Non-current assets			
Property, plant and equipment	26	315,677,638,402	265,512,943,091
Intangible assets	27	115,470,661	94,607,318
Total non-current assets		315,793,109,063	265,607,550,409
Total Assets		355,814,736,671	288,524,959,418
Liabilities			
Current liabilities			
Trade other payables from exchange transactions	28	26,550,595,252	25,494,924,103
Refundable deposits from customers	29	67,210,651	117,245,106
Provisions	30	7,823,340	12,103,191
Total liabilities		26,625,629,243	25,624,272,400
Net assets		329,189,107,428	262,900,687,018
Reserves		319,397,689,980	258,061,269,046
Accumulated Surplus		9,791,417,448	4,839,417,972
Total Net assets and Liabilities		355,814,736,671	288,524,959,418

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

		
Chairman of the Board	Director General	Director - Corporate Services
Eng. Erastus K. Mwangera, CBS, FIEK, RCE	Eng. Peter M. Mundinia	CPA James K. Bowen
Date : 12 th Sep.....2017	Date : 12 th Sep.....2017	ICPAK No. 7842 Date : 12 th Sep.....2017

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017**XIII.STATEMENT OF CHANGES IN NET ASSETS****For the year ended 30 June 2017**

	Accumulated Surplus	Reserves Grants	Total
	Kshs.	Kshs.	Kshs.
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 from 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
Surplus for the period	4,951,999,476	-	4,951,999,476
Government Grants	-	61,336,420,934	61,336,420,934
Transfers to Accumulated Surplus	-	-	-
Balance as at 30th June 2017	9,791,417,448	319,397,689,980	329,189,107,428

KENYA NATIONAL HIGHWAYS AUTHORITY
 Reports and Financial Statements
 For the year ended 30th June 2017

XIV.STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

	<i>Note</i>	Current Year Kshs.	Actual Audited Prior Year Kshs.
Cash and cash equivalents at the beginning of the year	22	10,394,535,104	8,725,500,883
Cash flows from operating activities			
Receipts			
Road maintenance contributions	5	17,645,828,000	9,581,079,900
Fines, penalties and levies	6	570,361,054	511,766,259
Transfers from other governments—recurrent expenditure	7	649,619,565	344,426,515
Rental revenue	8	1,076,000	1,158,200
Other gains	19-21	(1,179,096)	11,693,470
Other income	10	70,622,629	44,279,895
		18,936,328,152	10,494,404,239
Payments			
Road Maintenance and Axle Load expenses	11	11,754,089,545	8,397,517,376
Employees Costs	12	1,259,945,483	1,029,379,626
Board Expenses	13	71,673,144	47,266,390
Repairs & Maintenance	15	89,055,490	80,264,627
General Expenses	16	383,168,270	301,397,824
Transfers from other governments – recurrent expenditure	7	649,619,565	344,426,515
Finance cost	17	3,169,528	3,228,905
Provision for doubtful debts	19	4,923,265	7,715,362
Net cash flows from operating activities		14,210,721,025	10,211,196,625
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(50,403,370,606)	(50,613,814,469)
Proceeds from sale of property plant and equipment			2,094,398
(Increase)/ Decrease in trade payables		1,005,636,694	6,673,683,001
(Decrease)/increase in exchange receivables		(5,580,307,548)	(2,384,934,675)
(Decrease)/increase in non-exchange receivables		(10,186,322,953)	4,630,753,440
Decrease/(increase) in inventory		(77,097)	(272,593)
Decrease/(increase) in payments received in advance		(4,279,851)	(263,970)
Net cash flows used in investing activities		(65,168,723,361)	(41,692,754,868)

KENYA NATIONAL HIGHWAYS AUTHORITY

Reports and Financial Statements

For the year ended 30th June 2017

	<i>Note</i>	Current Year Kshs.	Actual Audited Prior Year Kshs.
Cash flows from financing activities			
Proceeds from borrowings		61,336,420,934	42,456,893,586
Interest Income		444,204,301	621,687,889
Net cash flows used in financing activities		61,780,625,235	43,078,581,475
Net increase/(decrease) in cash and cash equivalents		1,337,511,001	1,669,034,221
Cash and cash equivalents at end of the year	22	11,732,046,105	10,394,535,104

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above Statement of Cash Flows is prepared using the direct method.)

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2016-2017		2016-2017		2016-2017		2016-2017		2016-2017	
	Kshs		Kshs		Kshs		Kshs		Kshs	
Revenue										
Road maintenance contributions	9,458,048,344	11,291,533,761	20,749,582,105	17,645,828,000	(3,103,754,105)	<i>a</i>				
Fines, penalties and levies	431,000,000	(70,500,000)	360,500,000	570,361,054	209,861,054	<i>b</i>				
Government grants	649,619,565	-	649,619,565	649,619,565	-					
Rental revenue from facilities	1,200,000	-	1,200,000	1,076,000	(124,000)					
Finance Income	350,000,000	(162,000,000)	188,000,000	444,204,301	256,204,301	<i>c</i>				
Other Income	1,950,000	1,350,000	3,300,000	70,622,629	67,322,629	<i>d</i>				
Total income	10,891,817,909	11,060,383,761	21,952,201,670	19,381,711,549	(2,570,490,121)					
Expenses										
Road maintenance and Axle load	8,309,566,312	10,115,422,169	18,424,988,481	11,754,089,545	6,670,898,936	<i>e</i>				
Compensation of employees	1,313,929,720	748,439,432	2,062,369,152	1,259,945,483	802,423,669	<i>f</i>				
Finance cost	3,861,212	(13,000)	3,848,212	3,169,528	678,684	<i>g</i>				
Board expenses	60,568,245	23,299,999	83,868,244	71,673,144	12,195,100	<i>h</i>				
Repairs and renewals	103,425,533	19,081,055	122,506,588	89,055,490	33,451,098	<i>i</i>				
Depreciation	-	-	-	217,423,614	(217,423,614)	<i>j</i>				
General Expenses	367,380,842	104,216,018	471,596,860	383,168,270	88,428,590					
Government grants	649,619,565	-	649,619,565	649,619,565	-					
Capital Expenditure	83,466,480	49,938,088	133,404,568	-	133,404,568					
Gain on disposal of asset	-	-	-	(1,256,048)	1,256,048	<i>k</i>				
Provision for doubtful debts	-	-	-	4,923,265	(4,923,265)					
Loss on foreign exchange	-	-	-	537,001	(537,001)	<i>l</i>				
Gain on foreign currency translation	-	-	-	(2,636,784)	2,636,784	<i>m</i>				
Total expenditure	10,891,817,909	11,060,383,761	21,952,201,670	14,429,712,073	7,522,489,597					
Surplus / (Deficit) for the period	-	-	-	4,951,999,476	-					

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

NOTES ON MATERIAL VARIANCES BETWEEN BUDGETED & ACTUAL AMOUNTS.

Budget notes

- 1. Provide explanation of differences between actual and budgeted amounts (10% over/under) IPSAS 24.14*
- 2. Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. (IPSAS 24.29)*
- 3. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis; statement of financial performance is accrual) provide a reconciliation.*

a) Road Maintenance Contributions

The variance was due to the fact the budgeted amounts included carryover funds from FY 2015/2016 which had already been realised as income in that year.

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. There was increased sensitization on the transporters on the need to acquire the necessary exemption permits. The on-going installation of fibre optic, underground power transmission lines, sewer lines, pipelines, access roads 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 despite the interest rate capping.

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 and other store items.

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 2017/2018. These are the performance based contracts that are multi- year.

f) Compensation of Employees

The budgeted amounts included an amount for new staff salaries under the new structure following the re-categorization of the Authority to PC7A1. These included salary arrears. The approval process had not been completed by 30.06.2017 thus the slight below budget performance.

g) Board Expenses

Board activities took place within the financial year as planned. However, overseas travel and training 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. The Authority strived to keep the costs to minimum by entering into framework contracts.

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

NOTES ON MATERIAL VARIANCES BETWEEN BUDGETED & ACTUAL AMOUNTS.(Continued)

i) Depreciation

The Authority's budget is cash based as it is substantially funded by the Government of Kenya and the Roads maintenance Levy Fund. The depreciation charge is a non-cash item not usually budgeted for.

j) General Expenses

The Authority strived to keep the costs to minimum by entering into framework contracts.

k) Provision for doubtful debts

This was a specific provision for funds invested in Chase Bank that was put under receivership in April, 2016.

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) Gain on foreign currency translations

The gain was as a result of the closing rate used for translation of bank balances at the reporting date.

n) Changes between Original and Final budget.

The changes between original and final budget was as a result of revision of the budget with enhanced ceilings on road maintenance contributions and approved carry over budget from Financial Year 2015-2016

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Authority is established by and derives its authority and accountability from Kenya Roads Act, 2007. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is the management, development, rehabilitation and maintenance of national roads

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. 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.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30th June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. <i>The Authority adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</i></p>
IPSAS 34: Separate Financial Statements	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34; Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. <i>The Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply</i></p>
IPSAS 35: Consolidated Financial Statements	<p>Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p>

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Impact
	<p>-Its power over the other entity -Its exposure or rights to variable benefits from involvement with the other entity -Its ability to control the nature, timing and amount of benefits from the other entity.</p> <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35. <i>The Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. <i>The Authority does not have investments in associates or joint ventures/ the entity holds investments in associates and joint ventures and the following is the impact of application of the new standard IPSAS 36:</i></p>
<p>IPSAS 37: Joint Arrangements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. <i>The Authority does not have an interest in a joint arrangement and therefore the standard does not apply.</i></p>
<p>IPSAS 38: Disclosure of Interests in Other Entities</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. <i>The Authority does not have an interest in other entities and therefore the standard does not apply.</i></p>

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
<p>IPSAS 39: Employee Benefits</p>	<p>Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the</p>

Standard	Effective date and impact:
	defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non- exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

4. 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 is 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: -

(i) Computer Equipment & Accessories	33.3%
(j) ICT Infrastructure and Telephony	33.3%
(ii) Motor Vehicles	25.0%
(iii) Office Equipment and Furniture	12.5%
(iv) Office Partitioning and fixtures	16.7%
(v) Plant & Machinery	10.0%
(vi) 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.
- There are no restrictions on property, plant and equipment
- Contractual commitments for the acquisition of property, plant & equipment in the FY 2016/2017 amounted to Kshs.82,664,568,739
- There was no compensation from third parties for impaired, lost or given up items of PPE
- Assets that cost Kshs.372m and Kshs. 248m were fully depreciated as at 30.06.2017 and 30.06.2016 respectively

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:

	<u>2017</u>	<u>2016</u>
	<u>Kshs</u>	<u>Kshs</u>
Not Later than one year	60,929,903	67,766,677
Later than one year and not later than three years	111,338,776	133,441,625
	<u>172,268,679</u>	<u>201,208,302</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Authority leased head office premises under two operating lease. The leases typically run 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 are the undiscounted cash flows on the Authority's financial assets and liabilities on the earliest possible contractual/maturity date. The liquidity ratio is 1.06 (FY 2015/2016: 0.90)

	Note	2016-2017 Kshs	2015-2016 Kshs
Financial Assets			
Cash and cash equivalents	22	11,732,046,105	10,394,535,104
Receivables from non- exchange transactions	23	18,430,754,231	8,244,431,278
Receivables from exchange transactions	24	9,853,873,353	4,316,998,177
Total financial assets		28,284,627,584	22,955,964,559
Financial Liabilities			
Trade other payables from exchange transactions	28	26,550,595,252	25,494,924,103
Refundable deposits from customers	29	67,210,651	117,245,106
Total financial liabilities		26,617,805,903	25,612,169,209
NET LIQUIDITY		1,666,821,681	-2,656,204,650
LIQUIDITY RATIO		1.06	0.90

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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, analysing 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 are 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 Risk & Governance Committee', legal function, legal risk policies and procedures and the effective use of internal controls and external lawyers.

f) 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.

g) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that 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.

h) 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.

The exchequer and Development partner funds are capitalized in the statement of financial position whereas Road maintenance contributions are expensed in the statement of financial performance. However, the portion of exchequer funds spent on non-capital items or project expenses is transferred to recurrent transfers and treated as recurrent government grants and expenditures accordingly.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) Comparative figures

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

o) 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.

p) 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, 2017.

q) Capital Commitments

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

5. Road maintenance contributions

	2017	2016
	Kshs	Kshs
Road Maintenance Funds	15,186,600,000	8,214,076,709
Administration & Operations Fund	2,000,000,000	912,675,190
Transit Tolls	459,228,000	454,328,001
Total maintenance contributions	17,645,828,000	9,581,079,900

6. Fines, penalties and levies

	2017	2016
	Kshs	Kshs
Overload Penalties	273,672,710	203,676,600
Transgression fees	19,629,587	39,628,372
Parking fees	42,183,220	43,849,013
Exemption permit fees	191,202,930	175,569,084
Road cutting fees	35,518,643	47,166,365
Road reserve user fees	6,499,027	1,160,700
Sale of tender documents	1,654,937	716,125
Total	570,361,054	511,766,259

7. Transfer from other Government's-Recurrent Revenue/Project Administration Expenses

	2017	2016
	Kshs	Kshs
Northern Corridor Transport Improvement Project	4,230,936	36,547,135
Consultancy & Design	5,925,799	29,162,736

Transfer from other Government's-Recurrent Revenue/Project Administration Expenses

	2017	2016
	Kshs	Kshs
Road Reserves Mapping	19,196,366	-
Road Network Management Systems	26,628,707	16,912,445
Monitoring & Evaluation	28,544,335	19,373,806
Mombasa-Mariakani	9,097,370	16,484,126
Muranga-Sagana	321,986,587	-
Kibwezi-Kitui-Isiolo	12,914,379	-
Mwatate-Taveta	7,367,213	25,835,639
Mukuyu-Kisii-Ahero	19,000,085	10,016,619
Garsen-Witu-Lamu	10,240,458	-
Kenya Transport Sector Support Project	35,784,552	28,933,074
South Sudan-EARTTDF/SS	17,947,422	22,682,776
Nairobi Urban Transport Improvement Project	23,077,071	46,510,822
Other Gok Development Projects	107,678,285	91,967,337

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Total government grants and subsidies

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount recognised in capital fund.	2015-2016	
			Total received grants during the year Kshs.	Kshs.
MOTIH&UD	649,619,565	25,096,278,161	25,745,897,726	23,154,650,227
KRB	17,645,828,000	3,231,000,000	20,876,828,000	12,393,680,412
Total	18,295,447,565	28,327,278,161	46,622,725,726	35,548,330,639

(Ensure that the amount recorded above as having been received from the Ministry fully reconciles to the amount recorded by the sending entity Ministry. An acknowledgement note/receipt should be raised in favour of the sending Ministry. The details of the reconciliation have been included under appendix 2)

8. Rental revenue from facilities and equipment

	2017 Kshs	2016 Kshs
Rental income	1,076,000	1,158,200
Total rentals revenue	1,076,000	1,158,200

*This rental revenue was generated by houses in South Rift region that were built as resident engineer's premises through bill 1 of the road construction contract. The value of land alongside the development expenditures met by the Government over the years were not made available to the Authority.

9. Finance income-external investments

	2017 Kshs	2016 Kshs
Call deposits	282,024,758	423,362,769
Bank account interest	162,179,543	198,325,120
Total finance income-external investments	444,204,301	621,687,889

10. Other income

	2017 Kshs	2016 Kshs
Interest on salary advances	46,481	30,791
Quarry use by SGR	21,051,514	-
Sale of disposable items	1,811,087	3,562,215
Payment in Lieu of notice	-	138,615

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Liquidated Damages	47,713,547	40,548,274
Total other income	70,622,629	44,279,895

11. Road maintenance and axle load expenses

	2017 Kshs	2016 Kshs
Road maintenance works	10,254,587,294	7,461,005,189
Emergency road works	594,017,257	316,196,400
Weighbridges management contract	885,423,644	608,104,816
Weighbridge operational expenses	20,061,350	12,210,971
Total road maintenance and axle load expenses	11,754,089,545	8,397,517,376

12. Employee costs

	2017 Kshs	2016 Kshs
Salaries & allowances	1,012,926,305	813,648,622
Pension & gratuity	59,228,057	50,299,768
Training & subscription	74,343,656	55,563,377
Welfare	24,299,123	22,739,272
Staff medical & group life insurance	83,477,977	81,475,611
Recruitment	5,670,365	5,497,980
Staff mobile phone handsets	-	154,996
Total employee costs	1,259,945,483	1,029,379,626

13. Board expenses

	2017 Kshs	2016 Kshs
Salaries & allowances	14,611,275	13,433,067
Honoraria & telephone	1,044,000	1,044,000
Lunch allowance	570,000	742,950
Transport, travelling & accommodation	27,476,720	14,829,435
Insurance	375,754	21,513
Training	9,360,035	3,235,595
Refreshments	460,436	682,450
Induction	90,820	480,000
Ministerial & other official functions	16,463,967	12,070,391
Gratuity	1,220,137	726,989
Total board expenses	71,673,144	47,266,390

14. Depreciation and amortization expense

	2017	2016
	Kshs	Kshs
Property, plant and equipment	217,423,614	146,101,463
Total depreciation and amortization	217,423,614	146,101,463

15. Repairs and maintenance

	2017	2016
	Kshs	Kshs
Repairs property, plant and equipment	2,757,648	2,209,082
Vehicles	74,743,180	69,934,322
Renewals	11,554,662	8,121,223
Total repairs and maintenance	89,055,490	80,264,627

16. General expenses

The following are included in general expenses:

	2017	2016
	Kshs	Kshs
Postage & courier services	1,411,649	1,174,336
Reference material	124,180	476,652
Telephone & Wide Area Network connectivity	15,030,585	15,534,528
Newspapers & magazines	2,893,230	2,661,350
Drinking water	1,272,826	1,190,719
Printing & photocopy	1,013,019	841,316
Hire of transport	3,382,559	562,058
Kitchen utensils	179,850	150,939
General insurance	987,016	510,904
Stationery & consumables	17,810,248	16,229,876
Cleaning & sanitation	8,657,917	7,315,770
Security expenses	30,597,261	28,008,707
Professional fees	46,515,524	41,474,570
Conference & seminars	39,754,222	19,242,929
Advertising, Publicity & Corporate Social Responsibility	28,243,128	23,713,555
Anti-Corruption & Integrity Issues	4,536,975	5,638,393
Staff Uniforms	537,624	1,587,200
Field activities	90,326,123	64,415,864
Utilities	2,710,637	2,901,481
Rent	87,183,697	67,766,677
Total general expenses	383,168,270	301,397,824

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Finance costs

	2017 Kshs	2016 Kshs
Bank Charges	3,169,528	3,228,905
Total finance costs	3,169,528	3,228,905

18. Gain on sale of assets

	2017 Kshs	2016 Kshs
Property, plant and equipment	1,256,048	309,894
Total gain on sale of assets	1,256,048	309,894

19. Provision for doubtful debtors

	2017 Kshs	2016 Kshs
Provision for doubtful debtors	4,923,265	7,715,362
Total provision for doubtful debtors	4,923,265	7,715,362

20. Loss on foreign exchange transactions

	2017 Kshs	2016 Kshs
loss on foreign exchange transactions	537,001	842,017
Total loss on foreign exchange transactions	537,001	842,017

21. Profit on foreign currency translation

	2017 Kshs	2016 Kshs
Profit on foreign currency translation	2,636,784	12,535,487
Total Profit on foreign currency translation	2,636,784	12,535,487

22. Cash and cash equivalents

	2017 Kshs	2016 Kshs
Cash-on-hand	816,043	1,001,458
NIC Bank -NCTIP A/C	52,232,754	3,258,418
NIC Bank -EATTFP A/C	10,002,087	9,729,706
NIC Bank -Timboroa-Eldoret Road A/C	15,467,159	15,045,951
NIC Bank -KTSSP A/C	181,286,941	165,060,841
NIC Bank -Marsabit- Turbi Road A/C	4,015,130	2,491,412
NIC Bank -USD A/C	76,339,406	73,304,464
Co-operative Bank-GoK	1,696,141,995	4,333,064,346

KENYA NATIONAL HIGHWAYS AUTHORITY

 Report and Financial Statements for the year ended 30th June 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Cash and cash equivalents	Account Number	2017 Kshs	2016 Kshs
Co-operative Bank-RMLF	01141160979901	3,472,108,045	672,419,466
National Bank – Salaries A/C	01001-326625	180,604,263	20,300,465
National Bank – Gratuity A/C	01001-327333	255,065,923	620,966,046
National Bank – Retention A/C	01001-327332	1,130,440,111	86,733,631
National Bank – EARTTDFT- A/C	01001032662501	91,396,999	96,225,092
Kenya Commercial Bank-Operations A/C	1110623704	867,388,446	161,574,260
Kenya Commercial Bank-NUTRIP A/C	1138238945	127,180,742	160,798,396
Kenya Commercial Bank-Nairobi Region	1114840149	12,700,316	14,482,425
Kenya Commercial Bank-Coast Region	1114772089	5,652,857	4,436,324
Kenya Commercial Bank-South rift Region	1114781592	2,002,226	1,554,003
Kenya Commercial Bank-North Eastern Region	1114751928	5,796,208	2,457,664
Kenya Commercial Bank- North rift Region	1114793272	4,870,054	4,358,561
Kenya Commercial Bank-Central Region	1114745707	2,146,485	3,453,035
Kenya Commercial Bank-Upper Eastern Region	1114752045	6,651,560	2,622,589
Kenya Commercial Bank- Lower Eastern Region	1114756326	6,440,639	6,389,453
Kenya Commercial Bank-Nyanza Region	1114756229	4,008,254	1,523,617
Kenya Commercial Bank-Western Region	1114774405	6,459,662	1,219,382
Equity Bank-Headquarters A/C	0810295139897	463,665,381	83,857,710
Equity Bank-Nairobi Region	0810295139932	82,329,179	60,816,395
Equity Bank-Coast Region	0810295139911	19,736,171	42,030,161
Equity Bank-South rift Region	0810295140000	14,485,345	9,064,700
Equity Bank-North Eastern Region	0810295139966	1,065	1,709,818
Equity Bank- North rift Region	0810295139943	2,070,639	3,258,969
Equity Bank-Central Region	0810295140010	12,453,218	10,257,098
Equity Bank-Upper Eastern Region	0810295139991	1,132,473	668,234
Equity Bank- Lower Eastern Region	0810295139954	3,924,330	4,642,220
Equity Bank-Nyanza Region	0810295140022	14,840,868	13,308,513
Equity Bank-Western Region	0810295139924	193,131	450,281
Cash on hand & at Bank		8,832,046,105	6,694,535,104
Short-term deposits			
Co-operative Bank	01150160979902	1,000,000,000	2,000,000,000
Kenya Commercial Bank	1134650795	1,000,000,000	-
National Bank	01329032733212	300,000,000	500,000,000
Housing Finance	13293834020	-	300,000,000
Chase Bank*	0053061735030	100,000,000	100,000,000
Commercial Bank of Africa	703148	-	300,000,000
NIC Bank	- 1003680278	500,000,000	500,000,000
Total Short-term deposits		2,900,000,000	3,700,000,000
Total cash and cash equivalents		11,732,046,105	10,394,535,104

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

* The Authority had placed a call deposit of Kshs. 100 Million in Chase Bank on 23rd February 2016. The Bank was placed under receivership on 07.04.2016. Whereas 5% provision for doubtful debts was made on the principal sum of Kshs. 100 million, a full provision for doubtful debts for Interest earned up-to date of placement in receivership amounting Kshs. 1,983,606.55 has been made.

23. Receivables from non-exchange transactions

	2017 Kshs	2016 Kshs
Current receivables		
Voi – Mwatate-Wundanyi	57,854,996	96,683,286
Loruk-Barpelo	21,030,044	117,270,758
KCC (Sotik) - Ndanai-Gorgor	35,163,401	70,783,707
Webuye - Malaba	430,916	286,208,076
Chiakariga - Mitunguu-Meru	211,169,566	257,360,554
Chebilat - Ikonge-Chabera	310,975,844	-
Kangema - Gacharage	212,048,450	345,093,827
Chepterit – Baraton - Kimondi	-	3,608,299
Timboroa-Eldoret	-	43,997,268
Kaloleni-Kilifi	-	75,378,395
Webuye-Kitale	-	70,336,955
Turbi-Moyale	-	65,132,288
Chebilat-Ikonge-Chabera	-	310,975,844
One-Stop Border Post –Malaba	17,669	22,388,144
One-Stop Border Post –Busia	-	1,249,900
One-Stop Border Post –Lunga-Lunga	-	6,365,126
Rehabilitation of Kisumu-Kakamega	248,999,290	112,251,462
Kakamega-Webuye	246,456,506	-
Rehabilitation of Ndhiwa Karungu	14,437,646	92,640,554
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
Rumuruti - Maralal	-	139,781,906
Siaya-Ruambwa C29	-	120,164,315
Masara – Suna - Kehancha/Awendo Mariwa	4,674,632	36,674,633
Mombasa Port Area Devt Road	1,691,120,182	2,320,392,660
Marsabit-Turbi	11,656	13,157,383
Oljoro – Orok - Dundori	1,229,960	135,277,427
Merille - Marsabit A2	187,748,178	893,521,035
Office Complex	361,510,481	-
Kisumu Boys-Mamboleo	292,540,905	-

Receivables from non-exchange transactions

	2017	2016
Mwatate –Taveta	3,816,695	533,333,288
Bachuma Gate –Maji ya Chumvi	82,932,843	391,652,777

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Construction of three interchanges on A104	112,656,620	259,150,803
Athi River Weighbridge	-	101,408,899
Mariakani Weighbridge	-	143,998,184
Garissa-Isiolo(Turbi-Moyale)	-	35,053,945
Bomas Karen Kikuyu	56,000,000	58,000,000
Nuno-Modogashe	595,788,527	595,788,527
Morpus Junction Marich Pass	18,196,898	-
Kitale- Morpus	19,824,298	-
Marich Pass- Kainuk	93,481,528	-
Kaleminjorok-Lokichar	48,388,826	-
Lokichar-Amosing	62,130,971	-
Mombasa-Mariakani Dualling	852,698,178	45,713,982
Narok-Sekenani	219,433,413	-
Kainuk bridge & Approach Roads	230,846,051	-
Garsen-Witu-Lamu	891,000,000	-
Nyaru-Iten	197,000,000	-
Busia-Malaba	96,136,027	-
Isebania-Kisii-Ahero	3,803,907,258	-
Lodwar-Lakitaung	1,315,471,948	-
Kericho-Ahero-Interchange	1,770,574,807	-
Athi River -Machakos Turn Off	793,282,381	-
Loichangamatak-Lodwar	949,955,247	-
Lokitaung-Kalobeiyei	1,093,287,914	-
Kalobeiyei-Nadapal	1,089,821,274	-
James Gichuru-Rironi	49,734,261	-
Port Reitz/Moi International Airport Access Road	79,232,165	423,643,954
Total receivables from non-exchange transactions	18,430,754,231	8,244,431,278

24. Receivables from exchange transactions

Current receivables

	2017	2016
	Kshs	Kshs
Interest receivable on call deposits	31,725,018	27,793,155
Travel imprest	11,497,110	2,916,302
Bank guarantee and deposits	8,965,300	9,040,976
Advertising receivables	255,596,852	279,511,975
Road maintenance funds	3,703,684,470	3,421,250,968
Weighbridge Receivables	-	1,534,700
Staff mortgage deposit fund with Housing Finance Co.	516,263,734	355,579,957
Debtors & Prepayments	24,904,689	20,482,586
Receivable from Sapon Insurance Brokers	500,000	500,000
Receivable from MOTIH & UD	5,600,948,873	450,244,614
Current receivables	10,154,086,046	4,568,855,233
<i>Less: Provision for doubtful debtors</i>	<i>(300,212,693)</i>	<i>(295,289,428)</i>
Total Current receivables from exchange transactions	<u>9,853,873,353</u>	<u>4,273,565,805</u>

KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Inventories

	2017	2016
	Kshs	
Stationaries and Consumable stores	4,924,760	4,876,822
Fuel supplies	29,159	-
Total inventories at the lower of cost and current replacement cost	4,953,919	4,876,822

KENYA NATIONAL HIGHWAYS AUTHORITY

Financial Statements for the year ended 30th June 2017

Notes to the Financial Statements (Continued)

26. Property, plant and equipment

Work -in-progress

Cost	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	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
At 1 July 2015	214,163,418,138	33,451,586	67,693,866	874,400	165,575,316	56,345,695	48,996,736	162,625,533	642,523,808	40,515,322	215,381,146,000									215,381,146,000
Additions	50,239,679,371	57,647,061	874,400		13,548,395	13,548,395	2,137,971	210,587,689	122,172,445	-	50,646,647,332									50,646,647,332
Disposals		(628,278)			(5,630,322)	(18,496)	(1,161,180)	(3,150,000)			(10,588,276)									(10,588,276)
Transfers/adjustments					(3,269,710)						(3,269,710)									(3,269,710)
As at 30 June 2016	264,403,097,509	90,470,369	68,568,266	874,400	156,675,284	69,875,594	49,973,527	370,063,222	764,696,253	40,515,322	266,013,935,346									266,013,935,346
Additions	50,348,915,049	4,108,230	744,865		11,582,556	14,219,263	2,937,300	-	-	-	50,382,507,263									50,382,507,263
Disposals		(303,171)			(1,359,502)		(926,782)	(7,199,000)			(9,788,455)									(9,788,455)
Transfer/adjustments																				
As at 30 June 2017	314,752,012,558	94,275,428	69,313,131	874,400	166,898,338	84,094,857	51,984,045	362,864,222	764,696,253	40,515,322	316,386,654,154									316,386,654,154
Depreciation and impairment																				
As at 1 July 2016	-	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									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									146,101,463
Disposal		(265,071)			(5,584,979)	(18,498)	(1,081,184)	(2,123,750)			(9,073,482)									(9,073,482)
Transfer/adjustment																				
As at 30 June 2016		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									500,992,255
Depreciation		12,167,162	4,141,590		26,388,606	15,606,381	10,092,145	71,203,592	76,607,088	1,217,050	217,423,614									217,423,614
Disposals		(228,065)			(1,232,266)		(740,786)	(7,199,000)			(9,400,117)									(9,400,117)
Transfer/adjustment																				
As at 30 June 2017		37,778,910	58,998,697		145,981,950	67,664,782	36,777,092	238,090,809	119,628,888	4,094,624	709,015,752									709,015,752
Net book values																				
As at 30 June 2017	314,752,012,558	56,496,518	10,314,434		20,916,388	16,430,075	15,206,953	124,773,413	645,067,365	36,420,698	315,677,638,402									315,677,638,402
As at 30 June 2016	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									265,512,943,091

KENYA NATIONAL HIGHWAYS AUTHORITY
 Financial Statements for the year ended 30th June 2017
 Notes to the Financial Statements (Continued)

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

	2017 Kshs	2016 Kshs
GoK Payments		
Other GoK Development Projects	18,467,920,044	18,984,708,937
Northern Corridor Transport Improvt. Project	1,033,769,235	5,505,774,887
Nairobi - Thika highway development project	105,569,080	-
Nairobi Southern by pass	1,199,617,136	4,807,591,508
Kenya Transport Sector Support Project	1,584,996,725	588,125,091
Nairobi Urban Transport Improvement Project	61,377,507	117,180,074
East African Trade & Transport Facilitation Project	852,781,904	435,876,019
Mombasa Southern bypass	2,181,463,069	-
South Sudan EARTTDFP	28,800	129,150
Total expenditure including pending bills	25,487,523,500	30,439,385,666
Foreign Direct Payments		
Northern Corridor Transport Improvt. Project	-	47,954,161
Nairobi-Thika highway development Project	49,000	-
Other development projects	12,150,082,386	13,182,334,310
Nairobi Southern by-pass	1,464,208,648	1,461,982,470
East African Trade & Transport Facilitation Project	106,133,377	691,421,800
Nairobi Urban Transport Improvement Project	64,523,861	-
Mombasa Southern by pass	3,558,134,447	1,192,356,978
Kenya Transport Sector Support Project	7,518,259,830	3,224,243,986
Total Foreign Direct Payments	24,861,391,549	19,800,293,705
Grand total	50,348,915,049	50,239,679,371
27. Intangible assets-software		
Cost	2017 Kshs	2016 Kshs
At the beginning of the year	94,607,318	74,958,545
Additions		
Installation of fleet management system	3,092,560	725,000
Sage evolution Implementation	90,625	1,631,633
Office 365 software	17,680,158	17,292,140
Total additions	20,863,343	19,648,773
At end of the year	115,470,661	94,607,318
Amortization and impairment		
At the beginning of the year	-	-
Amortization	-	-
At the beginning of the year	-	-
Impairment loss	-	-
At end of the year	-	-
Net Book Value	115,470,661	94,607,318

KENYA NATIONAL HIGHWAYS AUTHORITY
 Financial Statements for the year ended 30th June 2017
 Notes to the Financial Statements (Continued)

28. Trade and other payables from exchange transactions

	2017	2016
	Kshs	Kshs
Retention monies	3,531,273,717	3,312,485,075
Road maintenance contractors	452,429,128	161,946,829
Sundry creditors	282,140,052	91,246,591
Development Projects	22,284,752,355	21,929,245,608
Total trade and other payables	26,550,595,252	25,494,924,103

29. Refundable deposits from customers

	2017	2016
	Kshs	Kshs
Road cutting deposits	67,210,651	117,245,106
Total deposits	67,210,651	117,245,106

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.

30. Current provisions

	Gratuity	Audit fees	Total
	Kshs	Kshs	Kshs
Balance at the beginning of the year	6,103,191	6,000,000	12,103,191
Utilized during the year	(5,499,988)	(3,000,000)	(8,499,988)
Additional provisions raised	1,220,137	3,000,000	4,220,137
Balance as at 30 June 2017	1,823,340	6,000,000	7,823,340

31. Related party disclosures

	2017	2016
	Kshs	Kshs
Receivables from Kenya Roads Board (note 24)	3,703,684,470	3,421,250,968
Receivables from MOTIH & UD (note 24)	5,600,948,873	450,244,614

Transactions with related parties

i) Kenya Roads Board	20,594,394,497	10,300,358,484
ii) MOTIH & UD	22,116,635,128	22,764,345,014
iii) Key Management Compensation	195,967,536	185,991,610

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

32. Contingencies

It is estimated that the Authority has contingent liabilities amounting to approximately KShs. 10,204,246,405 [FY 2015/2016: Ksh. 15,314,755,818.57] arising 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.

KENYA NATIONAL HIGHWAYS AUTHORITY
Financial Statements for the year ended 30th June 2017
Notes to the Financial Statements (Continued)

33.Surplus for the period

The surplus for the period of Kshs.4,951,999,476 [*FY 2015/2016 :Kshs.759,103,934*] is arrived after charging expenses from the revenues of the Authority as stated in the Statement of Financial Performance.

34.Transfers to Accumulated Surplus

The transfers to accumulated surplus in FY 2015/2016 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 Kshs.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.

35.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.

No.	Item	Response	Way	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Financial position</p> <p>FY 2012/13</p> <p>The statement of Financial Position as at 30 June 2013 reflects total current liabilities of Kshs. 16,636,605,979 which exceed current assets of Kshs. 12,773,477,648 resulting to a negative working capital of Kshs. 3,863,128,331 (2012 negative 1,211,714,054)</p> <p>The Board may face problems in settling its financial obligations as and when they fall due</p>	<p>We agree with the auditor's observation that the Authority reported a negative working capital of Kshs. 3,863,128,331 in its financial statements as at 30th June, 2013. As explained during the audit and in our earlier response, this situation was occasioned by the inadequate budgetary provision for development works in the financial year 2012/2013. This meant the Exchequer streams could not match contractors' and consultants' claims hence the pending bills as at 30th June, 2013 which resulted to the negative working</p>	<p>General Manager (Planning & Environment)</p>	<p>Resolved</p> <p>The Authority in FY 2016/2017 reported a positive working capital of Kshs. 1.34 billion as a result of enhancement of RMLF arising from the increment of fuel levy per litre of fuel.</p> <p>This matter had earlier been discussed by the Parliamentary Investment Committee (PIC) which noted that this a problem that affects all public bodies including the National Assembly that rely on Exchequer funds to finance their development plans.</p>	<p>Under management.</p> <p>The Annuity financing and Public Partnership frameworks are at infancy stage of implementation. This is expected to reverse the situation in due course as new projects will be undertaken through these frameworks.</p>

KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

	<p>FY 2013/14 The Statement of financial position as at 30 June 2014 reflects current liabilities of Kshs. 30,143,953,538 which exceed current assets of Kshs. 17,702,422,491 resulting to negative working capital of Kshs. 12,441,531,047 (2013-negative Kshs. 3,863,123,331).</p> <p>In the circumstances, the Authority is technically insolvent and may face difficulties in settling financial obligations as and when the same fall</p>	<p>capital.</p> <p>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.</p> <p>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</p>	<p>General Manager (Planning & Environment)</p>	<p>Not Resolved.</p> <p>The Authority does not have ownership documents for the land the buildings sit on. Rent is collected from the properties to facilitate management and maintenance of the premises. The</p>	<p>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</p>
<p>2</p>	<p>Property, Plant and Equipment FY 2013/14 The Property, Plant and Equipment balance of Kshs. 166,779,697,238 as at 30 June 2014 excludes undetermined value of land and</p>	<p>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</p>			

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

<p>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.</p> <p>FY 2014/15</p> <p>The Property, Plant and Equipment balance of Kshs. 215,017,181,726 as at 30.06.15 excludes undetermined values of land and houses occupied by staff in South Rift Region from which the Authority earned an income of Kshs.1,173,500 during the year. As such the accuracy and correctness of Property, Plant and Equipment balance of Kshs.215,017,181,726 cannot be confirmed.</p>	<p>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.</p> <p>We agree with the audit observation. However, note that these houses were built by the road contractor as Resident Engineer's premises through bill 1 of the then road construction contract previously managed by Parent Ministry. 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</p>	<p>Authority will pursue relevant government departments for ownership documents to facilitate valuation of the same.</p> <p>This issue had been discussed by the Parliamentary Investment Committee (PIC) but way forward not given.</p> <p>As above.</p>	<p>of accounts once ownership documents are obtained.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

	<p>over the years were not made available to the Authority.</p> <p>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.</p>			
<p>3</p> <p>Trade and other Receivables</p> <p>FY 2012/13</p> <p>The trade and other receivables balance of Kshs. 6,149,011,426 as at 30th June, 2013 include receivables balance Kshs. 1,570,766,994 due from Kenya Roads Board out of which an amount of Kshs. 91,052,469 relate to financial 2011/2012.</p> <p>Evidence at the Ministry of Roads indicates that although the Ministry received the total amount of Kshs. 91,052,469 from the Kenya Roads Board in 2011/12 the Ministry had</p>	<p>We agree with the auditor's observation that Kshs. 91,052,469 for financial year 2011/2012 RMLF 10th tranche is recorded as outstanding in our books. Upon consultations with the Parent Ministry, it was observed that this amount is not receivable. The Board in their meeting held on 29th September, 2014 approved the write off in full of this amount</p>	<p align="center">General Manager (Finance)</p>	<p>Resolved.</p> <p>The PIC noted that the Parent Ministry had appeared before the Parliamentary Accounts Committee (PAC) and clarified that the amount of Kshs. 91.1 million was utilized by the Ministry to pay staff salaries following the reduction of its recurrent budget. This amount will therefore not be paid to the Authority.</p> <p>PIC concurred with the Authority's decision to write off the debt.</p>	<p>Issue closed</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>not remitted the funds as at 30th June, 2013.</p> <p>In the circumstances, the recoverability of the receivables balances of Kshs. 91,052,469 cannot be confirmed.</p> <p>FY 2013/14</p> <p>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.</p> <p>In the circumstance, it has not been possible to confirm recoverability of receivable amounting to Kshs. 389,408.</p>	<p>which was effected in the Financial Year 2013/2014. A copy of the Board resolution is attached and marked <i>Appendix KeNHA 001</i>.</p> <p>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 were done which culminated in the recovery of the Kshs. 389,408 in full from the affected officers. This amount was banked in the Authority's account at KCB Bank and banking slip shared with both external auditors and PIC.</p>	<p>Resolved.</p>	<p>Issue closed</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

<p>4.0</p> <p>Nugatory expenditures – Interest on late payments</p> <p>FY 2013/14</p> <p>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.</p>	<p>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.</p> <p>Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects.</p> <p>Interest on delayed payments is actually provided for in the contract document and the Authority is duty bound to pay in instances where payments to contractors</p>	<p>General Manager (Planning & Environment)</p>	<p>Not Resolved.</p> <p>Payment of interest on delayed payment is a contractual obligation which the Authority cannot escape when it fails to pay contractors' dues in time.</p> <p>This is had also been discussed by the Parliamentary Investment Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward.</p>	<p>It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future. This problem of interest on delayed payments is expected to persist upto 2020 when PPPs are expected to have come to fruition.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>4.2</p>	<p>Included in the Project's expenditure of Kshs. 3,055,446,301.00 for Mombasa-Nairobi-Addis Ababa Road Project (Marsabit-Turbi Road) is interest charges of Kshs. 4,497,964.76 (12 October 2012) and Kshs. 18,775,310.13 (14 September 2013) totalling to Kshs. 23,273,277.76 paid to the contractor for delayed payment dues.</p>	<p>has been delayed beyond the contractual credit period.</p> <p>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.</p> <p>Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects.</p> <p>Interest on delayed payments is actually a contractual obligation of the employer as provided</p>	<p>General Manager (Planning & Environment)</p>	<p>Not Resolved</p> <p>Payment of interest on delayed payment is a contractual obligation which the Authority cannot escape when it fails to pay contractors' dues in time.</p> <p>This issue had also been discussed by the Parliamentary Investment Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward.</p>	<p>It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future. This problem of interest on delayed payments is expected to persist upto 2020 when PPPs are expected to have come to fruition.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

		for in the contract document.	General Manager (Planning & Environment)	Not Resolved	Continuous engagements with key stakeholders.
4.3	In addition an amount of Kshs. 33,144,940.23 has been incurred as payment of interest on delayed payments in respect of rehabilitation of Kericho-Mau Road section	We agree with the audit observation that a total of Kshs. 33,144,940.23 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.		<p>Payment of interest on delayed payment is a contractual obligation which the Authority cannot escape when it fails to pay contractors' dues in time.</p> <p>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 net of taxes.</p> <p>This issue had also been discussed by the Parliamentary Investment Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward.</p>	
4.4	Also, the contractor carrying out rehabilitation of Nyamasaria-Kisumu-Kisian Road including	We agree with the audit observation that a total of	General Manager (Planning &	Not Resolved	Continuous engagement with key stakeholders.

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>Kisumu bypass road has presented eighteen (18) Interim Payment Certificates (IPC's) amounting to Kshs. 4,632,740,214.90 for works done and materials on-site. Included in the certificates is an amount of Kshs. 59,032,086.67 certified for payment as interest on delayed payments which is an avoidable charge to public funds</p>	
<p>Kshs. 59,032,806.67 was incurred as interest on delayed payment against the mentioned project since inception.</p> <p>Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects.</p> <p>Interest on delayed payments is actually a contractual obligation of the employer as provided for in the contract document.</p>	<p>Environment)</p>	<p>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 net of taxes.</p> <p>This issue had also been discussed by the Parliamentary Investment Committee (PIC) which noted that inadequate budgetary provisions is a national problem affecting all public institutions that rely on Exchequer for Development Programs. We are awaiting the PIC report on their recommendations on the way forward.</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

4.5	<p>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.</p>	<p>We agree with the audit observation that a total of Kshs. 9,529,382 was incurred as interest on delayed payment against the mentioned project as at IPC no. 19.</p> <p>Inadequate budgetary provisions coupled with delayed Exchequer releases have always led to interest on delayed payments for all development projects.</p> <p>Interest on delayed payments is actually a contractual obligation of the employer as provided for in the contract document.</p>	<p>General Manager (Planning & Environment)</p>	<p>Not Resolved</p> <p>This issue had also been discussed by the Parliamentary Investment Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward.</p>	<p>It is expected that the Road Annuity and Public Private Partnership frameworks will alleviate interest on delayed payments on development projects in the future.</p>
5	<p>Periodic Maintenance of Mombasa Miritini (A109) Road. FY 2012/2013</p> <p>The contract for the above maintenance works was awarded to M/s Talewa Road Construction Ltd at a contract sum of 341,180,245 with commencement and completion dates of 26 January</p>	<p>At the time of termination of the initial contract, traffic gridlock along the section of the road had reached unacceptable limits, causing more than ten (10) hours to cover the less than 5 kilometre section. The bad situation</p>	<p>General Manager (Maintenance)</p>	<p>Resolved.</p> <p>The issue has already been discussed by the Parliamentary Investment Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward.</p>	<p>The project was completed in time and value for money realized. Traffic flow is now smooth.</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>2012 and 26 September 2012 (8 months) respectively.</p> <p>Evidence available indicates that the contract was terminated after poor performance by the contractor and total payment to the contractor stood at Kshs. 144,146,778.76 (42.25 % of the contract sum)</p> <p>In addition after termination, the remaining works were repackaged and awarded to M/s S.S. Mehta through direct procurement contrary to Section 50 of the Public Procurement and Disposal Act, 2005.</p>	<p>was made worse by the fact that there is no alternative route that would have facilitated diversion of traffic. This resulted to an outcry not only from transporters but also the entire business community in the hinterland of Kenya and the Great Lakes Region which rely on the Port of Mombasa for their imports and exports. It was further reported that it was taking an average of 14 days for heavy commercial vehicles to move from the Port of Mombasa to Kampala Uganda.</p> <p>During the same period, the three East African countries; Kenya, Uganda & Tanzania were holding high level consultations on how to improve Mombasa Port efficiency and unlock the grid lock of traffic jams at Kwa Jomvu and Miritini sections. Kenya had given</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

		<p>an undertaking that it will reduce travel time from Mombasa to Malaba to less than 9 days hence the development of the Mombasa Port Community Charter. This Charter had a ten member committee led by the heads of: The Shippers Council of Eastern Africa (SCEA); Kenya Ports Authority (KPA); Kenya Revenue Authority (KRA); Kenya National Chamber of Commerce and Industry (KNCCI); Kenya National Trade Agency (KENTRADE); Kenya Bureau of Standards (KEBS), Kenya National Highways Authority (KeNHA), Kenya International Freight and Warehousing Association (KIFWA), Kenya Association of Manufacturers (KAM) and Trademark East Africa (TMEA). A Presidential directive was issued to the above key players directing them to</p>		
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>frustrated the interested contractors performing pretender site visits.</p> <p>Due to the urgency of the works at hand, the Authority directly procured a contractor who was nearer to the site and had the required capacity. This new contract included new scopes of work which was aimed at reducing the traffic gridlock from Changamwe roundabout to Moi International Airport, hence rerouting of heavy commercial vehicles. Due procurement procedure was therefore followed as provided for in Direct Procurement under the Public Procurement and Disposal Act, 2016. This contract was completed four (4) days before the expected completion time. Attached and marked Appendix KeNHA09 is the extract of the Port Mombasa</p>		
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

<p>FY 2013/14</p>	<p>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) respectively.</p>	<p>Evidence available indicates that the contract was terminated after poor performance by the contractor when total payment to the contractor stood at Kshs. 144,146,778.76 (42.25 % of the contract sum).</p>	<p>Community Charter and End of Defects Liability Period Certificate dated 29th August, 2014.</p>	<p>Resolved.</p>
<p></p>	<p></p>	<p>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.</p>	<p>The Authority received value for money as the scope was enhanced and ultimately the traffic gridlock cleared which facilitated movement of cargo from Mombasa Port to Kampala to less than seven days.</p>	<p>The issue has already been discussed by the Parliamentary Investment Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>436,803,368, an increase of Kshs. 95,623,123 or approximately 28% from the original contract sum of Kshs. 341,180,245.</p> <p>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.</p>				
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KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

<p>FY 2014/15</p>	<p>As reported in the previous year the contract for the above maintenance works was awarded to M/s Talewa Road Construction Ltd at a contract sum of Kshs.341,180,245 with commencement and completion dates of 26 January 2012 and 26 September 2012 (8 months) respectively.</p> <p>Evidence available indicates that the contract was terminated after poor performance by the contractor stood at Kshs. 144,146,778.76 (42.25% of the contract sum).</p> <p>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</p>	<p>We agree with the audit observation that the remaining works were repackaged and awarded to M/s SS Mehta through direct procurement at a contract sum of Kshs. 292.7 million. This procurement method was not guided by Section 50 of the Public Procurement and Disposal Act, 2005 but by Section 74 of the same Act under Alternative Procurement Procedures. The Law was observed to the latter hence there was no contravention of the Act.</p> <p>The variation of contract sum by Kshs. 63.3 million was to allow the contractor address key emerging issues that had not been factored during the contract negotiation stage. This is within the contract provisions and the Public Procurement and Disposal Act, 2005. The project was</p>	<p>Resolved.</p> <p>The matter was discussed at the PIC and all additional information provided as ordered by the PIC.</p> <p>We are awaiting the PIC report on their recommendations if any.</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

	<p>28% of the original contract sum of Kshs.341,180,245</p> <p>A review of the contract during the year under audit revealed 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.500,133,177 or 46.6% above original contract price of Kshs. 341,180,245</p> <p>Although management has explained that 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.500,133,177</p>	<p>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.</p> <p>The Authority received full value for its money and traffic flow is now smooth with all foreseen gridlocks cleared.</p>		<p>General Manager & (Design Construction)</p>	<p>Resolved The Authority provided all documentary evidence as</p>
6	<p>Bush Clearing in preparation of official opening of the Multinational Arusha – Namanga – Athi River</p>				

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>FY 2013/14</p>	<p>The road was officially opened by His Excellency the President of the Republic of Kenya on 28 November 2012.</p> <p>Examination of records, documents and payment vouchers relating to the above project revealed that the tender committee on its 91st meeting held on 6th 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.</p> <p>Kenya National Highways Authority went ahead and initiated negotiations with Sinai Construction Co. Ltd in which</p>	<p>We agree with the auditor's observation that the above contractor was procured directly as opposed to a competitive procurement process. This was necessitated by the following facts:</p> <p>a)The Authority received notice of the upcoming official opening of the road by His Excellency the President of the Republic of Kenya flanked by his four counterparts from the larger East African Community slated for 28th November, 2012 towards the end of October, 2012.</p> <p>b)The presidents were also scheduled to drive along the highway hence the need to urgently clear the overgrown bushes along the entire road section to enhance security,</p> <p>c) Considering that this exercise should have been cleared at least 7 days prior to the function due to the sensitive nature of the function, the Authority had</p>	<p>demanding by the PIC during their sitting. We are awaiting the PIC report on their recommendations on the way forward.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

<p>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. It was not possible to confirm that the Authority got value for money from the expenditure of Kshs.11,595,415.50</p>	<p>approximately 20 days to complete the task. d)The above period was not adequate to go for any procurement method other than direct procurement since the other methods required a minimum of 45 days. e)The contractor procured had an ongoing work with our sister company, KeRRA, within the vicinity hence the ease and speed of mobilization to meet the strict deadlines. We confirm that the exercise was completed within the strict deadlines and the Authority received value for money. It is normal to record dissenting views of members present in a meeting.</p>		
<p>As reported in the previous year, the road was officially opened by His Excellency the President of the Republic of Kenya on 28 November 2012. Examination of records, documents and payment vouchers relating to the above project revealed that the tender committee on its 91st Meeting held on 6 November 2012 considered and approved direct procurement of M/s Sinai Construction Co. Ltd of P. O. Box 71273-00622 Nairobi to execute bush clearing in preparation of official opening of the Road. This was contrary to the secretariats recommendation that a more competitive method of</p>			

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

	<p>procurement be used.</p> <p>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.</p> <p>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-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.</p>	<p>We agree with the audit 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 of Kenya flanked by his four counterparts from the larger</p>		
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>FY 2014/15</p> <p>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.</p> <p>Examination of records, documents and payment vouchers relating to the above project revealed that the tender committee on its 91st meeting held on 6th 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.</p> <p>Kenya National Highways Authority went ahead and initiated negotiations with Sinai Construction Co. Ltd in which scope of work, rates and the</p>	<p>East African Community.</p> <p>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.</p> <p>The Authority received full value for the money paid under this project</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

	<p>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</p>				
	<p>Although management has explained that the direct procurement was occasioned by information that the Heads of States of East African Community were to travel by road for double launch of the road at Kenya-Tanzania border and subsequently at Athi River and the visibility along the corridor had to be enhanced for security purposes, it was not possible to confirm that the Authority got value for money from the expenditure of Kshs.11,595,415.50</p>				
<p>7.0 Eldoret – Turbo – Webuye (A104)</p>		<p>Delay in progress of works is attributed to inadequate budgetary provisions coupled with delayed Exchequer releases</p>	<p>General Manager & (Design Construction)</p>	<p>Not Resolved Issues discussed at PIC. We are awaiting the PIC report on their recommendations on the way forward.</p>	
<p>7.1</p>	<p>FY 2013/14 Slow progress of works Scale down of scope of works</p>	<p>(i)The Project Designs were carried out in 2007. (ii)Given the long procurement process, the works construction</p>			<p>The Authority is making efforts liaising with line Ministry and National Treasury, to make sure that payments are made for all the certified works. This will</p>

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>Contract sum variation</p> <p>Variation of contract sum by 59.3% thereby breaching the Public Procurement and Disposals Act, 2005.</p>	<p>commented on 26 January 2011, at contract sum of Kshs. 3,383,387,115.00. The same was being financed through a grant from European Union in addition to a small portion contribution from the Government of Kenya.</p> <p>(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 of works (A No objection for the same was obtained from the co-financiers). This reduced the length of the road by 18kms (from 59 kms to 41 Kms) as a result of the revised scope of works owing to funding limits of the credit agreement.</p> <p>(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</p>	<p>resolve cash flow problems and the Contractor will be able to work smoothly and improve on progress</p>	<p>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</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

		<p>road that culminated into processing of addendum No. 1 to cover additional works that were not covered by the original contract. Copy of No- Objection and Addendum no. 1 is attached and marked as Appendix KeNHAI1. This project is now substantially complete.</p> <p>We further wish to state that there was no breaching of the Public Procurement and Disposals Act, 2005, as Section 6 (1) of the same Act states that “Where any provision of this Act conflicts with any obligations of the Republic of Kenya arising from a treaty or other agreements to which Kenya is a party, this Act shall prevail except in instances of negotiated grants or loans”. Section 7(1) of the same Act states that “If there is a conflict between this Act, the regulations or any directions of the Authority and a condition imposed by the donor funds, the condition shall prevail with respect to a procurement that uses those funds”. Note that this project was funded by a grant from the E.U. Guidelines for</p>			<p>management mode that subsequently led to the issuance of no objection from the Development Partner concerned.</p> <p>The European Union has further availed Eur. 11,625,580 to finance the increased scope under addendum 1.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>Procurement of Goods, Works and Non-consulting services under IBRD Loans and IDA Credits and Grants section 3 provides that any material variation of scope or contract sum by more than 15% will require the borrower to seek a No-Objection from the Bank, (in this case the EU).</p> <p>We agree with the audit observations. We would however wish to note the following:</p> <p>(i)The Project Designs were carried out in 2007.</p> <p>(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 being financed through a grant from European Union in addition</p>			
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

		to a small portion contribution from the Government of Kenya.	
<p>FY 2014/15</p> <p>Contract Award and Contract Period</p> <p>As reported in the previous year, the contract was awarded to a contractor on 19 November 2010 at a contract sum of Kshs. 3,383,387,115.63 while the contract agreement was signed on 26 November 2010. The contractor commenced work on 26 January 2011 and the contract duration was 18 months. However, the contract was not completed within the stipulated time and the contractor was awarded two extensions under claim 1 and 2 of 45 and 115 days respectively.</p>	<p>(iii) However, in the course of the project design review, it was noted among other issues, road pavement had further 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 no. 1 was issued to change the scope of works (A No objection for the same was obtained from the co-financiers). The need to address the heavily deteriorated pavements as indicated above necessitated the reduction of the initial length of the road by 18kms (from 59 kms to 41 Kms) as a result of the revised scope of works owing to funding limits of the credit agreement.</p>		

KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

<p>Administrative Order 1</p> <p>Although the original project length was 59km, the length was reduced by 18 km to 41 km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately. In the circumstance it is doubtful the Authority got value for its money.</p>	<p>(iv) Thereafter, on completion of the 41 Kms, it was found necessary to complete the remaining part of the road. The Financier was requested to extend the grant against uncompleted part of the road that culminated into processing of addendum No. 1 to cover additional works that were not covered by the original contract.</p>	
<p>Addendum No. 1</p> <p>Evidence available indicate that through Addendum No. 1 dated 20 June 2014, the contract sum has been revised up wards by Kshs. 2,005,552,882.86 or 59.3% to Kshs. 5,388,939,997.86. This addendum No. 1 is for the completion of the remaining 18 kilometers earlier scaled down as reported above and the works are expected to take 15 months with a commencement date of 01 August 2014 and a completion date of 31 October 2015.</p>	<p>Copy of No-objection and addendum no. 1 is attached for reference. This project is now substantially complete.</p>	
<p>It is not clear and the management has not satisfactorily explained the</p>	<p>We further wish to state that there was no breaching of the Public Procurement and Disposal Act, 2005 as Section 6 (1) of the same Act states that "Where any provision of this Act conflicts with any obligations of the Republic of Kenya arising from a treaty or agreements to which Kenya is a party, this act shall prevail except in instances of</p>	

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

	<p>rationale of scaling down the project and awarding an addendum with variation of the contract sum by 59.3% thereby breaching the Public procurement and Disposal Act, 2005.</p> <p>In addition, a review of the project has revealed that an expenditure of Kshs 21,425,367.74 has been incurred to pay interest on delayed payments which is a nugatory expenditure.</p>	<p>negotiated grants or loan". Section 7(1) of the same act states that "If there is a conflict between this act, the regulations or any directions of the Authority and a condition imposed by the donor funds, the condition shall prevail with respect to a procurement that uses those funds". Note that this project is funded by a grant from EU. Guidelines for procurement of goods, works and Non-consulting services under IBRD Loans and IDA credits and grants section 3 provides that any material variation of scope or contract sum by more than 15% will require the borrower to seek a NO-Objection from the Bank, (in this case (EU)).</p> <p>It is true that the interest amount was incurred. This was occasioned by;</p> <p><input type="checkbox"/> Inadequate <input type="checkbox"/> Exchequer</p>		
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

	<p>budgetary provisions during the year under review,</p> <p><input type="checkbox"/> Delayed releases of Exchequer by the National Treasury.</p> <p>The contract sum was amended in line with the E.U's conditions of the grant as they were the major financiers of the project. This was the basis of issuance of the No Objection hence addendum to vary the contract. The European Union has further availed additional Euros. 11,625,580 to finance the increased scope under addendum 1 for this project and 4.2 below. Attached and marked Appendix I are copies of documents supporting the above response.</p>	<p>General Manager (Special Projects)</p>	<p>Not Resolved</p> <p>The project is now substantially complete.</p> <p>Issue already discussed by the Parliamentary Committee on their Investment Committee (PIC). We are awaiting the PIC report on their</p>	<p>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</p>
7.2	<p>Rehabilitation of Webuye-Malaba (A 104) Road – Contract NO. KENHA/ICB/52/2010.</p> <p>FY2013/14 Slow progress of works & Interest on late payment</p>			

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	Scale down of scope of works	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 (from 61 kms to 58 Kms) resulting from revised scope of works 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.	recommendations on the way forward.	of works and alleviate payment of interest.
	<p>Variation of contract sum by 55% thereby breaching the Public Procurement and Disposals Act, 2005. 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.</p>	<p>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 (from 61 kms to 58 Kms) resulting from revised scope of works 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.</p>		<p>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.</p>
				<p>The European Union has further availed Eur.</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>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 the original contract. Copy of No-Objection and Addendum no. 1 is attached and marked Appendix KeNHA12. This project is now substantially complete.</p> <p>We further wish to state that there was no breaching of the Public Procurement and Disposals Act, 2005, as Section 6 (1) of the same Act states that “Where any provision of this Act conflicts with any obligations of the Republic of Kenya arising from a treaty or other agreements to which Kenya is a party, this Act shall prevail except in instances of negotiated grants or loans”. Section 7(1) of the same Act states that “If there is a conflict between this Act, the regulations or any directions of the Authority and a condition imposed by the donor funds, the condition shall prevail with respect to a procurement that</p>		<p>12,374,420.00 to finance increased scope under addendum 1</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

		<p>uses those funds". Note that this project was funded by a grant from the E.U. Guidelines for Procurement of Goods, Works and Non-consulting services under IBRD Loans and IDA Credits and Grants section 3 provides that any material variation of scope or contract sum by more than 15% will require the borrower to seek a No-Objection from the Bank, (in this case the EU).</p>		
		<p>We agree with the observations. We would however wish to explain the following:</p>		
		<p>(i) The Project Designs were carried out in 2007.</p>		
		<p>(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</p>		

KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

<p>FY 2014/15</p> <p>Contract Award and Contract Period</p> <p>As reported in 2013/2014, the contract was awarded to a contractor on 19 November 2010 at a contract 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 18 Months contract period expired. However, the contract was not completed in time and the contractor was awarded two extension of time totalling 12.5 months</p> <p>Administrate Order No. 1</p>	<p>from European Union in addition to small portion contribution from the Government of Kenya.</p> <p>(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 (from 61 kms to 58 Kms) resulting from revised scope of works owing to funding limits of the credit agreement.</p> <p>(iv) On completion of 58 Kms, it was found necessary to complete the remaining part of the road.</p>	<p>Not Resolved.</p> <p>The project is substantially complete. The Authority received value for money.</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>Although the original contract length was 61 km, the length was scaled down by 8km to 53 km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately. In the circumstance, it is doubtful the Authority got value for its money.</p> <p>Addendum No. 1 Evidence available indicate that through Addendum No. 1 dated 23 July 2014, the contract sum has been revised up wards by Kshs. 2,106,120,003.46 or 55% to Kshs. 5,955,048,519.47. This addendum No. 1 is for among other things completion of the 8 kilometres earlier scaled down as reported above and the works are expected to take 12 months with a commencement date of 14 August 2014 and a completion date of 13 August 2015.</p> <p>It is not clear and the management has not satisfactorily explained the rationale of scaling down the project and awarding an addendum with variation of the contract sum by 55% thereby</p>	<p>The Financier was requested to extend the grant against uncompleted part of the road that culminated into processing of addendum No. 1 to cover additional works that were not covered by the original contract.</p> <p>Copy of No-objection and addendum no. 1 is attached for reference. This project is now substantially complete.</p> <p>We further wish to state that there was no breaching of the Public Procurement and Disposal Act, 2005 as Section 6 (1) of the same Act states that ‘‘Where any provision of this Act conflicts with any obligations of the Republic of Kenya arising from a treaty or agreements to which Kenya is a party, this act shall prevail except in instances of negotiated grants or loan’’. Section 7(1) of the same act states that ‘‘If there is a conflict between this act, the regulations</p>		
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

<p>breaching the Public procurement and Disposal Act, 2005.</p> <p>2.4 Progress of Works A review of the project has revealed that according to the Progress Report No. 52 of June 2015, approximately 52 Months have elapsed out of the revised contract period of 54 months translating to 96.3% of the contract period. However, physical progress as at the same time stood at 81.57% implying that the contractor is behind schedule which may lead to further escalation of project costs</p> <p>2.5 Nugatory Payment of Interest on Delayed Payments Examination of Interim payment Certificate No. 41 for Webuye - Malaba Contract has revealed that the amount certified for payment amounting to Kshs. 5,005,335,571.26 includes interest on delayed payments amounting to Kshs. 37,021,867.65. Had the payments been made to the contractor within the stipulated time, the Authority would have made a saving on public</p>	<p>or any directions of the Authority and a condition imposed by the donor funds, the condition shall prevail with respect to a procurement that uses those funds'. Note that this project is funded by a grant from EU. Guidelines for procurement of goods, works and Non-consulting services under IBRD Loans and IDA credits and grants section 3 provides that any material variation of scope or contract sum by more than 15% will require the borrower to seek a NO-Objection from the Bank, (in this case (EU)).</p> <p>Delay in progress of works is attributed to inadequate budgetary provisions coupled with delayed Exchequer releases. Attached and marked Appendix II are copies of documents supporting the above response.</p> <p>It is true that the interest amount</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	resources of Kshs .37,021,867.65	was incurred. This were occasioned by; <input type="checkbox"/> Inadequate Exchequer budgetary provisions during the year under review, <input type="checkbox"/> Delayed releases of Exchequer by the National Treasury.		
7.3	<p>Rehabilitation of Kakamega-Webuye Road(Lot 2) FY 2013/14</p> <p>As reported in 2013/2014, the above contract was awarded on 18 January 2012 to M/s Vil Ltd (Formerly Vijay Infrastructure Ltd) at a contract sum of Kshs. 2,505,924,536.66. The works commenced on 1 April 2013 for a</p>	<p>The contract sum was amended in line with the E.U's conditions of the grant as they were the major financiers of the project. This was the basis of issuance of the No Objection hence addendum to vary the contract.</p> <p>We agree with observation raised and therefore, we wish to state as follows:-</p> <p>(i) The court ruling on 12th June, 2015 directed parties to go into arbitration. The employer has initiated the Arbitration process.</p>	<p>General Manager & (Design Construction)</p>	<p>Resolved</p> <p>An amicable settlement was arrived at and the contract terminated. The advance payment was recovered from the advance payment guarantee and a refund made to the World Bank.</p> <p>A new contract was also procured and is progressing well.</p>
				Issue closed.

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>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.</p>	<p>(ii) The contractor abandoned site on 31st March, 2015 and has not returned since. This abandonment will also be a subject of Arbitration.</p>	
<p>Evidence available indicated that a notice of termination of the contract was issued on 08 May, 2014 due to contractor's non-performance. However, the contractor obtained a court injunction to stop the employer from directing the contractor to remove equipment from site. By the time the notice to terminate was issued, 53% of the contract period had elapsed and the contractor had only achieved 1% physical progress despite having been paid an advance of Kshs. 205,974,052.89 for mobilization and cash flow support.</p>	<p>Meanwhile, at the request of the contractor, the employer has entered into discussion for amicable termination of the contractor. The contract has been terminated and advance payment recovered from the advance payment guarantee.</p>	
<p>A review of the status of the project and as per audit inspection on 24 September 2015, the contractor's equipment were lying idle and no</p>		

KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

<p>works were going on despite a court ruling on 12 June 2015 that both parties engage in arbitration process. Although management has explained that the contractor abandoned the site on 31 March 2015, and that the abandonment will also be a subject of arbitration, the effect of the results of the arbitration on the project cannot be determined.</p> <p>FY 2014/15</p> <p>As reported in 2013/2014, the above contract was awarded on 18 January 2012 to M/s Vil Ltd (Formerly Vijay Infrastructure Ltd) at a contract sum of Kshs. 2,505,924,536.66. The works commenced on 1 April 2013 for a 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 a notice of termination of the contract was issued on 08 May, 2014 due to contractor's non-performance.</p>	<p>We agree with observation raised and therefore, we wish to state as follows:-</p> <p>(i) The court ruling on 12th June, 2015 directed parties to go into arbitration. The employer has initiated the Arbitration process.</p> <p>(ii) The contractor abandoned site on 31st March, 2015 and has not returned since. This abandonment will also be a subject of Arbitration.</p> <p>Meanwhile, at the request of the contractor, the employer has entered into discussion for amicable termination of the contractor. The contract was terminated and advance payment recovered.</p>		<p>Resolved</p> <p>An amicable settlement was reached. Contract was terminated, advance payment recovered from the contractor and a new contractor procured still under IDA co-financing. The advance payment made by IDA has since been refunded to IDA. A new contractor has since been procured and the project is in good progress.</p>	<p>Matter is closed.</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

<p>However, the contractor obtained a court injunction to stop the employer from directing the contractor to remove equipment from site. By the time the notice to terminate was issued, 53% of the contract period had elapsed and the contractor had only achieved 1% physical progress despite having been paid an advance of Kshs. 205,974,052.89 for mobilization and cash flow support.</p>	<p>A review of the status of the project and as per audit inspection on 24 September 2015, the contractor's equipment were lying idle and no works were going on despite a court ruling on 12 June 2015 that both parties engage in arbitration process. Although management has explained that the contractor abandoned the site on 31 March 2015, and that the abandonment will also be a subject of arbitration, the effect of the results of the arbitration on the project cannot be determined.</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

8.0	<p>NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT (NCTIP) IDA CREDIT NO. 3930/4571 KE:</p>		General Manager (Special Projects)	Not Resolved	Consultations on- going on expedited release of funds and implementation of PPP.
8.1	<p>FY 2013/14 REHABILITATION OF KERICHO – MAU SUMMIT (BI) ROAD SECTION</p> <p>As reported in the previous audit report, the contract was awarded to a contractor on 26 October 2009 at a contract sum of Kshs. 6,832,657,486.36. The contract commenced on September 2010 for a contract period of 24 Months with the expected completion date of 15 September 2012 for a contract period of 24 Months with expected completion date of 15 September 2012. The contractor has, however, been awarded extension of time for 759 days thus revising the completion date to 14 October 2014.</p>	<p>The contents of this paragraph are correct.</p> <p>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.</p> <p>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 acknowledged. However, it is worth nothing the following.</p>			

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

		<p>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.</p> <p>(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.</p> <p>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</p>			
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

	<p>FY 2014/15</p> <p>As reported in the previous audit report, the contract was awarded to a contractor on 26 October 2009 at a contract sum of Kshs. 6,832,657,486.36. The contract commenced on September 2010 for a contract period of 24 months with the expected completion date of 15 September 2012. A review of the</p>	<p>implement but are costlier. In effect therefore faster progress will be registered towards completion potentially closing the gap with time elapsed.</p> <p>We agree with this observation. This scenario was occasioned by inadequate and delayed Exchequer releases for financing development works & attendant services.</p> <p>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 in future contracts and the Contractors will be able to work smoothly</p>			<p>Consultations on-going on expedited release of funds and implementation of PPP and other alternative sources</p>
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KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

	<p>project during the year under audit has indicated that after several extensions of the 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 totalling Kshs 148,054,139 had been incurred as interest on late payments which amounts to nugatory expenditure..</p>		<p>General Manager (Special Projects)</p>	<p>Not Resolved This issue was discussed by the Investment Parliamentary Committee (PIC). We are awaiting the PIC report on their recommendations on the way forward. The project has since been completed.</p>	<p>Project already completed within the approved time extension.</p>
<p>8.2</p>	<p>REHABILITATION OF NYAMASARIA - KISUMU - KISIAN (A1/B1) ROAD INCLUDING KISUMU BYPASS ROAD - CONTRACT NO. RD 0505:</p>	<p>(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.</p>	<p>FY 2013/14</p>	<p>The project is financed by World Bank and Government of Kenya at 67% and 33% respectively. The contract was awarded to Sinohydro</p>	

KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

	<p>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.</p> <p>Nugatory Payments to contractors:</p> <p>The contractor has so far presented eighteen (18) Interim Payment Certificates (IPC's) amounting to Kshs. 4,632,740,214.90 for works done and materials on – site. Included in the certificates is an amount of Kshs. 59,032,806.67 certified for payment as interest on delayed payments which is an avoidable charge to the public funds.</p>	<p>KeNHA's Response:- The contents of this paragraph are correct.</p> <p>According to the progress report No. 27 for June 2014, achieved progress is approximately 88% compared to 96.7% of the contract period elapsed.</p> <p>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.</p> <p>(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.</p> <p>As correctly noted, interest on delayed payments is a nugatory payment which should not have been incurred had the dues been paid timely.</p>		
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

		<p>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.</p> <p>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.</p>	<p>General Manager (Special Projects)</p>	<p>Resolved.</p> <p>The PIC in their meeting ruled that the issue belonged to PAC which had initially discussed it. The PIC further opined that the issue was security of government</p>	<p>Failure to pay for goods delivered as per the contract will expose the Authority to unnecessary and litigations and claims.</p>
<p>8.3</p>	<p>Supply of computer servers, Standard desk top computers, touch smart desktop computers, laptop computers and Integrated Service Routers to the Mechanical & Transport</p>	<p>The Supplier delivered the goods in quantities as per the contract. The delivery note was subsequently issued and signed.</p> <p>The delivery and receipt of the goods on 19th November 2013</p>			

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>Department of MOR.</p> <p>FY 2013/14</p> <p>Full payment was made despite some goods having been reported stolen.</p>	<p>was further confirmed in writing by the Beneficiary (Mechanical and Transport Department of Ministry of Transport & Infrastructure).</p> <p>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.</p> <p>The Inspection Team proceeded to inspect the remaining Goods; the 8No. Laptops and 19 No. (Not 9 No as mentioned 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</p>		<p>stocks and not payment for deliveries made as per the contract.</p>	
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KENYA NATIONAL HIGHWAYS AUTHORITY
 Report and Financial Statements for the year ended 30th June 2017

			<p>could influence management in believing that the stolen goods were of different or inferior specs.</p>
			<p>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 warehouses. We would further wish to clarify that the amounts paid were within the contract sum.</p>
			<p>The Supplier delivered the goods in quantities as per the contract. The delivery note was subsequently issued and signed.</p>

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

	<p>FY 2014/15</p> <p>As reported in the previous year, the financial statements for 2013/2017 included in Annex2A- Analysis of pending bills Invoice No.812 from an ICT firm dated 19 November 2013. The supplier was competitively awarded the contract for the supply of computer equipment on 13 June 2013 at their tender sum of Kshs. 25,564,350.00.</p>	<p>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).</p> <p>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 launched which led to the arrest of part of the private security guards & the vehicle used in the theft. The beneficiary has already initiated legal proceedings to recover the value of the stolen goods from the private security firm whose employees were captured by the Department's CCTV facilitating the theft from government stores.</p>			
<p>The supplier is said to have delivered the goods to Mechanical and Transport Department of Ministry of Transport and</p>					

KENYA NATIONAL HIGHWAYS AUTHORITY
Report and Financial Statements for the year ended 30th June 2017

<p>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.</p>	<p>The Inspection Team proceeded to inspect the remaining Goods; the 8No. Laptops and 19 No. (Not 9 No as mentioned 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 specifications.</p>			
<p>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.</p>	<p>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</p>			
<p>In the circumstances, no value for money was obtained from the expenditure of Kshs. 22,589,200.</p>				

KENYA NATIONAL HIGHWAYS AUTHORITY

Report and Financial Statements for the year ended 30th June 2017

		<p>not responsible for the provision of security for goods in government warehouses. This was a security lapse as confirmed by the user's formal request to the Attorney General to institute legal proceedings against the security service provider. We further wish to clarify that the amounts paid were within the contract sum.</p>			
		<p>Failure to pay for goods delivered as per the contract will expose the Authority to unnecessary litigations and claims. Attached and marked <i>Appendix VI</i> is a copy of the invoice and delivery order duly received by the user.</p>			

Erasmus K. Mwangera

Eng. Erasmus K. Mwangera, CBS, FTEK, RCE
 Chairman of the Board of Directors
 September 2017

Peter M. Mundinia

Eng. Peter M. Mundinia
 Director General
 September 2017

