

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

**REPORT**

**OF**



**THE AUDITOR-GENERAL**

**ON**

**KENYA NATIONAL HIGHWAYS  
AUTHORITY – ROAD MAINTENANCE  
LEVY FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2022**

THE NATIONAL ASSEMBLY	
PARLIAMENT BUILDING	
DATE: 05 JUL 2023	DAY: Wednesday
TABLED BY: Hon. Kimani Ichungu (Leader of the Majority Party)	
CLERK AT THE TABLE:	Mado



OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
**REGISTRY**

**08 MAY 2023**

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**Kenya National Highways Authority**

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***KENYA NATIONAL HIGHWAYS AUTHORITY***

**ANNUAL FINANCIAL STATEMENTS FOR ROAD MAINTENANCE LEVY FUND**

**FOR THE FINANCIAL YEAR ENDED**

**30<sup>TH</sup> JUNE 2022**

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

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**2. Key Authority Information and Management**

**(a) Background information**

The Authority was established vide the Kenya Roads Act, 2007. The Authority is under the State Department of Infrastructure in the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works 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 and Secretary to the Board.

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2022 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General	Eng. Kungu Ndungu (Appointed 8 <sup>th</sup> October 2021)
2.	Director, Development	Eng. Charles Obuon (Appointed 14 <sup>th</sup> March, 2022)
3.	Director, Highway Planning and Design	Eng. Samuel O. Omer
4.	Director, Policy, Strategy & Compliance	Eng. Njuguna Gatitu
5.	Director, Corporate Services	CPA James Bowen
6.	Director, Audit Services	Dr. CPA Sammy Kimunguyi
7.	Director, Road Asset & Corridor Management	Eng. Ezekiel Fukwo (Appointed 9 <sup>th</sup> February, 2022)
8.	Corporation Secretary/Deputy Director, Head Legal Services	Ms. Norah Odingo-Kajwang'
9.	Deputy Director, Head Supply Chain Management	Ms. Levina Wanyonyi
10.	Director General	Eng. Peter M. Mundinia, EBS (Retired on 27 <sup>th</sup> August, 2021)
11.	Director, Development	Eng. David Muchilwa (Deployed to The Office of The Principal Secretary-State Department of Infrastructure (MOTIHUD) on 14 <sup>th</sup> March 2022)

(e) Fiduciary Oversight Arrangements

No.	Designation	Name
1.	Chairman ( <i>non-executive</i> )	Eng. Wangai Ndirangu, MIEK, RCE
2.	Director	Mr. Charles Gathogo
3.	Director	Mr. Protus Sigei, Alternate to CS National Treasury
4.	Director	Mr. George Wanjau; Alternate to PS State Department for Transport
5.	Director	Eng. Carey O. Orege, CBS
6.	Director	FCPA. Julius W Mwatu
7.	Director	Ms. Winfrida W. Ngumi
8.	Director	Ms. Brenda N. Mayabi
9.	Director	Eng. Nicholas Musuni (Appointed 23 <sup>rd</sup> August, 2021)
10.	Director General/Board Secretary ( <i>ex-officio member</i> )	Eng. Kungu Ndungu (Appointed 8 <sup>th</sup> October, 2021)
11.	Director	Eng. Francis Gitau: Alternate to PS Infrastructure (Resigned on 23 <sup>rd</sup> August, 2021)
12.	Director General/Board Secretary ( <i>ex-officio member</i> )	Eng. Peter M. Mundinia, EBS (Retired on 27 <sup>th</sup> August, 2021)

The Authority's Board of Directors constituted four Board Committees namely;

- 1) The Finance, Human Resource and General Purpose Committee,
- 2) The Audit, Risk and Governance Committee,
- 3) The Technical and Strategy Committee and
- 4) The Procurement and Disposal Oversight Committee.

The Finance, Human Resource and General Purpose Committee and the Audit, Risk and Governance Committee are responsible for the fiduciary oversight of the Authority.

Their key responsibilities are outlined below:

**i) Finance, Human Resource and General Purpose Committee**

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

- Review, approve and/or recommend for Board's approval;
  - 1) Financial, Human Resources, ICT, Legal & Regulatory Affairs and Corporate Communications policies and procedures,
  - 2) Estimates of receipts and expenditures including their revisions,
  - 3) Re-allocation of funds between budget heads,
  - 4) Special funding proposals including borrowings and grants,

- 5) Proposals for opening bank accounts,
  - 6) Proposals for investments and their returns,
  - 7) Annual Corporate Social Responsibility activities and
  - 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) There is 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) Technical and Strategy Committee**

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

- Review, approve and/or recommend for Board's approval;
- 1) Proposals formulated by Management for re-classification of roads,
  - 2) The road works programme formulated by Management for all roads under the Authority's purview,
  - 3) The viability or otherwise of Private Public Partnerships in road projects,

## **iv) Procurement and Disposal Oversight Committees**

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

- Review, approve and/or recommend for Board's approval;
- 1) The consolidated Annual Procurement and Disposal Plans,
  - 2) Revision of the approved Consolidated Procurement Plans,
  - 3) Quarterly procurement reports,
  - 4) Procurement of goods, services and projects that would require external financing,

5) Proposals for contract awards for strategic procurements.

- Ensure that;
  - 1) Contracts awarded comply with the law,
  - 2) The approved Annual Procurement Plan is duly implemented.

**v) Office of the Auditor General**

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

**vi) Kenya Road Board (KRB)**

KRB has a mandate to ensure prudent Road Fund Management in the provision of a quality, efficient and sustainable road network. The Board oversee and coordinate Road Maintenance, Rehabilitation and development through Optimal Utilization of resources for a sustainable Road Network. Some of the key responsibilities include;

- i) Co-ordinate the optimal utilization of the Fund in implementation of programs relating to the maintenance, rehabilitation and development of the road network;
- ii) Seek to achieve optimal efficiency and cost effectiveness in road works funded by the Fund;
- iii) Manage the fund;
- iv) Based on five-year road investment program approved by the Cabinet Secretary and the Cabinet Secretary for Finance, determine the allocation of financial resources from any other source available to the Board required by road agencies for the maintenance, rehabilitation and development of the road network to ensure that the allocation of funds is pegged to specific categories of roads.
- v) Monitor and evaluate, by means of technical, financial and performance audits, the delivery of goods, works and services funded by the Fund;
- vi) Recommend to the Cabinet Secretary appropriate levels of road user charges, fines, penalties, levies or any sums required to be collected under the Road Maintenance Levy Fund Act, 1993 and paid into the Fund;
- vii) Recommend to the Cabinet Secretary such periodic reviews of the fuel levy as are necessary for the purposes of the Fund;
- viii) Identify, quantify and recommend to the Cabinet Secretary such other potential sources of revenue as may be available to the Fund for the development, rehabilitation and maintenance

of roads.

- ix) To conduct financial management supervision and offer project implementation support
- x) Review of quarterly Interim Financial Reports
- xi) Commission independent auditors to undertake financial and technical review of projects they have financed.

**(vii) 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,
- 3) Examine whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices.

Within three months after receiving the PIC report, Parliament shall debate and consider the report and take appropriate action.

**(f) Kenya National Highways Authority Headquarters**

**Nairobi, Kenya**

Barabara Plaza, Blocks A & C, Jomo Kenyatta International Airport (JKIA), Nairobi,  
Off Mazao Road  
P.O. Box 49712  
GPO 00100

**Nairobi, Kenya**

**(g) Kenya National Highways Authority Contacts**

Telephone: (254) 02 8013842

E-mail: [dg@kenha.co.ke](mailto:dg@kenha.co.ke)

Website: [www.kenha.co.ke](http://www.kenha.co.ke)

**(h) Kenya National Highways Authority Bankers'**

**1. KCB Bank Ltd**

Moi Avenue Branch

P.O. Box 30081 - 00100

**Nairobi, Kenya**

**3. National Bank of Kenya**

Hill Plaza Branch

P.O. Box 45219 - 00100

**Nairobi, Kenya**

**5. Equity Bank Limited**

Equity Centre Branch

P.O. Box 75104 - 00200

**Nairobi, Kenya**

**2. Co-operative Bank of Kenya Ltd**

Upper Hill Branch

P.O. Box 30415-00100

**Nairobi, Kenya**

**4. NCBA Bank Plc**

NCBA House

P.O. Box 44599 - 00100

**Nairobi, Kenya**

**(i) Independent Auditors**

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 - 00100

**Nairobi, Kenya**

**(j) Principal Legal Adviser**

The Attorney General




State Law Office




Harambee Avenue




P.O. Box 40112 - 00200



**Nairobi, Kenya**

**3. The Board of Directors**





Director	Brief Profile
 <p>1. Ms. Winfrida W. Ngumi Chairperson</p>	<p>Date of Birth: 22<sup>nd</sup> December, 1974            Bachelor of Architecture (Hons)            Member of the Kenya Association of Manufacturers and the Kenya Private Sector Alliance.            19 years of experience in the building, construction and manufacturing industry.  <i>(Appointed 5<sup>th</sup> August, 2022)</i></p>
 <p>2. Eng. Wangai Ndirangu, MIEK, RCE Chairman</p>	<p>Date of Birth: 20<sup>th</sup> September 1973            Master of Water Engineering            Bachelor of Technology in Civil &amp; Structural Engineering            Professional Membership: Member of the Institution of Engineers of Kenya.            Registered Consulting Engineer            Lecturer, Jomo Kenyatta University of Agriculture &amp; Technology            Consultant in Water Resources and Engineering            22 years of Management experience  <i>(Retired on 22<sup>nd</sup> July 2022)</i></p>
 <p>3. Mr. Charles R. Gathogo Director(Independent) Chair of the Finance, Human Resource &amp; General Purpose Committee</p>	<p>Date of Birth: 24<sup>th</sup> February 1966            Master of Cadastral Application            Bachelor of Science (Survey and Photogrammetry)            Professional Membership: Licensed Land Surveyor and GIS Consultant with the Institute of Surveyors of Kenya.            24 years of Management experience in Engineering Survey, Cadastral Surveying and planning.</p>





Director	Brief Profile
 <p>4. Eng. Carey O. Orege, CBS            Director(Independent)            Chair of the Technical &amp; Strategy Committee</p>	<p>Date of Birth: 14<sup>th</sup> October, 1955            Master of Science (Highway Engineering)            Bachelor of Science (Civil Engineering)            Professional Membership: Member of the Institution of Engineers of Kenya            Registered Consulting Engineer,            42 years of Management experience gained in both public and private sector.</p>
 <p>5. FCPA. Julius W. Mwatu            Director(Independent)            Chair of the Audit, Risk &amp; Governance Committee</p>	<p>Date of Birth: 9<sup>th</sup> December, 1972            Master of Business Admin. (Finance)            Bachelor of Science (Statistics)            Professional Membership:            Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK),            Institute of Certified Secretaries (ICS),            Institute of Certified Investment &amp; Financial Analysts (ICIFA)            21 years of experience specialising in audit, tax, finance, and integrated reporting.</p>
 <p>6. Ms. Brenda N. Mayabi            Director(Independent)</p>	<p>Date of Birth: 25<sup>th</sup> June, 1992            Bachelor of Law (Hons)            Professional Membership: Law Society of Kenya, East African Law Society</p>

Director	Brief Profile
 <p>7. Mr. Protus Sigei            Director – Alternate to CS (National Treasury &amp; Planning)</p>	<p>Date of Birth: 1<sup>st</sup> December 1965            Master of Science.            Bachelor of Arts (Hons) Economics (with Mathematics)            Professional Membership: Graduate of the Australian Institute of Company Directors (GAICD)            22 years of experience in Board directorship.            Member of the Society for Benefit-Cost Analysis</p>
 <p>8. Mr. George Wanjau            Director – Alternate to PS (Transport)</p>	<p>Date of Birth: 19<sup>th</sup> January, 1962            Master of Science (Project Planning &amp; Financing)            BA (Economics)            Economist and Urban Transport Planner.            35 years of Public Sector Management experience</p>
 <p>9. Eng. Nicholas Musuni            Director-Alternate to PS (Infrastructure)</p>	<p>Date of Birth: 5<sup>th</sup> March, 1979            Bachelor of Science (Civil Engineering)            Training in leadership, corporate governance, project management and arbitration.            Professional Membership: Member of the Institution of Engineers of Kenya (IEK)            Registered Professional Engineer with Engineers Board of Kenya            17 years of Management experience  <i>(Appointed 23<sup>rd</sup> August, 2021)</i></p>




 <p>10. Eng. Francis Gitau          Director-Alternate to PS (Infrastructure)</p>	<p>Date of Birth: 1965          Executive Master of Business Administration          Bachelor of Science (Civil Engineering)          Advanced Professional Training in Management of Road Maintenance          Professional Membership: Member of the Institution of Engineers of Kenya          Chairman, Mechanical Transport Fund          33 years of public service Management experience  <i>(Resigned on 23<sup>rd</sup> August, 2021)</i></p>
 <p>11. Eng. Peter M. Mundinia, EBS          Director General &amp; Secretary to the Board</p>	<p>Date of Birth: 7<sup>th</sup> December, 1963          Master of Business Administration          Bachelor of Science (Civil Engineering)          Diploma in Theology          Professional Membership: Member of the Institution of Engineers of Kenya          34 years of Management experience  <i>(Retired on 27<sup>th</sup> August, 2021)</i>  <i>Registered Professional Engineer with Engineers Board of Kenya</i>  <i>Member of Kenya Institute of Management (KIM)</i></p>

#### 4. Management Team

Manager	Brief Profile
 <p>1. Eng. Kungu Ndungu Director General</p>	<p>Date of Birth: 18<sup>th</sup> October 1972            Executive Master of Business Administration            Bachelor of Science (Civil Engineering)            Registered Professional Engineers Board of Kenya,            Professional Membership: Member of the Institution of Engineers of Kenya (IEK)            Member of the Kenya Institute of Management (MKIM),            26 Years of Management experience  <i>(Appointed 8<sup>th</sup> October 2021)</i></p>
 <p>2. Eng. Charles Obuon Director – Development</p>	<p>Date of Birth: 20<sup>th</sup> November, 1972            Master of Philosophy in Civil and Structural Engineering (Water Engineering)            Bachelor of Technology and Structural Engineering            Professional Membership: Member of the Institution of Engineers of Kenya            Registered Professional Engineer with Engineers Board of Kenya            24 years of Management experience  <i>(Appointed 14<sup>th</sup> March, 2022)</i></p>
 <p>3. Eng. Samuel O. Omer Director, Highway Planning &amp; Design</p>	<p>Date of Birth: 17<sup>th</sup> December 1962            Bachelor of Science (Civil Engineering)            Professional Membership: Member of the Institution of Engineers of Kenya            35 years of Management experience</p>
 <p>4. CPA. James K. Bowen Director, Corporate Services</p>	<p>Date of Birth: 1<sup>st</sup> January, 1973            Master of Business Administration,            Bachelor of Commerce (Accounting)            Professional Membership: Certified Professional Credit Manager (CPCM), Certified Public Secretary (CPS K), Certified Public Accountant (CPAK)            Professional Membership: Member of ICPAK and ICPSK            25 years of Management experience</p>

Manager	Brief Profile
 <p>5. Eng. Njuguna Gatitu                      Director, Policy, Strategy &amp; Compliance</p>	<p>Date of Birth: 1965                      Bachelor of Science (Civil Engineering)                      Post Graduate Diploma in Computer Science                      Professional Membership: Member of the Institution of Engineers of Kenya                      32 years of Management experience</p>
 <p>6. Eng. Ezekiel Fukwo                      Director Road Asset &amp; Corridor Management</p>	<p>Date of Birth: 16<sup>th</sup> August, 1976                      Master of Arts (Project Planning and Management)                      Bachelor of Science (Civil Engineering)                      Professional Membership: Member of the Institution of Engineers of Kenya                      Registered Professional Engineer with Engineers Board of Kenya                      Corporate Member of the Institution of Engineers of Kenya (IEK)                      17 years of Management experience                      (Appointed 9<sup>th</sup> February, 2022)</p>
 <p>7. Dr. CPA. Sammy Kimunguyi                      Director, Audit Services</p>	<p>Date of Birth: 22<sup>nd</sup> September, 1980                      Bachelor of Education                      Master of Arts in Project Planning &amp; Management                      Doctor of Philosophy in Business Management                      Professional Membership: Certified Information Systems Auditor (CISA)                      Certified Fraud Examiner (CFE)                      Certified Public Accountant (CPA)                      Certified Information System Auditor (CISA)                      Professional Membership: Member of ICPAK, ISACA, CFE                      15 years of Management Experience</p>
 <p>8. Ms. Norah Odingo-Kajwang                      Corporation Secretary/Deputy Director,</p>	<p>Date of Birth: 27<sup>th</sup> April 1969                      Master of Business Administration                      Bachelor of Laws                      Registered Advocate of the High Court of Kenya                      Professional Membership: Member of the Law Society of Kenya                      Member of the Certified Public Secretaries of Kenya                      27 years of Management experience</p>

**Kenya National Highways Authority**  
**Annual Report and Financial Statements for Road Maintenance Levy Fund**  
**For the year ended 30<sup>th</sup> June 2022**

Manager	Brief Profile
Head of Legal Services	
 <p>9. Ms. Levina Wanyonyi Deputy Director, Head of Supply Chain Management</p>	<p>Date of Birth: 13<sup>th</sup> February 1972  Master of Business Administration  Bachelor of Science  Professional Membership: Kenya Institute of Supplies Management,  The Chartered Institute of Purchasing &amp; Supply  Institute for Management of Information Systems  25 Years of Management experience.</p>
 <p>10. Eng. David Muchilwa Director, Development</p>	<p>Date of Birth: 28<sup>th</sup> December 1964  Bachelor of Science (Civil Engineering)  Professional Membership: Member of the Institution of Engineers of Kenya  33 years of Management experience  <i>(Deployed to The Office of The Principal Secretary- State Department of Infrastructure (MOTIHUD) on 14<sup>th</sup> March 2022)</i></p>
 <p>11. Eng. Peter M. Mundinia, EBS Director General</p>	<p>Date of Birth: 7<sup>th</sup> December 1963  Master of Business Administration  Bachelor of Science (Civil Engineering)  Diploma in Theology  Professional Membership: Member of the Institution of Engineers of Kenya  Registered Professional Engineer with Engineers Board of Kenya  Member of Kenya Institute of Management (KIM)  34 years of Management experience  <i>(Retired on 27<sup>th</sup> August, 2021)</i></p>

## **5. Chairperson's Statement**

Dear Stakeholders,

It is my pleasure to present KeNHA's Annual Report and Financial Statements for Road Maintenance Levy Fund for the year ended 30<sup>th</sup> June 2022. The FY 2021/2022 marked the fourth year of implementation of the Authority's FY 2018/2019 – 2022/2023 revised Strategic Plan. The Authority remained committed in efficient and effective management of its road investments to minimize road user cost, road agency costs, travel time and cost of travel.

The Authority prioritized the provision of an adequate, safe and efficient national trunk road network through maintenance to facilitate realization of the Vision 2030 and Big four development agenda and guarantee sustainable road investment.

The Authority maintained 15,616 Km of National Trunk Roads across the country through the 40% allocation of Fuel Levy Fund. These road maintenance works were supervised and administered through the established ten (10) Regional Offices and three (3) Corridor Offices. The road network within the Authority's purview as per the new road classification is approximately 20,324.27 Km; comprising both paved and unpaved roads. At the beginning of the Financial Year 2021/2022, the authority had planned to maintain approximately 18,471 Km of the road network through periodic, routine (inclusive of PBC) maintenance and spot improvements.

Our continued implementation of Annual Public Roads Program through Performance-Based Contract (PBC) maintenance approach has guaranteed timely maintenance intervention on our road network and ensured high service levels. The high service levels resulted in reduced vehicle operating costs, risk sharing with contractors, prompt response to emergencies, improved road safety and reduced encroachments on our road reserves.

The Authority ensured sustainability of its maintenance projects through the consistent engagement of our stakeholders thereby meeting of stakeholder expectations. Beneficiary communities were also sensitized on HIV/AIDs, road safety, National Cohesion, Code of Ethics, integrity, road reserve protection and axle load control.

The challenge of inadequate budgetary allocation continues to affect project implementation of the Authority's portfolio of Maintenance projects. Significant length of the road network has aged pavements requiring heavy investment to preserve the road asset. The Authority cognisant of this challenge is developing a Road Maintenance Policy in order review the existing and identify new sources of funding that will guarantee sustainable financing of road maintenance interventions.

The Board remained alive to its fiduciary duty in management of the Authority by ensuring efficient and transparent utilisation of resources. During the financial year, Eng. Nicholas Musuni was appointed to the board. I wish to thank my fellow Directors for their invaluable support and contribution during the year.

We wish to express our sincere gratitude to the Management, our Customers, the Government, Development Partners and other stakeholders whose support was key in facilitating effective delivery of the Authority's mandate.



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**Ms. Winfrida W. Ngumi**  
**CHAIRPERSON OF THE BOARD OF DIRECTORS**



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

The Annual Report and Financial Statements for Road Maintenance Levy Fund presents utilisation of allocated Road Maintenance levy funds for the year ended 30<sup>th</sup> June 2022. It also provides an overview of the projects maintained by the Authority to ensure efficiency in road transport. The report has been prepared as per the International Public Sector Accounting Standards and conforms with Section 44 of the Kenya Roads Act, 2007.

During the year, the Authority implemented initiatives in line with the FY 2018/2019 – 2022/2023 revised Strategic Plan. The RMLF budgetary allocation to KeNHA in the FY 2021/2022 was Kshs 32,158,684,084 representing 40% fund allocation pursuant to the KRB Act 1999. The authority received a cumulative amount of Ksh. 20,507,829,433 from KRB in as at 30<sup>th</sup> June 2022 while the balance of Kshs 11,865,854,651 was received in July 2022. These funds were used to implement Maintenance programmes across the country. As at 30<sup>th</sup> June 2022, the Authority had achieved a total of 15,616 Km maintenance against a target length of 19,504Km (80%).

In the approved budget of FY 2021/2022, KSh. 4,555,996,596.00 of RMLF funds was allocated to finance road development projects. The development projects supported by RMLF Fund were, NUTRIP: James Gichuru junction – Rironi (Uhuru Highway) (26 km), Mau-Mau Road, Athi River – Machakos, Merille – Marsabit, Barpello – Tot – Marich Pass, Ruiru – Githunguri & Posta – Naibor.

The Authority utilised the Performance-Based Contract (PBC) maintenance approach to guarantee timely maintenance intervention and ensure high service levels. The high service levels resulted in reduced vehicle operating costs, risk sharing with contractors, prompt response to emergencies, improved road safety and reduced encroachments on our road reserves.

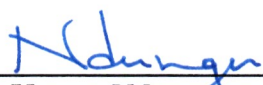
During the year under review, the Authority had twenty two (22) fully functioning and intergrated virtual weigh stations. Further, the Authority administered the new cycle of Management Contracts for Static and virtual weighbridges covering 8336 Km for static weigh stations and 3610 Km for virtual weigh stations. As a result of these interventions, the Authority was able to enhance compliance and axle load enforcement. During this period, the Authority was able to achieve compliance level of 99.93% and 97.88% for the virtual and the static weigh stations respectively. In addition, through the fully automated processing of Exemption Permits and roadside development

applications including Lipa na M-pesa payment platform in all our ten regions, the Authority was able to issue a total of 37,392 exemption permits thereby generating revenue of Ksh 363 Million.

The Authority engaged a total of 1,039,257 employees through works contracts awarded and implemented using the RMLF Funds. This was an important contribution to the labour and employment sector which is critical in achieving the aspirations of the Kenya Vision 2030. Expansion of employment opportunities, especially for the youth, have been identified as key towards development of a formidable human resource base that can deliver the country's development goals.

The Authority continued to face challenges of encroachments on its road reserves and vandalism of road furniture which have together compromised the safety of motorists and other road users. In order to address some of these constraints, the Authority continues to task PBC contractors to be vigilant and liable with regard to maintaining and guarding of the road furniture. Further, the Authority continues to face challenges of inadequate funding to maintain its network. Significant length of the road network has aged pavements requiring heavy investment to preserve the road asset. In addition, from the year 2013 to 2021, the paved road network has significantly increased from 13,400Kms to 19,281Kms leading to high maintenance funding requirement. The Authority cognisant of this challenge is developing a Road Maintenance Policy in order to review the existing and identify new sources of funding that will guarantee sustainable financing of road maintenance interventions.

I wish to take this opportunity to give my appreciation to the Board of Directors for the support and guidance extended to the Management throughout the year. I commend staff for their unwavering effort that ensured that the Authority remained steadfast in delivering its mandate. I extend my gratitude to the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works, National Treasury and Development Partners for financing our projects and programmes. Finally, I wish to thank all other stakeholders for their critical contribution that facilitated continuous improvement of the national trunk road network.

  
\_\_\_\_\_  
**Eng. Kungu Ndungu**  
**DIRECTOR GENERAL**

3<sup>rd</sup> May, 2023

## 7. Statement of Performance Against Predetermined Objectives

During the year, the Authority implemented projects and programmes as espoused in the FY 2018/2019 – 2022/2023 revised Strategic Plan, which is aligned to the Kenya Vision 2030, third medium term plan and the road sector investment plan.

During the year, the Authority maintained 15,616 km of National Trunk Roads throughout the country through 40% allocation of RMLF. These road maintenance works are supervised and administered through the established ten (10) Regional Offices and three (3) Corridor Sections.

The Authority focused on delivering its mandate in line with the six key intervention areas identified in its Strategic Plan. Some of the key achievements include:

<b>Interventions</b>	<b>Indicators</b>	<b>Annual Target</b>	<b>Cumulative Achievements FY 2021/22</b>	<b>% Cumulative Achievements</b>	
Periodic Maintenance	Lane Kms	313	481	153%	
Routine Spot Improvement		13,752.00	13,407.46	97%	
Performance Based Contracts		18,088.00	20,015.10	110%	
Stage Improvement		69	55	68%	
Road Safety	Guard rails (Meters)	7,909	23,955	302%	
	Boundary Posts (No.s)	1,893	3,858	203%	
	Road signs (No.s)	1,836	1,847	100%	
	Road marking (Km)	<i>Yellow center</i>	1,055	982	93%
		<i>Edge white</i>	1,717	1,800	104%

## **8. Corporate Governance Statement**

Kenya National Highways Authority is committed to the values and principles of good corporate governance as an integral part of the corporate culture. This guides the way 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, Corporate Governance Guidelines and the Authority's code of conduct. The Authority endeavours to develop, strengthen and sustain the trust that the Government, employees and the public have bestowed on it. The Board is committed to regularly evaluating national and international standards in responsible, transparent and efficient manner with a view of enhancing corporate governance at the Authority and consistently delivering on its statutory mandate.

The Authority's Board is constituted as per the provisions of the Kenya Roads Act, 2007 with membership drawn from both the public and private sector. The Board is composed of nine (9) Directors with six (6) directors having a background or knowledge in the following areas:

- Business Industry
- Highway Engineering
- Transport economics
- Surveying
- Accountancy
- Law

In line with the provisions of the Kenya Roads Act, 2007, the Chairman and other members of the Board, other than designated public officers, shall hold office for a period of three (3) 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 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.

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. Induction of all new Directors is guided by the Board Induction for new 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 objective, financial plans, annual budget, key operation initiatives, financial performance reviews and corporate governance practices. They are also responsible for instilling the appropriate culture, value and behaviour throughout the organization. The Board is therefore committed to maintaining very high standards of corporate governance and ethical conduct.

The Board has established four Committees from among its Members to assist in the execution of its responsibilities. These are the Audit, Risk and Governance Committee, the Finance Human Resources and General Purpose Committee, Procurement and Disposal Oversight Committee and the Technical and Strategy Committee. Each of these Committees operates pursuant to approved terms of reference delegated to them by the Board. The Board and each Committee have scheduled meetings held in every quarter of the financial year. The Chairman of each Committee regularly reports to the full Board on the Committee's deliberations at quarterly meetings of the Board.

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

<b>S/No.</b>	<b>Name of Director</b>	<b>Board Position</b>	<b>No. of Meetings Attended/Held</b>
1	Eng. Wangai Ndirangu, MIEK, RCE	Chairman	13/13
2	Eng. Carey Orege CBS, MIEK,R.ENG	Member (Chair- T&S)	13/13
3	Ms. Winfrida W. Ngumi	Member (Chair- PDO)	12/13
4	FCPA Julius W. Mwatu	Member (Chair- ARGC)	13/13
5	Mr. Charles Gathogo	Member (Chair- FHRGP)	12/13
6	Mr. George Wanjau	Member	10/13
7	Mr. Protus Sigei	Member	12/13
8	Eng. Nicholas Musuni	Member	13/13
9	Ms. Brenda N. Mayabi	Member	13/13

Board Meetings held during the Financial Year and individual attendance of the same by the Director's is shown below;

<b>S/ No.</b>	<b>Board Meeting Number</b>	<b>Attendance/Absent With Apology</b>
<b>1</b>	144th	All members were present
<b>2</b>	145th	All members were present
<b>3</b>	146th	Mr. Protus Sigei
<b>4</b>	147th	Mr. George Wanjau
<b>5</b>	148th	Mr. Charles Gathogo
<b>6</b>	149th	All members were present
<b>7</b>	150th	All members were present
<b>8</b>	151st	All members were present
<b>9</b>	152nd	Mr. George Wanjau
<b>10</b>	153rd	Principal Secretary, Transport
<b>11</b>	154th	Principal Secretary, Transport & Ms. Winfrida Ngumi
<b>12</b>	155th	Mr. George Wanjau
<b>13</b>	156th	All members were present

### **Succession Planning**

The Authority recognizes that succession planning forms an integral part of the Authority Human Resource Strategy and ensures the presence of a 'talent pipeline' that guarantees continuity of business in the event that key persons exit the Authority. It allows for the selection and preparation of individuals to ascend to the next level in the organization through appropriate Human Resource Intervention.

### **Board Charter**

The Authority maintains a Board Charter that is a guide for Directors of the Kenya National Highways Authority (KeNHA) when executing their mandate. It expounds and sets out the Directors' collective and individual powers, rights, duties, obligations, responsibilities and liabilities.

The Charter enshrines the requirements of good corporate governance applicable to the Authority that meets the requirements of the enabling legislation and the Code of Governance for State Corporations (Mwongozo). It serves to facilitate and promote effective governance that is responsible and responsive to the Government's policies and guidelines on State Corporations.

It also provides a framework through which the Board carries out its statutory mandate in compliance with the international principles of corporate governance, laws, regulations and policies of state corporations.

### **Induction and Training of the Board**

The Authority ensures that the Board's capacity is continually built through trainings and workshops and encourages Board Members to be up to date with continuous professional development in their respective professional bodies. The Authority further prepares and implements an annual Board Training Plan to ensure capacity building of the Board as regards their needs.

An induction process is undertaken for all new Board Members to familiarize themselves with their role as Directors and acquaint themselves with KeNHA's mission, vision, core values, mandate, strategic direction, code of conduct and ethics, best Corporate Governance practices and approved policies and procedures.

The Chairperson of the Board spearheads this process in line with the Induction for New Directors Programme to ensure that new Board Members are inducted according to the programme.

### **Board Remuneration**

Board Remuneration by the Authority is guided by the relevant statutory Guidelines from the State Corporations Advisory Committee (SCAC) and Circulars issued from time to time by SCAC. The Authority endeavours to remunerate the Board members fairly, ethically and responsibly.

## 9. Management Discussion and Analysis

### Mandate

To manage, develop, rehabilitate, and maintain national roads.

### SECTION A

#### The Authority'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.

No.	Project Activity	Targeted Output(lane Km)		Actual Output(lane Km)	Source of Funding
1.	Periodic maintenance	313		481	Road Maintenance Levy Fund
2.	Routine maintenance	13,752		13,407	Road Maintenance Levy Fund
3.	Performance Based Contracts	18,088		20,015	Road Maintenance Levy Fund
	<b>Total</b>	<b>32,153</b>		<b>33,903</b>	

### 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) Prompt payment of vendors subject to budget and liquidity

### SECTION C

#### Key Projects and Investment Decisions the Entity is Implementing

The Authority is implementing projects using RMLF funds as summarized in *Appendix II*.

### SECTION D

## 1.0 The Key Corporate Risk Profile

The key corporate risks for KeNHA for the Financial Year 2021/2022 are as listed below:

1. Contract and Project Management Risk
2. Business Continuity Management Risks
3. People Risk
4. Reputational Risk
5. Corporate Culture Risk
6. Data Management Risks
7. Public Private Partnership (PPP) Risks
8. Road Asset Management Risks
9. Budgetary Constraints Risk

## 2.0 Risk Rating

The risk score is determined by combining (multiplying) the likelihood and the impact for each risk.

**Table 1: Risk Rating**

Risk Rating			
1-5		Minor	The probability of exposure to this risk is remote
6-10		Low	The probability of exposure to this risk is unlikely
11-15		Moderate	The probability of exposure to this risk is moderate
16-20		High	The probability of exposure to this risk is likely
21-25		Critical	The probability of exposure to this risk is almost certain

The risk score for the identified risks is as shown in Table 2 below.

**Table 2: Risk Scores for the Key Corporate Risks**

No.	Identified Risk	Likelihood	Impact	Gross Risk Score
1.	Contract and Project Management Risk	5	5	25
2.	Business Continuity Management Risk	4	5	20
3.	People Risk	3	5	15
4.	Reputational Risk	4	5	20
5.	Corporate Culture Risks	4	5	20

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No.	Identified Risk	Likelihood	Impact	Gross Risk Score
6.	Data Management Risks	4	5	20
7.	Public Private Partnership (PPP) Risks	4	5	20
8.	Road Asset Management Risks	4	5	20
9.	Budgetary Constraints Risk	5	5	25

The data provided in Table 2 above is further illustrated in the figure 1 below:

**Figure 1: Heat Map of Key Corporate Risks for FY 2021/2022**

<b>IMPACT / SEVERITY</b>	<b>Critical</b>	<b>Moderate</b>	<b>Moderate</b>	<b>High (3)</b>	<b>Critical (2,4,5,6,7,8)</b>	<b>Critical (1,9)</b>
	<b>High</b>	<b>Low</b>	<b>Moderate</b>	<b>High</b>	<b>High</b>	<b>Critical</b>
	<b>Moderate</b>	<b>Low</b>	<b>Moderate</b>	<b>Moderate</b>	<b>High</b>	<b>High</b>
	<b>Low</b>	<b>Low</b>	<b>Low</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>
	<b>Minor</b>	<b>Minor</b>	<b>Low</b>	<b>Low</b>	<b>Low</b>	<b>Moderate</b>
		<b>Rare</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Likely</b>	<b>Almost Certain</b>
<b>Probability / Likelihood</b>						

## **SECTION E**

### **Material arrears in statutory/financial obligations**

The Authority has a large stock of pending development bills amounting to Kshs. 73.2 billion. This is made up of payment certificates and fee notes for certified development works and outstanding dues to Project Affected Persons. This resulted from inadequate GOK Development Budget allocations and delayed release of Exchequer funds to the Authority. 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 the 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 from inception of the Authority 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 audit work and implementation of both internal and external audit recommendations.
- The Risk Management Committee comprising of Senior Management is responsible for ensuring that controls are in place to identify, evaluate and manage risk.
- Enterprise Risk Management Department 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 effectiveness of risk management.
- Periodic reviews of performance and quality control in road construction and maintenance are carried out by the Quality Assurance Section.
- Directorate of Internal Audit 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 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 quarter were based on the above institutional arrangements. The 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.

## **10. Environmental and Sustainability Reporting**

### **i) Sustainability strategy and profile**

The Board of Directors of Kenya National Highways Authority (KeNHA) understands the Authority's position as the custodian of the National highways network and the critical role in providing quality and safe highways for sustainable social and economic development. The Authority has a responsibility to manage and leverage resources in a way that promotes a healthy and sustainable environment. This is in line with the Authority's commitment in the customer service charter to adhere to environmental regulations during the implementation of projects to safeguard the environment and Strategic Plan strategic objective of environmental and social sustainability.

KeNHA's Environmental and Social Safeguards Policy is in line with one of the KeNHA's core value of equity and integrity and assists KeNHA to comply with Kenya's Constitution 2010 and with the provisions in the Environmental Management and Coordination Act (EMCA) of 1999.

The Board of Directors and Management have given a firm commitment of supporting and ensuring that the provisions of this policy are implemented by the Authority and those who work on our behalf as we strive to attain sustainable development

The Authority is putting a focus on making its infrastructure more resilient to climate change. In the last two years, 250 kilometers of road infrastructure have been climate proofed. Considering and recognizing that climate change has a huge impact on roads investment, KeNHA has taken the following climate change adaptation measures: Use of heat-resistant pavement materials in road projects located in Arid and Semi-arid areas; Increasing capacity (width and height) and frequency of drainage structures; Reduction of gradient of slopes; Use of erosion control measures like check dams and miter drains; Slope protection works; Raising road surface levels above expected flood elevations; Storm water capture and storage systems and road water harvesting; Increase in the frequency of sediment dredging of rivers and channels to provide

adequate drainage conveyance capacity; Resource use efficiency(energy, petroleum products, water etc) in projects and Tree planting and road beautification program(carbon sinks).

**ii) Environmental performance**

Majority of the Authority's functions (design, construction and rehabilitation of roads) change both physical and the socio-economic salient environmental features of the areas they are taking place. The impacts generated by our projects wherever they are taking place include but not limited to the following: Air quality impacts, Impacts on the ecology, Impacts on water quality; Occupational health and safety impacts; Waste generation and disposal impacts; Socio-economic impacts like displacements; Noise and vibration impacts and Impacts on utilities among others.

The Authority ensures that safeguards documents are prepared to guide the management of Environmental and Social risks. The safeguards documents prepared include: Environmental and Social Impact Assessments (ESIA); Resettlement Action Plans (RAPs); Environmental and Social Management Framework (ESMF); Resettlement Policy Framework (RPF); Biodiversity Assessment; Climate Change Resilient Infrastructure Studies and Gender Based Violence Assessment among others. In FY 2021-2022 Five Environmental and Social Impact Assessment reports were prepared and submitted to National Environment Management Authority (NEMA).

During road project implementation, the Authority uses the following safeguards management tools: Contractor's Environmental and Social Management Plans(CESMP); Occupational Health and Safety(OHS) Plans; Traffic Management Plans(TMP); Waste Management Plans (WMP); Biodiversity Management Plans; Stakeholder Engagement and Communication Plans; Workers' Code of Conduct; HIV/AIDS mainstreaming and Child protection strategies among others.

Environmental and Social Monitoring of KeNHA projects are done by project implementation supervising consultants who must have in their team Environmentalist and Sociologist. The team supervises the implementation of the developed Safeguards Management tools and makes the necessary recommendations to the contractor's team who in turn implements the recommendations. Environmental and Social Monitoring is done based on the agreed recommendations of the Environmental and Social Management Plans within the Environmental and Social Impact Assessment reports.

Environmental and Social Monitoring reports are submitted to the Authority by the construction/rehabilitation supervising consultant quarterly for review. The reports are reviewed, and action taken on non-conformances. The Authority is responsible for overall supervision of

the implementation of environmental and social safeguard recommendation in the projects and oversees Environmental and Social Monitoring during project operation phase.

To address the risks associated with climate change; the Authority in the last two years, has climate proofed 500 kilometers of road infrastructure. Currently, a study about climate resilience of the Horn of Africa Gateway Development Project (Isiolo-Mandera road project) is being implemented. In a road section of about 740 kilometers several activities for increasing infrastructure resilience have been identified, such as climate-resilient pavement that withstands high temperatures.

The authority signed a framework for cooperation with Kenya Forest Service (KFS) to jointly partner to set up a one (1) million seedling nursery at Nairobi arboretum. The seedlings will be planted in identified degraded areas and right of ways along the highways. For this initiative, the Authority in 2022 FY gave Kenya Shillings Ten Million (KES 10 million) to support Phase One of Infrastructural Development of model tree nursery.

In FY 2021-2022, 63,692 trees have been planted in various road projects as part of road beautification initiatives.

In conclusion, the Kenya National Highways Authority is committed to its environmental and social safeguards policy by ensuring that all activities done under its supervision are environmentally sustainable and are resilient to present needs. Most KeNHA's activities which affect the environment and social settings are out there with our projects which are being implemented and we are taking much of the time to monitor and recommend the most appropriate measures to mitigate or avert environmental disasters associated with such projects.

### **iii) Employee welfare**

The Authority is guided by the Human Resource Policy and Procedures Manual approved by State Corporations Advisory Committee in March, 2022 with policy pronunciations on all areas on human resource management and welfare;

**On recruitment,** The Authority is an equal opportunity employer and shall not in its recruitment and selection discriminate on the basis of gender, race, religion, ethnicity, disability or on any other form of discrimination. Job vacancies are advertised on local dailies and copies of the same shared with National Council of Persons with disability (NCPWD) and uploaded on Fuzu a portal initiative by NCPWD.

On Gender and Disability mainstreaming, the Authority has in place policies domesticated from the National policy and continuously monitors affirmative action in regard to employment of persons of equal gender and persons with disability using disaggregated data.

**On Career Development;** The Authority's grading structure, qualifications and other requirements for recruitment into the Authority are laid down in the KeNHA Career Guidelines (2022).

**On Performance Management,** The Authority has a robust performance management framework aimed at enhancing efficiency and effectiveness in service delivery. Performance appraisal is based on the employee's progress against the targets set annually with their supervisors. There exists a framework to reward exemplary performance and sanctions for poor performance by operationalizing the Rewards and Sanction Framework.

There exists OSHA policy which guides on safety and compliance with Occupational Safety and Health Act of 2007 (OSHA). The Authority has implemented several commitments on the same.

#### **iv) Market place practices-**

##### **A & b) Responsible competition practice & Supply chain & Supplier Relations**

The Authority has embraced the culture of competitiveness in procurement processes in pursuit of achievement for value for money and creation of fairness and transparency among various stakeholders. Adherence to the provisions of the Public Procurement and Asset Disposal Act, 2015 and its attendant regulations, KeNHA procurement policies and donor funded guidelines has been a key contributing factor towards promotion of competition and ensuring competitors are treated fairly. The Authority undertakes stakeholder and political involvement through pre-bid conferences/pre-tender site visits/capacity building to enhance effective communication.

Competition is fostered through the use standard tender and quotation documents in procurement of various goods, works and services. The Public Procurement Regulatory Authority directives and donor procurement guidelines creates a level playing ground for the competitors through issuance of the standard tender documents. To a great extent, the use of standardised and clear specifications has allowed for open competition and promotion of local industry. The Authority has created an environment that promotes transparency and accountability through use of Enterprise Resource Planning system. This is done through publication of all procurement processes on the Public Procurement Information Portal (PIIP), advertisement of procurement opportunities, conducting due diligence on successful suppliers/contractors and handling of

complaints. The Authority undertakes timely communication of results of procurement processes through effective debriefing mechanisms. The law further allows aggrieved bidders to pursue other existing legal mechanisms to ensure that their grievances are addressed.

#### **c) Marketing & Advertisement**

The authority practices ethical marketing by committing to open, transparent, responsible, and fair practices and communicates these values to the public. Further, we commit to implement our projects while upholding ethical standards to project staff, communities that benefit and those that are affected by our projects.

The Authority continuously observes the principles of:

1. **Fairness:** Establishing fairness in our decision-making, offering equitable wages, and sustainable development.
2. **Honesty:** A cornerstone of ethical marketing is honesty. The Authority, while publicizing projects and activities strive to provide factual and unexaggerated information about the functionality and impact of our activities and provide full disclosure when required to.
3. **Responsibility:** KeNHA emphasizes her responsibility by providing a well-functioning highway network at all times, support social causes, give back to communities, treat employees with respect, and protecting the environment through sustainable practices. The Authority conducted a Customer Satisfaction survey in 2019 and has been implementing recommendations made by the public as we implement projects.
4. **Transparency:** We practice transparency by publishing our activities and being open to the public about our operations. Not only do we provide regular reports to relevant oversight agencies, but continuously share information through the media, publications, website and social media accounts.

#### **d) Product stewardship**

1. The Authority has established a hotline through which citizens can share complaint or feedback.
2. There is an established complaints handling mechanism, to ensure customers complaints are responded to within 21 Days as stipulated in our Customer Service Charter and by the Commission on Administrative Justice.
3. The Authority has opened a confidential email for reporting integrity related issues which is: [integrity@kenha.co.ke](mailto:integrity@kenha.co.ke). Citizens who act as whistle blowers are assured of utmost

confidentiality and due care while handling the cases as stipulated in the Anti-Corruption and Whistle blower policies.

4. The Authority has a robust Stakeholder Engagement plan for every project to ensure that the interests and rights of stakeholders are factored into every major project. In the year under review, we carried out elaborate stakeholder engagement on Nairobi-Nakuru-Mau Summit PPP Project, Horn of Africa Road Project, and Weighbridge Management.
5. At the commencement of every project, the Authority obtains statutory clearances from National Environmental Management Authority (NEMA) as well as the Occupational Health and Safety Authority.

**v) Corporate Social Responsibility / Community Engagements**

The Kenya National Highways Authority continues to uphold corporate citizenship by ensuring social accountability to all stakeholders and the public. The Authority continues to be conscious of the impact realized on all aspects of society, including economic, social, and environmental during project implementation.

Through the Corporate Social Investment (CSI) Committee, we have been able to identify initiatives, along our road projects, that help improve the livelihoods of surrounding communities. The Authority remains committed as a responsible corporate citizen and prioritizes mitigation measures on the impact of project implementation on the environment, communities, employees, and stakeholders.

**CSI initiatives undertaken during the year under review**

The Corporate Social Investment strategy of the Authority embodies a commitment to being a responsible corporate citizen. It aims at creating development corridors that serve the people, spur economic development, encourage integration, and facilitate overall well-being of beneficiary communities.

The CSI initiatives of the Authority mainly focuses on promoting sustainable livelihoods and improving access to social amenities through interventions that improve outcomes on Education, Health, Sanitation, Environment, Security, Youth, and Women empowerment. During the year under review, the Authority undertook several CSI activities. This included planting of trees, building of access roads, levelling of children playgrounds and university yard, construction of collector roads, construction of classrooms, dispensary, markets, sharing of borehole water and distribution of fresh water to communities, excavation of pit latrines, fencing of schools and

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construction of school gates, distribution of safety masks, sanitary towels, as well as rehabilitation of a quarry.

**Details of CSI initiatives undertaken during the year**

<b>No.</b>	<b>Project Name CSI interventions</b>	<b>Project Name CSI interventions</b>
<b>1.</b>	<b>Garsen – Lamu - Witu</b>	a) 50 meters access road
<b>2.</b>	<b>Isebania -Kisii</b>	a) Primary School: Leveling of play grounds for several primary and secondary schools
<b>3.</b>	<b>James – Gichuru – Rironi</b>	a) Collector Road 1 (Spnkon – Nduma- Thogoto Mutarakwa road) eight (8) kilometers b) Collector Road 5 (Old Naivasha Road) c) Collector Road 2 (Gichecheni – Magana) three (3) kilometers
<b>4.</b>	<b>Kibwezi – Mutomo –Kitui</b>	a) Levelling of yard at Kibwezi University b) Improvement of existing dam and excavating shallow wells c) Construction of parking area with AC finishing d) Sensitized students from Mutomo and Ikutha Primary schools on road safety
<b>5.</b>	<b>Mau Mau Lot 3</b>	Excavation of a pit latrine at Kihuyo Primary School
<b>6.</b>	<b>Ngong Forest</b>	Planted 2,200 trees

**11. Report of the Directors**

The Directors submit their report together with the un-audited financial statements for the year ended 30<sup>th</sup> June, 2022 which show the state of the Authority's affairs.

**i) Principal activities**

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

**ii) Results**

The results of the Authority for the year ended 30<sup>th</sup> June, 2022 are set out on page 1.


**iii) Directors**


The members of the Board of Directors who served during the year are shown on pages *vii, viii and ix*. During the year, Eng. Francis Gitau retired from the Board of Directors on 23<sup>rd</sup> August 2021. Consequently, Eng. Nicholas Musuni, was appointed to the Board on 23<sup>rd</sup> August 2021.

**iv) Auditors**

The Auditor General is responsible for the statutory audit of the Authority's Financial Statements for the year ended 30<sup>th</sup> June 2022 in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

  
\_\_\_\_\_  
**Eng. Kungu Ndungu**  
**Director General and Secretary to the Board**

 3<sup>rd</sup> May, 2023

## **12. Statement of Directors' Responsibilities**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of Kenya National Highways Authority which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30<sup>th</sup>, 2022. 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 the Authority; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Authority's Financial Statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2022, and of the Authority's financial position as at that date.

The Directors further confirms the completeness of the accounting records maintained for the 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.

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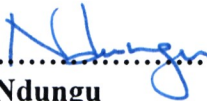
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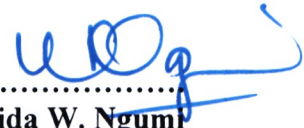
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the Financial Statements**

29 SEP 2022

The Authority's financial statements were approved by the Board on ----- and signed on its behalf by:

Signature.....  
Eng. Kungu Ndungu  
DIRECTOR GENERAL

Signature.....  
Ms. Winfrida W. Ngumi  
CHAIRPERSON OF THE BOARD

# REPUBLIC OF KENYA



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*Enhancing Accountability*

## **REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL HIGHWAYS AUTHORITY - ROAD MAINTENANCE LEVY FUND FOR THE YEAR ENDED 30 JUNE, 2022**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines, and manuals and whether public resources are applied in a prudent, efficient, economic, transparent, and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management, and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management, and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya National Highways Authority - Road Maintenance Levy Fund set out on pages 1 to 21, which comprise of the statement of financial position as at 30 June, 2022, statement of financial performance,

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*Report of the Auditor-General on Kenya National Highways Authority - Road Maintenance Levy Fund for the year ended 30 June, 2022*

statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya National Highways Authority - Road Maintenance Levy Fund as at 30 June, 2022, 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 Public Finance Management Act, 2012 and the Kenya Roads Act, 2007.

## **Basis for Qualified Opinion**

### **1. Inaccuracies in the Financial Statements**

The statement of financial performance reflects Kshs.24,942,781,721 in respect of Certified Works (Road Maintenance Expenses) while the statement of comparison of budget and actual amounts reflects Kshs.25,408,126,523 resulting to a variance of Kshs.465,344,802 which was not reconciled or explained.

In the circumstances, the accuracy of the financial statements could not be confirmed.

#### **1.1 Unreconciled Difference between Unpaid Projects Amounts and Cash and Cash Equivalents Balance**

Review of the Annual Public Roads Program (APRP) indicate that the Fund had an approved budget of Kshs.28,266,494,344 covering a total of 462 road projects for the year ended 30 June, 2022. The budget was fully funded by Kenya Roads Board during the year. Further review indicates that payments totalling to Kshs.25,408,126,383 were made for work done leaving an un-paid balance of Kshs.2,858,367,961 as at 30 June, 2022. However, the statement of financial position reflects cash and cash equivalents balance of Kshs.1,707,746,685 which is less than the unpaid balance of Kshs.2,858,367,961. The difference of Kshs.1,150,621,276 had not been reconciled.

In the circumstances, the accuracy of the financial statements could not be confirmed.

### **2. Road Maintenance Levy Fund**

The statement of financial performance and as disclosed in Note 1 to the financial statements reflects funds received from Kenya Roads Board (KRB) amounting to Kshs.32,373,684,084. However, records maintained by Kenya Roads Board reflects disbursements totalling to Kshs.44,342,887,917 resulting to a variance of Kshs.11,969,203,833 which was not reconciled or explained.

In the circumstances, the accuracy and completeness of road maintenance levy fund amount of Kshs.32,373,684,084 could not be confirmed.

### **3. Unauthorized Retention of Receipts**

The statement of financial performance reflects finance income of Kshs.149,517,064 being interest earned from Road Maintenance Levy Fund (RMLF) funds and other income of Kshs.9,177,581 in respect to liquidated damages charged to various contractors both totalling to Kshs.158,694,645. However, the amounts were not appropriated in the Authority's budget which is an indication that the revenue should have been surrendered to The National Treasury. No evidence was provided to indicate that the amount was surrendered to The National Treasury.

In the circumstances, the revenue amount of Kshs.158,694,645 was irregularly retained and expended by the Authority.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya National Highways Authority - Road Maintenance Levy Fund Management in accordance with ISSAI 130 on the 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 matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

#### **Other Matter**

#### **Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board guidelines issued by The National Treasury.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

##### **1. Anomalies Noted during Projects Inspection**

Physical verification carried out in the month of February, 2023 revealed delayed works on various projects in different regions as highlighted below:

## **1.1 Nakuru Region**

### **(i) Performance Based Contract for Maintenance of Narok – Ngoswani (B131) Road**

Performance Based Contract for Maintenance of Narok–Ngoswani (B131) Road was awarded to a contractor vide contract No.KeNHA/RD/RA&CM/3360/2021 at a contract sum of Kshs.310,166,470. The works were to commence on 16 August, 2021 for a period of 36 months. The expected date of completion is 15 August, 2024. Progress status report as at 30 June, 2022 indicated 5.85% physical progress versus 31% elapsed time. Physical inspection conducted in February, 2023 indicated physical progress of 30.04% against 50.04% elapsed time an indication that the project was behind schedule.

Review of correspondences indicate that the contractor has failed to comply with contract conditions where he was to cover excavated potholes at Km 7+600, Km 12+800, Km 10+800 and Km 16+200 within 48 hours as specified in the contract conditions. There was however no evidence of damages deductions from the contractor despite express authority vide Section 47.1 (b) of the particular conditions of the contract specifying that Kshs.50,000 per month per pothole will be deducted from the contractor as damages for not attending to potholes within 48 hours of excavation.

It was further noted that the contractor has been given three notices on slow progress which is an indication of no improvement by the contractor.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

### **(ii) Periodic Maintenance of Njoro - Mau Summit (B129)**

Periodic Maintenance of Njoro-Mau Summit (B129) was awarded vide contract No.KeNHA/RD/RA&CM/3396/2021. The works were to commence on 26 August, 2021 for a period of eighteen (18) months with completion date of 25 February, 2023. Physical verification in the month of February, 2023 revealed 80.20% physical progress against 95.45% elapsed time an indication that the project was behind schedule.

The following observations were also made;

- The contractor has not done surface dressing works on 7km and river training works.
- The road shoulders in Keringet area were being swept away and had not been repaired though works was paid for and putting to question the quality of shoulder works.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

## **1.2 Garissa Region**

### **(i) Performance Based Contract for Maintenance of Junction (B89) Madogo (B89)-Modika (A3) Road**

The contract was awarded to a contractor on 30 April, 2020 at a contract sum of Kshs.119,420,356.86 for a period of 24 months. The contract was to be completed on

27 November, 2022. Cumulative amount certified as at the time of audit in February, 2023 was Kshs.46,686,506.98.

The following were noted during physical inspection:

- There were no signs that the contractor was on site.
- There were blocked culverts especially in Garissa Town while works was still incomplete.
- Drainage have dumped garbage and overgrown vegetations,
- Most road signs had been vandalized,
- De-siltation of drainage and culverts as detailed on the contract was not done in Garissa Town,
- Between the main bridge separating Garissa Town towards Madogo, there are conspicuous and strong erosion of the road side especially the road shoulders and the road reserves have undesirable overgrown vegetation which were supposed to have been cleared as per the contract.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

### **1.3 Central Region**

#### **(i) Performance Based Contract for Maintenance of Junction B21 Nyeri-Othaya-C544 Kangema (B23) Road**

The contract was awarded to a contractor on 29 September, 2020 at a contract sum of Kshs.177,595,014 for a period of 36 months. The completion date for instructed works was 16 November, 2021. Contractor's all risk expiry date is expected on 22 January, 2024. Amount certified for payment as at 31 January, 2023 was Kshs.128,597,863.32.

As at the time of audit in February, 2023, it was noted that pot holes were observed on shoulders of some sections of the road, damaged guardrails were conspicuously seen at KM 0+000, litter along some sections of road drainage channels especially at around 33Km, there was vegetation at around 41Km that had grown beyond the PBC height requirements and some asphalt applied on some road pavement section is failing.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

#### **(ii) Performance Based Contract for Maintenance of JN B23/27 Othaya – JN A 2/B 27 Karatina (B27)**

Contract No. KeNHA/RD/RA&CM/2951/2020 was awarded to a contractor on 10 March, 2020 at a contract sum of Kshs.49,460,633.20 for a period of 36 Months. Contractor's all risk expiry date is expected on 18 June, 2023. Amount certified for payment as at 31 January, 2023 was Kshs.44,418,053.64. Physical verification in February, 2023, revealed litters and silt in culverts at Karatina Town.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

**(iii) Performance Based Contract for Maintenance of JN A2 Karatina - Kagumo-Kutus (B27) Road**

Contract was awarded on 29 September, 2020 at a contract sum of Kshs.374,379,713. The date of order to commence was 4 December, 2020 with a completion period of 36 months. The revised contract sum was Kshs.464,340,178.70 surpassing the original contract sum by Kshs.89,960,465.70 or 24%. The amount certified as at the time of progress report in the month of January, 2023 was Kshs.341,534,226.96. The expected completion date is 17 December, 2023. The Management did not provide reasons for revising the contract price upwards. Further, in Kagumo Town, some access culverts had overgrown vegetation that could not allow free surface flow of rain water.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

**1.4 Isiolo Region**

**(i) Periodic Maintenance of Ruiiri – Isiolo.**

The tender was awarded at a contract amount of Kshs.682,103,815. The contract commenced on 14 December, 2020 and the initial date for completion was 14 December, 2022. However, at the time of audit inspection, the project was lagging behind schedule with the progress of work at 82.6 percent against over 100%-time lapse.

According to a letter dated 14 December, 2022 by the Regional Director to the contractor, it was noted that on some road pavements, the contractor had used AC material that had failed to meet the minimum laboratory requirements for AC Type 1. The affected sections were Km 13+300 right hand side and Km 15+220 to km 15+770. It was also noted that the above-mentioned irregularity could negatively affect the quality of the affected sections of the road. Several road signage's had been vandalized and the contractor had not been issued with instructions to correct the works.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money by the public.

**1.5 Machakos Region**

**(i) Performance Based Contract for Maintenance of Machakos - Kangundo (B 105) Road**

The contract was awarded at a contract sum of Kshs.34,915,829 for a period of 24 months commencing on 27 July, 2021 with completion date of 26 July, 2023. The amount certified was Kshs.15,257,277 as at the time of inspection in February, 2023. However, it was noted that the contractor had failed to meet the expected service levels as per the contract requirements. Both the inner and the outer vegetation had overgrown beyond the required service level between 150mm and 300mm respectively along the full road chainage. The drainage channels were clogged by overgrown grass and silt. At Km 16, two guardrails that had been detached by a road accident had remained unrepaired and the contractor was not on site.

In the circumstances, the project may not be executed as scheduled which will impact negatively on realization of value for money to the public.

## 1.6 Eldoret Region

### (i) Stage Improvement of Nyaru-Iten

Stage improvement of Nyaru-Iten works were awarded vide contract No. KeNHA/RD/M/2032/2016 at an original contract sum of Kshs.2,418,819,638.75 to commence on 14 November, 2016 for a period of 30 Months with completion date of 13 May, 2019. Later, the works were varied by Kshs.526,630,775.47 to Kshs.2,945,450,414.22 to be completed on 31 March, 2023. As at the time of verification in the month of February, 2023, the certified works were Kshs.2,417,805,863 or 78.5% versus 98.56% elapsed time.

The project has pending bills totalling to Ksh.525,893,208 as at 30 June, 2022 with a risk of incurring additional interest costs and penalties due to delayed payments. The Resident Engineer vide letter dated 10 June, 2022 recommended taking over of works as the contractor had substantially completed the works save for nominal non-permanent works. This would have avoided extension of time as the remaining works would have been done during the defect's liability period. However, instead the contractor was given an extension of time to complete the works by 31 March, 2023.

Delay in paying interim payment certificates has led to excess costs to the project due to interests and taxes charged as shown below:

Description	Kshs.
Variation of price	203,577,680
Add 16% VAT	32,572,429
<b>Total</b>	<b>236,150,109</b>
<b>Interest on delayed Payments</b>	<b>12,034,734</b>

The project brief as at 14 February, 2023 shows that the total certified works done inclusive of variation in price and value added tax was Kshs.2,417,805,863 (IPC 1-16). It also shows that interest on delayed payments at IPC 10 of Kshs.12,034,734. However, addition of interim payment certificates as given in the schedule excluding IPC 1 (Advance Payment) and IPC 10 (Interest on delayed payments) shows that the total certified works is Kshs.2,458,504,065 (83.5%) a difference of Kshs.40,698,202. The workings are shown in the schedule below:

IPC No.	IPC Amount (Kshs.)
IPC 2	119,949,434.21
IPC 3	120,920,581.41
IPC 4	125,539,428.65
IPC 5	121,771,792.76
IPC 6	121,312,703.88
IPC 7	242,265,757.40
IPC 8	266,581,167.84

IPC No.	IPC Amount (Kshs.)
IPC 9	173,548,004.26
IPC 11	192,805,947.52
IPC 12	252,221,796.52
IPC 13	160,762,791.08
IPC 14	205,361,507.00
IPC 15	159,462,884.64
IPC 16	196,000,267.97
<b>Total</b>	<b>2,458,504,065.14</b>
Certified Works	2,417,805,863.00
Difference	40,698,202.14

Had the Management paid on time, the extra costs could have been avoided.

**(ii) Performance Based Contract for the Maintenance of JN A8 Eldoret-Kapsabet Contract Sum Kshs.337,252,990.41**

Review of documents provided for audit revealed that under summary of the bill of quantities, bill No.1, item 01-08-026A for payment of residential engineer's miscellaneous account reflected an amount of Kshs.1,922,337.50 which differed with the detailed analysis amount of Kshs.1,057,507.50 resulting to an unexplained variance of Kshs.864,830.

Similarly, bill No. 25, item no.25-56-003 for cross cutting issues reflected Kshs.3,513,001 and the attached appendix indicated an amount of Kshs.2,953,000 resulting to a variance of Kshs.560,001.

Physical verification carried out in February, 2023 revealed a vandalized sign posts at Km 24+200, Km 26+200, Km 27+300 and Km 32, vandalized culvert and drainage works, waste along the drainages and at Km 25 and Km 35+10 the drainage was broken and not properly aligned, the guardrail at Km 31+200 is broken and the shoulders had been swept away at Km 21+300, Km 28 and Km 30-35+10.

**1.7 Kakamega Region**

**(i) Performance Based Contract for the Maintenance of Busia-Malaba (B13) Road Contract Sum Kshs.270,869,947.80**

Verification of the project revealed the following:

- Side drains were filled with waste and sewer at 0+000 to 0+200BS,
- Emerging pothole and surface wearing off at Km 9+500 and Km 23+600,
- Delay in commencement of works for surface dressing chippings yet the expected progress as per POW was 62.5%.
- Instruction 009 for installation of bumps and installation of rumble strips recorded progress of work 100% and expected progress as per POW was 100% however, no rumble strips had been installed as at the time of audit.

Further, the summary of bill of quantities, bill No.1 for the item 01-50-020 for purchase of office equipment at a total cost of Kshs.1,500,000 was not supported by a detailed appendix. Consequently, it was not possible to confirm which office equipment were to be purchased for this project.

In addition, under residents' engineer's office miscellaneous expenses, the following items were purchased and paid vide invoice order No.15 dated 15 February, 2022;

Description	Quantity	Rate (Kshs.)	Amount (Kshs.)
4 Standard Laptops of minimum RAM 8GB and 1 TB ROM. core i7 Preferably HP Make or LENOVO	2	70,000	140,000
4 HP Desktop Computers of minimum RAM 8GB and 1tb ROM core i7	5	100,000	500,000
<b>Total</b>			<b>640,000</b>

Although the BoQ indicated 4 HP desktop computers, actual number purchased were 5 as highlighted above. No explanation was provided for this variation. Further, these assets were not captured in the fixed asset register.

## 2. Delayed Works and Roads with Excess Length

Review of project status for contracts totalling to Kshs.14,452,666,851.45 with a length of 4,344.99 km revealed that 2,733.02 km had been done while 1,612 have delayed. Further, fifteen (15) roads with contracts totalling to Kshs.7,200,037,190 did more kilometers compared to what had been authorized in the procurement documents by 362.14 kilometers. No explanation or approval have been provided on the excess kilometers.

In the circumstances, delayed works impact negatively on the delivery of road infrastructures and excess and unbudgeted road works may result to unapproved road expenditure.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions, and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective

processes and systems of internal controls, risk management, and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

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 maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services, and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions, and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

24 May, 2023

Kenya National Highways Authority  
 Annual Report and Financial Statements for Road Maintenance Levy Fund  
 For the year ended 30<sup>th</sup> June 2022

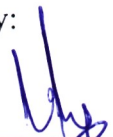
14. Statement of Financial Performance for the Year Ended 30<sup>th</sup> June 2022

	Notes	2021-2022	2020-2021
		Kshs	Kshs
<b>Revenue</b>			
Road Maintenance Levy Fund	1	32,373,684,084	25,766,458,443
Finance income	2	149,517,064	-
Other Income	3	9,177,581	-
<b>Total Income</b>		<b>32,532,378,729</b>	<b>25,766,458,443</b>
<b>Expenditure</b>			
Certified Works (Road Maintenance & Axle Load Expenses)	4 & 5	24,942,781,721	20,905,684,356
Transfer to Operation	6	2,711,942,645	2,535,320,000
Transfer to Development Projects	7	4,555,996,596	2,074,878,851
<b>Total expenditure</b>		<b>32,210,720,962</b>	<b>25,515,883,207</b>
<b>Surplus/(Deficit) for the year</b>		<b>321,657,767</b>	<b>250,575,236</b>

The notes set out on pages 17 to 21 form an integral part of these Financial Statements.

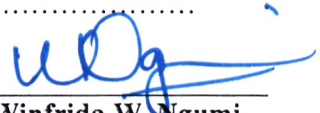
The Financial Statements set out on pages 1 to 16 were signed on behalf of the Board of Directors

by:

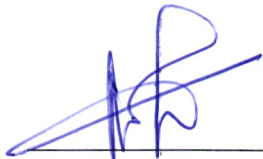
  
 CPA. Chanje Kera  
 Deputy Director (Finance & Accounts)

ICPAK Member No. 8279

Date..... 03 MAY 2022 .....

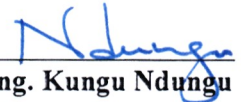
  
 Ms. Winfrida W. Ngumi  
 Chairperson of the Board

Date.... 03 MAY 2022 .....

  
 CPA James Bowen  
 Director Corporate Services

ICPAK Member Number: 7842

Date..... 03 MAY 2022 .....

  
 Eng. Kungu Ndungu  
 Director General

Date..... 03 MAY 2022 .....

**Kenya National Highways Authority**  
**Annual Report and Financial Statements for Road Maintenance Levy Fund**  
**For the year ended 30<sup>th</sup> June 2022**

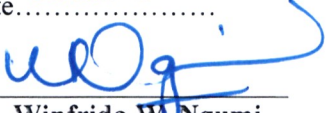
**15. Statement of Financial Position as at 30 June 2022**

	Notes	2021-2022	2020-2021
		Kshs	Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	1,707,746,685	10,197,835,027
Receivables	9	13,225,060,478	4,107,808,210
<b>Total Assets</b>		<b>14,932,807,163</b>	<b>14,305,643,237</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Certificates Payable	10	647,013,580	497,209,382
Retention Payable to Contractors	11	1,706,445,506	1,550,743,545
<b>Total Liabilities</b>		<b>2,353,459,086</b>	<b>2,047,952,927</b>
<b>Net assets</b>		<b>12,579,348,077</b>	<b>12,257,690,310</b>
Accumulated surplus		12,579,348,077	12,257,690,310
<b>Total Net Assets and Liabilities</b>		<b>14,932,807,163</b>	<b>14,305,643,237</b>


The Financial Statements set out on pages 1 to 20 were signed on behalf of the Board of Directors by:

  
 CPA. Chanje Kera  
 Deputy Director (Finance & Accounts)  
 ICPAK Member No. 8279

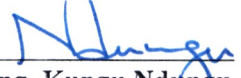
Date... 03 MAY 2022

  
 Ms. Winfrida W Ngumi  
 Chairperson of the Board

Date... 03 MAY 2022

  
 CPA James Bowen  
 Director Corporate Services  
 ICPAK Member Number: 7842

Date... 03 MAY 2022

  
 Eng. Kungu Ndungu  
 Director General

Date... 03 MAY 2022

**KENYA NATIONAL HIGHWAYS AUTHORITY**

*Annual Report and Financial Statements for Road Maintenance Levy Fund*

*For the year ended 30<sup>th</sup> June 2022*

**16. Statement of Changes in Net Assets for the Year Ended 30<sup>th</sup> June 2022**


	<b>Accumulated Surplus</b>
<b>Balance As At July 1, 2020</b>	<b>12,007,115,074</b>
Surplus for the year	250,575,236
<b>Balance As At June 30, 2021</b>	<b>12,257,690,310</b>
<b>Balance As At July 1, 2021</b>	<b>12,257,690,310</b>
Surplus for the year	321,657,767
<b>Balance As At June 30, 2022</b>	<b>12,579,348,077</b>

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
**Annual Report and Financial Statements for Road Maintenance Levy Fund**  
**For the year ended 30<sup>th</sup> June 2022**


**17. Statement of Cash Flows for The Year Ended 30<sup>th</sup> June 2022**

	2021-2022	2020-2021
	Kshs	Kshs
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Receipts from KRB	32,532,378,729	25,766,458,443
<b>Total Receipts</b>	<b>32,532,378,729</b>	<b>25,766,458,443</b>
<b>Payments</b>		
Road Maintenance and Axle Load Expenses	24,942,781,721	20,905,684,356
Transfer to Operation	2,711,942,645	2,535,320,000
Transfer to Development	4,555,996,596	2,074,878,851
<b>Total Payments</b>	<b>32,210,720,962</b>	<b>25,515,883,207</b>
<b>Surplus</b>	<b>321,657,767</b>	<b>250,575,236</b>
<b>Changes in Working Capital Balances</b>		
(Increase)/Decrease in Receivable Exchanges	(9,117,252,268)	(509,732,204)
Increase/(Decrease) in Payables/Retention	305,506,159	368,682,638
<b>Net Change in Working Capital</b>	<b>(8,811,746,109)</b>	<b>(141,049,566)</b>
<b>Net Cash Flow from Operating Activities</b>	<b>(8,490,088,342)</b>	<b>109,525,670</b>
<b>Net Cash Flows from Investing Activities</b>	-	-
<b>Net cash flows used in financing activities</b>	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(8,490,088,342)</b>	<b>109,525,670</b>
Cash and cash equivalents at 1 <sup>st</sup> July	10,197,835,027	10,088,309,357
<b>Cash and cash equivalents at 30<sup>th</sup> June</b>	<b>1,707,746,685</b>	<b>10,197,835,027</b>

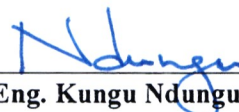
\*\*\* The Authority's cash flow statement is presented using the direct method

  
**CPA. Chanje Kera**  
**Deputy Director (Finance & Accounts)**  
 ICPAK Member No. 8279

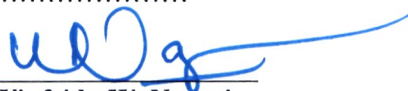
Date... 03 MAY 2022

  
**CPA James Bowen**  
**Director Corporate Services**  
 ICPAK Member Number: 7842

Date... 03 MAY 2022

  
**Eng. Kungu Ndungu**  
**Director General**

Date... 03 MAY 2022

  
**Ms. Winfrida W. Ngumi**  
**Chairperson of the Board**  
 Date... 03 MAY 2022

**Kenya National Highways Authority**  
**Annual Report and Financial Statements for Road Maintenance Levy Fund**  
**For the year ended 30<sup>th</sup> June 2022**

**18. Statement of Comparison of Budget and Actual Amounts**

	APRP BUDGET	ACTUAL	VARIANCE	VARIANCE
	2021-2022 Kshs.	2021-2022 Kshs.	2021-2022 Kshs.	2021-2022 %
<b>Revenue</b>				
40% Fuel Levy	26,053,551,050	26,053,551,050	-	100%
Transit Tolls	539,000,000	539,000,000	-	100%
Conditional Allocation	5,781,133,064	5,781,133,064	-	100%
<b>Total Funds from KRB</b>	<b>32,373,684,114</b>	<b>32,373,684,084</b>	-	<b>100%</b>
Finance Income	149,517,064	149,517,064	-	100%
Other Income (Liquidated Damages)	9,177,581	9,177,581	-	100%
<b>Total Income</b>	<b>32,532,378,729</b>	<b>32,532,378,729</b>	-	<b>100%</b>
Less Transfer to Operation Budget (Fuel Levy)	2,553,248,000	2,553,248,000	-	100%
Less Transfer to Development	4,555,996,596	4,555,996,596	-	100%
Less Transfer to Operation (Other Income)	158,694,645	158,694,645	-	100%
<b>Sub Total</b>	<b>25,264,439,518</b>	<b>25,264,439,518</b>	-	<b>100%</b>
Carry Over Funds	7,989,188,920	7,989,188,920	-	100%
<b>Total</b>	<b>33,253,628,438</b>	<b>33,253,628,438</b>	-	<b>100%</b>
<b>Expenditure</b>				
Axle Load Activities	2,647,538,699	2,585,508,499	62,030,200	98%
Emergency Works	332,748,888	330,371,251	2,377,637	99%
Road Safety	5,000,000	2,359,680	2,640,320	47%
Bailey Bridges	27,306,272	17,026,935	10,279,337	62%
Road Condition Survey	44,906,302	44,171,402	734,900	98%

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**For the year ended 30<sup>th</sup> June 2022**

Operations, Maintenance of RMS & PBC Workshops	72,528,392	55,682,977	16,845,415	77%
Arbitration and Court Matters	19,064,318	15,035,927	4,028,391	79%
Road Side Development	18,000,000	17,851,625	148,375	99%
Research and Innovation	20,000,000	14,029,028	5,970,973	70%
Title Survey – Class S, A & B	15,000,000	-	15,000,000	0%
Special Allocation (Thika Garisa Road)	1,387,835,755	1,387,835,755	0	100%
Corridor A (794KM)	2,063,884,085	1,793,312,314	270,571,771	87%
Corridor B (957KM)	1,697,268,585	1,644,606,952	52,661,633	97%
Corridor C (968KM)	2,098,301,753	2,023,806,444	74,495,309	96%
Nairobi (760KM)	1,250,038,355	923,874,599	326,163,756	74%
Central (889KM)	2,195,402,445	1,931,701,248	263,701,197	88%
Coast (1,423KM)	1,264,116,199	1,021,463,257	242,652,942	81%
Upper Eastern (2,100KM)	1,499,165,390	1,191,118,211	308,047,179	79%
Lower Eastern (1,100KM)	1,841,179,729	1,624,225,996	216,953,733	88%
North Eastern (3,351KM)	1,912,466,503	1,682,435,522	230,030,981	88%
Nyanza (999KM)	2,071,009,518	1,693,764,207	377,245,312	82%
South Rift (897KM)	2,055,546,915	1,901,065,040	154,481,875	92%
North Rift (2,469KM)	2,221,565,047	2,149,365,721	72,199,326	97%
Western (652KM)	1,497,621,194	1,357,513,934	140,107,260	91%
<b>Totals</b>	<b>28,257,494,344</b>	<b>25,408,126,523</b>	<b>2,849,367,821</b>	<b>90%</b>
<b>Other Expenditures</b>				
Conditional Allocation	5,781,133,064	-	5,781,133,064	0%

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
***Annual Report and Financial Statements for Road Maintenance Levy Fund***  
***For the year ended 30<sup>th</sup> June 2022***

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**BUDGET NOTES**

**a) Road Maintenance Levy Fund & Transit Tolls**

The fuel levy budget includes carryover funds approved by the Board of Directors on 29<sup>th</sup> January, 2022

**b) Road maintenance and axle load expenses**

The variance was a result of some projects not fully absorbing their annual budget provisions, the fourth quarter maintenance works procurement process was concluded towards the end of the Financial year. Advance payments are included in the statement of comparison of Budget Vs Actual and treated as receivables in the Statement Financial Position they are

**c) Changes between Original and Final budget**

The changes between original and final budget were as a result of revision of the budget within the Financial Year and inclusion of the approved carry over budget from Financial Year 2020-2021

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
**Annual Financial Statements For Road Maintenance Levy Fund**  
**For the year ended June 30, 2022**

**19. Summary of Significant Accounting Policies**

**1. Statement of Compliance and Basis of Preparation**

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

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

**2. Adoption of new and revised standards**

**a) New and amended standards and interpretations in issue effective in the year ended 30th June 2022**

IPSASB deferred the application date of standards from 1<sup>st</sup> January 2022 owing to COVID 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1<sup>st</sup> January 2023.

**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022**

<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2023:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Authority’s future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held.</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> </ul>
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**KENYA NATIONAL HIGHWAYS AUTHORITY**  
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	<ul style="list-style-type: none"> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Authority's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<b>IPSAS 42:</b> Social Benefits	<b>Applicable: 1<sup>st</sup> January 2023</b> The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Authority provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess: <ul style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the Authority;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the Authority's financial performance, financial position and cash flows.</li> </ul>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<b>Applicable: 1st January 2023:</b> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> </ul> Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	<b>Applicable 1<sup>st</sup> January 2023</b> <ul style="list-style-type: none"> <li>• <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i></li> </ul> Amendments to refer to the latest System of National Accounts (SNA 2008).

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	<ul style="list-style-type: none"> <li>• <i>IPSAS 39: Employee Benefits</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</li> <li>• <b>IPSAS 29: Financial instruments: Recognition and Measurement</b> Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1<sup>st</sup> January 2023.</li> </ul>
IPSAS 43	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Authority.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

**c) Early adoption of standards**

The Authority did not early – adopt any new or amended standards in Financial Year 2021/22.

**3. Revenue Recognition**

**i) Revenue from Non-Exchange Transactions**

**Transfers from Other Government Entities/ Transfer of RMLF from KRB**

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

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
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**For the year ended June 30, 2022**

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the asset will flow to the Authority and can be measured reliably. In particular, revenue from non-exchange transactions relates to the transfer of funds from KRB to RMLF for the Road Authorities.

**4. Certified Works**

Certified works are recognized when the works can be measured reliably and/ or when certificates of work done are received by the Road Authority.

**5. Roadwork Commitments**

Roadwork commitments arise from contracts entered into with contractors for road maintenance and development. These commitments are disclosed in note no. 12 of these financial statements.

**6. Transfers to Operations**

This relates to 4% of the RMLF amount allowable for use by the Road Authority for operational activities. Operating expenses are expenses incurred by the Road Authority in the normal day to day operation of the RMLF.

**7. 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. For the purposes of these Financial Statements, cash and cash equivalents relates to bank balances in commercial banks for the RMLF as at the end of the financial year.

**8. Financial instruments**

**a) 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.

***Loans and receivables***

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**For the year ended June 30, 2022**

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Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. 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. Losses arising from impairment are recognized in the surplus or deficit.

***Impairment of financial assets***

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or an Authority of financial assets is impaired. A financial asset or an Authority of financial assets 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 or the Authority of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an Authority of debtors 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)

***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.

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
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**For the year ended June 30, 2022**

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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.

For the purposes of these Financial Statements, receivables and payables will include: -

- a. **GoK Receivables:** Relates to RMLF that is receivable or refundable by GoK (RMLF that is utilized for development purpose by the Road Authority and is therefore refundable by the GoK)
- b. **Receivable from KRB:** Relates to RMLF amounts yet to be disbursed by KRB to the Road Authority.
- c. **Advances to Contractors:** Relates to recoverable advances made by a Road Authority to the Contractor.
- d. **Certificate Payables:** Relates to amounts owed to Contractors with respect to road maintenance, rehabilitation and development arising from certified works. When a certificate of work is raised by the contractor, the Road Authority will debit contract payable and credit certificate payable. When the actual payment is done based of the raised certificates, the Road Authority will debit the Certificate Payables and credit RMLF Bank
- e. **Other Payables:** This relates to other payables to suppliers that is not part of road maintenance, rehabilitation and development. This may be in form of consultancies or normal office supplies relating to the RMLF that is not directly attributed to the road development.
- f. **Retention Monies:** This relates to the percentage of the Contract amount that is retained by Road Authorities on every payment certificate raised awaiting the lapse of the defect period.

### **9. Budget information**

The Annual Public Roads Programmed APRP (Original budget) for FY 2021/2022 was approved on 28<sup>th</sup> January 2021. Subsequent revisions or additional appropriations were made to the approved budget (APRP) in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget (APRP) by the Authority upon receiving the respective approvals in order to conclude the final budget.

The Authority's budget is prepared based work plans from the Roads Authorities which is on cash basis. The Financial Statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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**For the year ended June 30, 2022**

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In addition to the Basis difference, adjustments to amounts in the Financial Statements are also made for differences in the formats and classification schemes adopted for the presentation of the Financial Statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section of these Financial Statements.

**10. Nature and purpose of reserves**

The surplus reserve represents the surplus or deficit of Road maintenance contributions against road maintenance expenses.

**11. 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.

**12. Related parties**

The Authority regards a related party as a person or an Authority 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 directors, the Fund Managers and Fund Accountant.

**13. Comparative figures**

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

**14. Events after the reporting period**

There were no material adjusting and non- adjusting events after the reporting period.

**15. Ultimate and Holding Authority**

The Authority is a Road Maintenance Levy Fund Agency established by KRB Act.

**16. Currency**

The Financial Statements are presented in Kenya Shillings (KShs).

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
**Annual Financial Statements For Road Maintenance Levy Fund**  
**For the year ended June 30, 2022**

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**17. 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.

**a) 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. IPSAS 1.140.

**b) Provisions**

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

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.

**18. Financial risk management**

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Fund's financial risk management objectives and policies are detailed below:

**KENYA NATIONAL HIGHWAYS AUTHORITY**  
**Annual Financial Statements For Road Maintenance Levy Fund**  
**For the year ended June 30, 2022**

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**a) Credit risk**

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Authority's management based on prior experience and their assessment of the current economic environment.

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Authority has recognized in the Financial Statements is considered adequate to cover any potentially irrecoverable amounts.

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the RMLF Administrator/ Head of Finance, who has built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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**For the year ended June 30, 2022**

**19. Notes to the Financial Statements**

**1.0 Road Maintenance Levy Fund**

Description	2021-2022	2020-2021
	KShs	KShs
40% Fuel Levy	21,586,537,817	23,152,579,592
Transit Toll	450,016,607	539,000,000
Capital Grant for Development Projects	4,555,996,596	2,074,878,851
Conditional Allocation	5,781,133,064	-
<b>Total Revenue</b>	<b>32,373,684,084</b>	<b>25,766,458,443</b>

**2.0 Finance Income**

The Finance income comprises of interest earned from Co-operative RMLF Bank Account no 01141160979901 amounting to Kshs 149,517,064.

**3.0 Other Income**

Other income comprises Liquidated damages charged to various contractors for delay in completion of the projects.

**4.0 Road Maintenance & Axle Load Expenses (Certified Works)**

Description/Region	2021-2022	2020-2021
	KShs	KShs
HQ Activities	1,918,765,000	1,993,196,300
Axle Load	2,349,599,875	1,586,187,408
Corridor A	1,586,227,466	1,380,462,446
Corridor B	1,575,360,109	1,487,851,471
Corridor C	1,979,466,199	1,537,911,006
Nairobi	921,894,242	801,682,501
Central	1,846,818,394	2,312,913,628
Coast	1,010,634,048	1,322,587,591
Upper Eastern	1,157,605,868	1,500,536,078
Lower Eastern	1,583,030,741	1,124,335,560
North Eastern	1,760,386,248	1,173,453,252
Nyanza	1,735,512,577	1,291,522,494
South Rift	1,907,462,032	1,188,362,933
North Rift	2,042,986,608	1,535,400,395
Western	1,261,526,154	669,281,293
<b>Sub Total</b>	<b>24,637,275,561</b>	<b>20,905,684,356</b>
Axle Load Fixed Assets	305,506,160	-
<b>Total</b>	<b>24,942,781,721</b>	<b>20,905,684,356</b>

**5.0 Axle Load Fixed Asset**

These are Axle load Asset financed by RMLF and included in the statement of Financial Performance since the reporting template has no provision for capitalization of non-current assets

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Date	Asset Description	Amount
30/06/2022	HSWIM & Multidec Scales – Gilgil & Suswa WB	102,668,076.80
30/06/2022	HSWIM & Multidec Scales – Webuye WB	45,736,238.80
30/06/2022	HSWIM & Multidec Scales – Busia WB	11,648,233.40
30/06/2022	HSWIM & Multidec Scales – Juja & Isinya WB	134,687,391.20
30/06/2022	HSWIM & Multidec Scales – Mtwapa WB	10,766,219.80
	<b>Total</b>	<b>305,506,160.00</b>

**6.0 Transfer to Operation**

Description	2021-2022	2020-2021
	KShs	KShs
4% RMLF Operation Funds	2,553,248,000	2,535,320,000
Finance Income (Interest income from Cooperative Bank Account)	149,517,064	-
Liquidated Damages	9,177,581	-
<b>Total expenses</b>	<b>2,711,942,645</b>	<b>2,535,320,000</b>

\*\*\*\*KRB Act, 1999 Section 6 (2) (1) the Highways Authority, the rural Roads Authority and the Urban Roads Authority may utilize such portion of monies received from the Fund for operational and administrative expenses as may be approved by the Minister on the advice of the Board: Provided that such expenditure shall not in any year exceed, as a proportion of the projected annual expenditure of the Fund; in the case of the Highways Authority, four percent;

**7.0 Transfer to Development Projects**

Description	2021-2022	2020-2021
	KShs	KShs
<b>List per project</b>		
Isebania - Mukuyu - Kisii - Ahero Road (A1)	-	100,000,000
Kibwezi - Mutomo - Kitui Road (B7)	-	100,000,000
NUTRIP: James Gichuru junction – Rironi (Uhuru Highway) (26 km)	1,935,000,000	700,000,000
Garsen – Witu – Lamu Road (C112)		650,000,000
Mau-Mau Road	355,000,000	250,000,000
Lamu Port Access Road	-	100,000,000
Nuno - Modogashe Road Project	-	74,878,851
KTSSP: Rehabilitation Kakamega-Webuye Road	-	100,000,000
Athi River – Machakos	1,155,000,000	-
Merille – Marsabit	200,000,000	-
Barpello – Tot – Marich Pass	200,000,000	-
Ruiru – Githunguri	310,996,596	-
Posta – Naibor	400,000,000	-
<b>Total</b>	<b>4,555,996,596</b>	<b>2,074,878,851</b>

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**8.0 Cash and Cash Equivalents**

**(a) Analysis of Bank and Cash balances**

These represent cash held at various banks, as follows

Description	2021-2022	2020-2021
	KShs	KShs
Co-operative Bank-RMLF A/C No. 01141160979901	1,301,179	8,647,091,482
National Bank – Retention A/C No. 01001032733200	183,962,682	569,487,990
Call Deposit – Co-operative Bank Ac No. 01150160979926	1,300,000,000	981,255,555
Call Deposit – KCB Bank	222,482,824	-
<b>Total</b>	<b>1,707,746,685</b>	<b>10,088,309,357</b>

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

**9.0 Receivables**

Description	2021-2022	2020-2021
	KShs	KShs
Receivable from KRB	11,865,854,651	2,764,479,902
Contractors Advances	1,359,205,827	1,343,328,308
<b>Total</b>	<b>13,225,060,478</b>	<b>4,107,808,210</b>

**10.0 Movement of Contractors Advance**

Description	2021-2022	2020-2021
	KShs	KShs
Bal as at 1 <sup>st</sup> July 2021	1,343,328,309	833,596,483
Advances issued during the Year	970,930,326	1,073,329,406
Less Recoveries from Contractors	(955,052,807)	(563,597,581)
<b>Closing Balance as at 30<sup>th</sup> June 2022</b>	<b>1,359,205,827</b>	<b>1,343,328,309</b>

**11.0 Certificates Payable**

Description	2021-2022	2020-2021
	KShs	KShs
Opening Balance as at 1 <sup>st</sup> July	497,209,382	340,151,730
Add Total Certified Works during the year	25,155,844,184	20,905,684,356
Less Certificates paid within the year	(25,006,039,986)	20,748,626,704)
<b>Closing Balance as at 30<sup>th</sup> June</b>	<b>647,013,580</b>	<b>497,209,382</b>

**12.0 Retention Payable**

Description	2021-2022	2020-2021
	KShs	KShs
Opening Balance as at 1 <sup>st</sup> July	1,550,743,545	1,339,118,559
Contract Retentions during the year	1,178,132,528	1,045,290,109
Retentions paid during the year	(1,022,430,567)	(833,665,124)
<b>Closing Balance as at 30<sup>th</sup> June</b>	<b>1,706,445,505</b>	<b>1,550,743,545</b>

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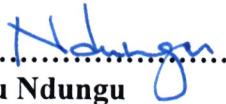
**13: Progress on Follow Up of Auditors Recommendations**


The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor (FY 2020/2021) Report	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p><b>Unsupported Cash and Cash Equivalents</b></p> <p>The statement of Financial position reflects cash and cash equivalents balance of Kshs 10,197,835,027 as disclosed in note 5 to the financial statements. The balance includes a call deposit balance of Kshs 981,255,555 for which bank reconciliation statement was not provided for audit. In the circumstances, the accuracy and completeness of the call deposit balance of Kshs 981,255,555 could not be confirmed.</p>	<p><i>The Authority places funds that are not for immediate use in call deposit in line with the National Treasury Circular No. 4/2017. In light of this guideline the Authority placed Kshs 1,500,000,000 in Co-operative Bank Call deposit account out of which Kshs 981,255,555 was for Fuel Levy Fund Contractors. The bank reconciliation of Kshs 1,500,000,000 for Co-operative Bank call deposit as at 30<sup>th</sup> June 2021 was provided to the Auditor.</i></p>	Resolved	N/A
	<p><b>Variance in Development Project Expenses</b></p> <p>The statement of Financial Performance reflects development projects expenses amount of Kshs 2,074,878,851 as disclosed under note 3 to the Financial statements. However, Kenya Roads Board records reflects Kshs 2,100,000,000 for the same resulting in an unexplained and unreconciled variance of Kshs 25,121,149. In the circumstances, the</p>	<p><i>As rightfully observed in the schedule from State Department of Infrastructure, the amount of Kshs 25,121,149 was not received by the Authority from MOTIHUD. The Authority could only account for the funds received by itself.</i></p>	Not Resolved	30 <sup>th</sup> June 2024

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	accuracy and completeness of development projects expenses amount of Kshs 2,074,878,851 could not be confirmed.			
	<b>Emphasis of Matter</b>  As disclosed in note 13 to the Financial statements, the Fund Financial statements were prepared using the 2020/2021 Financial year as the base year and therefore no comparative balances have been reflected.	The Funds transactions were previously accounted for in the Authority's main Financial statements.	<i>Resolved</i>	N/A
	<b>Other Matter</b>  <b>Budgetary control and Performance</b>  The statement of comparison of budget and actual amounts reflects actual expenditure on Kshs 21,686,652,587 against a budgeted amount of Kshs 29,039,333,029 resulting in under-absorption of Kshs 7,352,679,442 or 25% of the budget.  The under absorption affected the planned activities and may have impacted negatively on service delivery to the public.	<i>This scenario resulted from delayed commencement of some maintenance projects resulting from contractors' delayed submission of Performance Bonds and All Risk Insurance policies. However note that most of the contractors who delayed in commencing works expedited maintenance works during the financial year with the intention of recovering lost time. The underspent amount of Kshs. 7,352,679,442 as indicated above was fully absorbed by the respective projects within the 1<sup>st</sup> quarter of the FY 2022/2023.</i>	<i>Resolved</i>	N/A

Signature.....  
**Eng. Kungu Ndungu**  
**DIRECTOR GENERAL**

Signature.....  
**Ms. Winfrida W. Ngumi**  
**CHAIRPERSON OF THE BOARD**