

REPUBLIC OF KENYA



*Enhancing Accountability*

**REPORT**

**THE NATIONAL ASSEMBLY  
PAPERS LAID**

**DATE:** 21 SEP 2021

**DAY:**

Tuesday

**OF**  
**TABLED  
BY:**

Leader of Majority Party

**CLERK-AT  
THE-TABLE:**

Firby Muriuki

PARLIAMENT  
OF KENYA  
LIBRARY

**THE AUDITOR-GENERAL**

**ON**

**KENYA RURAL ROADS AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE, 2019**



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## **KENYA RURAL ROADS AUTHORITY**



### **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30 2019**

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

***Opening Up Rural Kenya***

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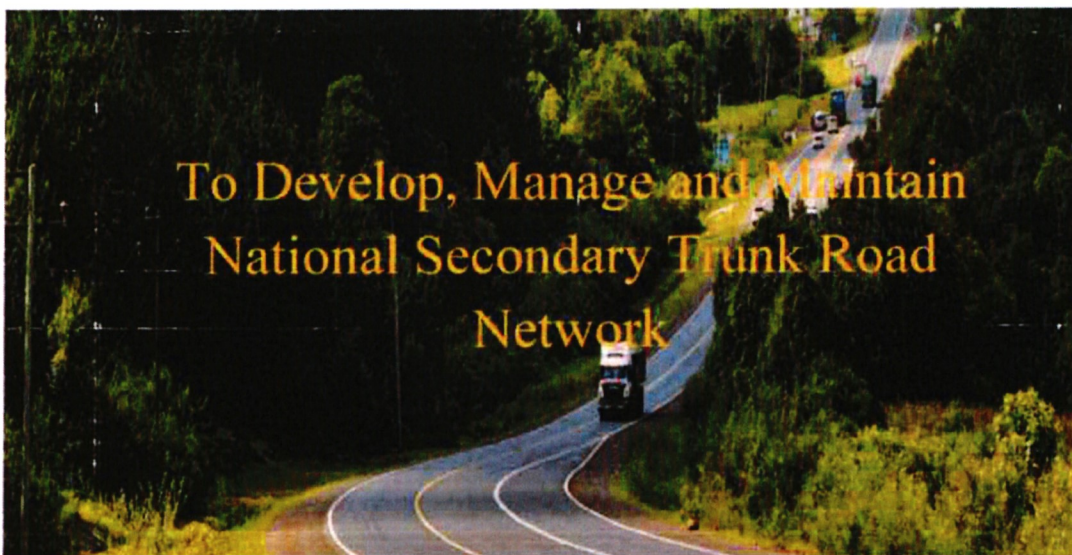
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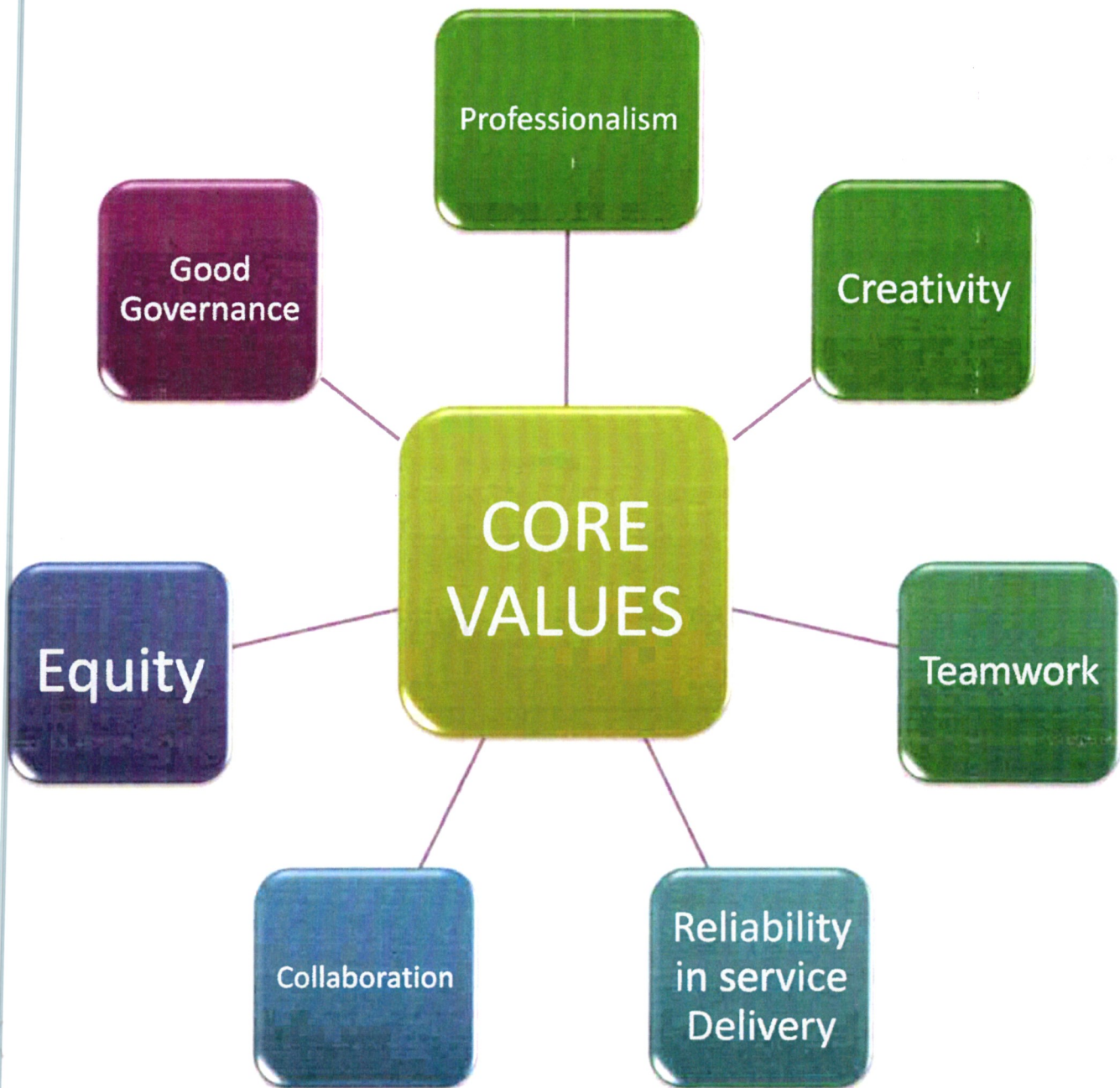
## **ABBREVIATIONS**

AIA	Appropriation In Aid
AFD	Agence Francise De Development
BADEA	The Arab Bank for Economic Development In Africa
EU	European Union
FY	Financial Year
GIS	Geographical Information System
GoK	Government of Kenya
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
KeRRA	Kenya Rural Roads Authority
KeNHA	Kenya National Highways Authority
KfW	Germany Development Bank
KM	Kilometres
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
KURA	Kenya Urban Roads Authority
MTEF	Medium Term Expenditure Framework
LVSR	Low Volume Seal Roads
MoTIHUD	Ministry of Transport, Infrastructure, Housing and Urban Development
RMLF	Road maintenance Levy Fund
RSIP	Road Sector Investment Programme



**OUR MISSION**





## KEY AUTHORITY'S INFORMATION AND MANAGEMENT

### (a) Background information

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

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

The Authority began its operations in September 2008 and is represented in the 47 counties through regional offices.

### (b) Principal activities

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

### (c) Key Management

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

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

### (d) Fiduciary Management

The key Management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Acting Director General	Eng. Luka Kipchumba Kimeli
2.	Director (Corporate Services)	CPA. Dan Manyasi
3.	Director (Research, Strategy & Compliance)	Eng. Peter Patu Gichohi
4.	Acting Director (Road Asset Management)	Eng. Julius K. Gakubia
5.	Director (Planning, Design and Environment)	Eng. Enoch Ariga Kombo
6.	Director (Development)	Eng. Jackson K. Magundu.
7.	Deputy Director (Audit Services)	CPA. Judith Chepkemai Chumo.
8.	Deputy Director (Corporation Secretary/ Legal Affairs)	Mr. Justin Rapando.
9.	Deputy Director (Supply Chain Management)	Miss. Margaret Wanja Muthui.

**(e) Fiduciary Oversight Arrangements**

1. Ministry of Transport Infrastructure Housing and Urban Development
2. Kenya Roads Board.
3. Public Investments Committee
4. Audit and Finance Board Committees.
- 5.

**(f) Authority Headquarters**

6th Floor, Blue Shield Towers,  
Hospital Hill Road, Upper Hill,

**(g) Authority Contacts**

PO Box 48151 – 00100,  
Nairobi GPO  
Tel. 0202710464  
Email: [kerra@kerra.go.ke](mailto:kerra@kerra.go.ke)  
Website: [www.Kerra.go.ke](http://www.Kerra.go.ke)

**(h) Principal Bankers**

**1. KCB Bank Limited,**

Moi Avenue Branch,  
P.O. Box 48400-00100,  
Nairobi GPO

**2. NIC Bank Limited,**

Upper Hill Branch,  
P.O. Box 44599-00100 ,  
Nairobi GPO

**3. Equity Bank Limited,**

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

**4. Cooperative Bank Limited**

Co-operative House,  
Haile Selassie Avenue,  
P.O. Box 48231 - 00100,  
Nairobi GPO

**(i) Independent Auditors**




Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 49384-00100  
Nairobi, GPO

**(j) Principal Legal Adviser**

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

## **BOARD OF DIRECTORS**

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

 <p><b>Mr. Henry K. Rotich, CBS</b> Cabinet Secretary National Treasury</p>	<p>Mr. Henry K. Rotich is the Cabinet Secretary for The National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 12 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist between 2001- 2004. He has been a Director of several Boards of State Corporations including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics. Mr. Rotich holds a Master’s Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA degrees in Economics from the (University of Nairobi)</p>
 <p><b>Mrs. Margaret Muiru, OGW</b> Alternate to the Cabinet Secretary –The National Treasury</p>	<p>Mrs Margaret Muiru was born in 1959. She holds a Bachelor of Arts Degree in political science from the University of Nairobi and is finalizing an MBA in Government and Ethics from Mount Kenya University. She has attend various professional courses including Advanced Public Administration and Strategic Leadership Development.</p> <p>She has extensive experience in administration and corporate governance having served in different capacities in various government departments and ministries.</p> <p>She is the alternate to the Cabinet Secretary The National Treasury.</p>
 <p><b>Mr. Julius Korir, EBS</b> Principal Secretary - Ministry of Transport, Infrastructure, Housing &amp; Urban Development. From July 2018</p>	<p>Mr. Julius Korir is the Principal Secretary - Ministry of Transport, Infrastructure, Housing &amp; Urban Development and was previous Principal Secretary, State Department of Industry and Enterprise Development in the Ministry of Industry, Investment and Trade having been appointed in December 2015. He also served as the <b>Industrialization Secretary</b>, Ministry of Industrialization and Enterprise Development from May 2014. He holds an MBA in International Business and a BSc. in Agricultural Economics.</p> <p>Mr. Julius Korir has had an industrious and successful career in trade &amp; industrial development; and senior management in various institutions. This experience includes championing the Ease of Doing Business for a conducive business environment; export trade promotion, investment promotion; private sector development; Small and Medium Enterprise (SME) development; Sector and Enterprise productivity and competitiveness; and Market development, promotion and linkages.</p> <p>Mr. Julius Korir has 15 years of experience in the national trade and industry development and 10 years in senior management and leadership positions in various institutions in the trade and industry sectors. While at the Kenya Investment Authority (KENINVEST), he held the position of Acting Managing Director from August 2011 to August 2012. Mr. Julius Korir also served at the Export Promotion Council for 15 years rising up to become the General Manager in charge of Trade Information and Business Advisory Services in 2008.</p>



**Eng. Francis Gitau**

Alternate to Principal Secretary- Ministry of Transport and Infrastructure

Eng. Francis Gitau was born in 1965. He is the Infrastructure Secretary responsible to the Principal Secretary, Infrastructure, Ministry of Transport, Infrastructure, Housing & Urban Development. He is nominated as an alternate Board Member for the Principal Secretary, Infrastructure.

Eng. Francis Gitau holds an MSc Civil from University of Nairobi, MBA from JKUAT, an Advanced Professional Training in Management of Road Maintenance from Aachen University, Germany and a BSc Civil from University of Nairobi. He is the chairman of the Mechanical Transport Fund from 2015. He is also been an alternate director. He has worked in the various capacities including Chairman of Budget Committee Infrastructure Department; chairman of Transport Sector Training Committee of National Industrial Training Authority; Alternate chair of Ministerial Human Resource Committee; chairman of National Steering Committee on Review of Road Design Standards; and ISO Implementer under Roads Department among other leadership positions.

He is trained in the various areas including Strategic Leadership; Resource Management; Management of Labour Based Road Construction and Maintenance Programme, Management of Road Maintenance, Financial Monitoring and Evaluation, Management Corporate Governance and FIDIC Course.



**Mr. Nelson Marwa Sospeter, EBS** Principal Secretary for the State Department of Devolution (January 2018- July 2018)

**Mr. Nelson Marwa Sospeter, EBS**, was appointed the Principal Secretary for the State Department for Devolution on 26th January, 2018. Prior to his appointment; he was the immediate former Coast Regional Coordinator

In 2015 he was conferred by President Uhuru Kenyatta with the Elder of the Order of the Burning Spear (EBS) for his sustained efforts in the war against Al Shabaab, insecurity, drug abuse and illicit brew at the Coastal Region.

Mr. Marwa has Masters degrees in Strategic Security Management from Virginia School of Coast Guards, Australia studied Business Administration at Baraton University and Disaster Management from Israel. He had a short stint as a lecturer at Egerton University before joining the Provincial Administration.



**Ms. Margaret Osilli**

Alternate to Principal Secretary - Devolution, Ministry of Devolution and Planning.

Ms Margaret Osilli is the Assistant Director Devolution. She is an accounting professional with management skills and expertise in financial management.

Ms. Osilli is a Certified Public Accountant and holds a Certificate in Strategic Leadership Development Programme. She has over 20 years' experience in cash management, procurement, internal controls, budgeting, financial reporting and analysis. She possesses exceptional interpersonal and management skills. She has worked for various institutions including Malaba Town Council, Busia County Council, Nairobi City Council, Kisumu City Council, and county government of Kisumu.



**Eng (Prof.) Oyuko Mbeche**

Tertiary Institutions

Prof Oyuko. O Mbeche was born in 1946 and is a Civil Engineer specializing in the field of Transportation and Planning. He is a Board Member nominated by Tertiary Institutions in accordance with the provisions of the Kenya Roads Board Act 2007. Prof. Mbeche is a Member of the American Society of Civil Engineers, American Society of Engineering Education and Kenya National Academy of Sciences. He is a Nobel peace prize recipient bestowed on him by the International Panel on Climate Change (IPCC) in December, 2007. He is a Professor of Civil Engineering at the University of Nairobi and has supervised various undergraduate and postgraduate projects. He has also written many research papers on matters touching on land use, planning, transport economics and urban planning. In his work experience, he has worked as a project coordinator, team leader, and project civil/structural engineer in various government organizations.



**Mrs Rose Githua**

Kenya Institute of Planners

Rose Wanjiru Githua was born in 1947. She is a Registered Physical Planner and an Environmental Impact Assessment (EIA) Lead Expert. She was nominated as a Board Member by the Kenya Institute of Planners in which she is a Corporate Member, in accordance with the provisions of the Kenya Roads Board Act 2007. In addition, she is Corporate Member of the Architectural Association of Kenya (Town Planning Chapter) and the Association of Environmental Impact Assessment and Audit serving as a Lead Expert. She is also a Member of the Environment Institute of Kenya (EIK). In her employment record, she has worked in the following capacities: Consultant in physical (spatial) planning/EIA Lead Expert (R.G Plantech Consortium), Member of Kenya National Land Use Policy in the Urban Land Use, Environment and Informal Sector (Ministry of lands and settlement) She has held the following positions in the Ministry of Lands and Settlement: Senior Assistant Director of Physical Planning, Senior Physical Planner/Provisional Physical Planner and Physical Planner

She is been trained on the following: environmental impact assessment; introduction to urban and regional planning using Arc GIS and Arc View; participatory environmental planning; public service management programme; advanced international training programme in Stockholm Sweden; management seminar for administrative and technical officers; and inter-personal management development skills for senior women managers in the public sector.



**Mr. Charles T. Sunkuli, CBS,**



Principal Secretary, State Department for Devolution, Ministry of Devolution and development of ASALs

**Mr. Charles T. Sunkuli, CBS,** is the current Principal Secretary, State Department for Devolution, Ministry of Devolution and development of ASALs. He has previously served as the Principal Secretary, Ministry of Environment and Forestry, a position he held from December, 2015 to February, 2018.

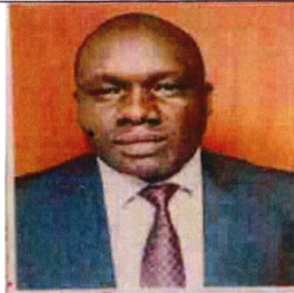
Prior to his appointment as the Principal Secretary, Mr. Sunkuli worked with Ewaso Ng'iro South River Development Authority (ENSDA) where he rose through the ranks to become the Managing Director from 2010-2016.

He has a wealth of experience in Public Service spanning over 18 years. Mr. Sunkuli is an experienced management strategist with a solid background in Administration, Planning, Management and Leadership.

He holds two Executive Masters Degree in Business Administration (EMBA) from Eastern and Southern Africa

	<p>Management Institute (ESAMI) and Maastricht School of Management (MSM) Netherlands, a Bachelor of Education Degree (B.Ed. Arts) from Moi University. He has also undertaken various specialized trainings including Procurement Standards and Socio-Economic Development, Governance and Godly leadership in the United States of America (USA) among many others.</p>
 <p><b>Eng. Luka K. Kimeli</b> <i>P.Eng., MBA, BscHons(Civil), MIEK,</i> <b>Ag Director General</b></p>	<p>Eng. Luka K. Kimeli was born in 1973 and is the Acting Director General and secretary of the Board . He holds MBA and degree BSc.Hons (Civil Eng.) First class Honors from the University of Nairobi. Eng. Kimeli is a seasoned engineer with extensive experience in areas of planning, Policy formulation, and construction management. He has held several senior positions in the public service. Eng. Luka Kimeli was seconded to Kenya Rural Roads Authority initially as a Regional Manager and later became the General Manager (Maintenance).He is a registered engineer with Engineers Board of Kenya and a member of the Institution of Engineers of Kenya (MIEK). He is trained in corporate Governance and Strategic Leadership Development Programme.</p>
 <p><b>Mr. Justin M. Rapando</b> <i>LLM, LLB Msc, Dip(KSL), CPS(K), M(CI Arb)</i> <b>Deputy Director - Legal Affairs/Secretary</b></p>	<p>Mr. <b>Rapando</b> is an advocate of the High Court of Kenya and is currently the in-house counsel at the Kenya Rural Roads Authority where he has been involved in several assignments on Alternative Dispute Resolution. He is an accredited mediator with Facilita8 in partnership with the Strathmore Dispute Resolution Centre.</p>

## MANAGEMENT TEAM



**Eng. Luka K. Kimeli**  
*P.Eng., BscHons, MIEK*  
**Ag Director General**



**Eng. Peter P. Gichohi**  
*P.Eng., MSc BSc., MIEK, A(CIAB)*  
**Director- Research, Strategy & Compliance**



**CPA Dan Manyasi**  
*MBA, BCom, CPA(K)*  
**Director –Corporate Services**



**Eng. Jackson K. Magondu**  
*P.Eng., M(IBL) BSc., MIEK, A(CI Arb-UK)*  
**Director Development**



**Eng. Julius K. Gakubia**  
*P.Eng., BSc., MIEK*  
**Ag. Director Asset Management.**



**Eng. Enock A. Kombo**  
*P.Eng., MA(Planning), Bsc, MIEK*  
**Director -Planning , Design & Environment**



**CPA Judith C. Chumo**  
*Bcom, MBA, CPA(K)*  
**Deputy Director - Internal Audit**



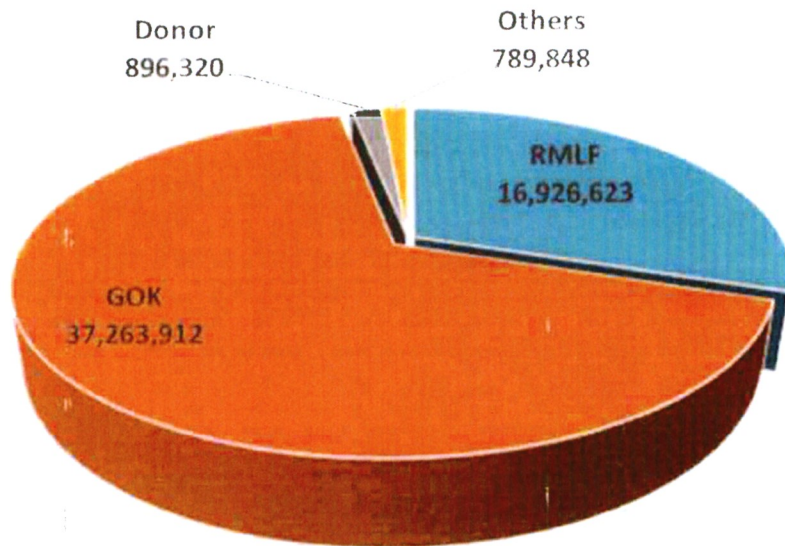
**Mr. Justin M. Rapando**  
*LLM,LLB Msc,Dip(KSL),CPS(K),M(CI Arb)*  
**Deputy Director - Legal Affairs/Secretary**



**Ms. Margaret W. Muthui**  
*Msc(Proc. & Logistics),Bsc(Computer  
Science),MKISM,MCIPS*  
**Deputy Director – Supply Chain Management**

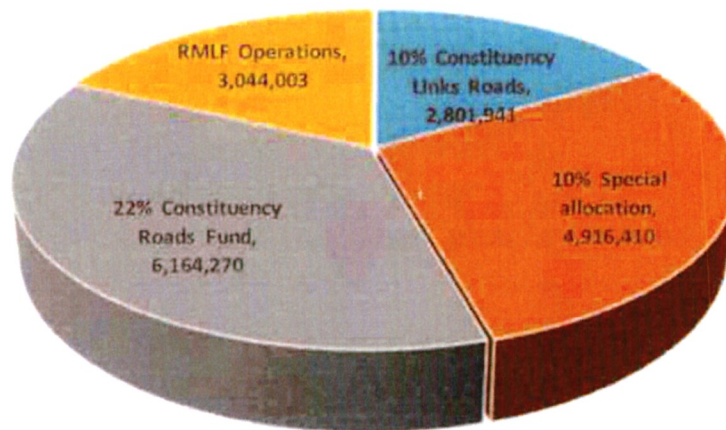
**FINANCIAL HIGHLIGHTS (Ksh '000)**

**Revenues 2018-19 (Ksh '000)**



▪ Road Maintenance Levy ▪ Exchequer Development Fund ▪ Development Partners ▪ Other

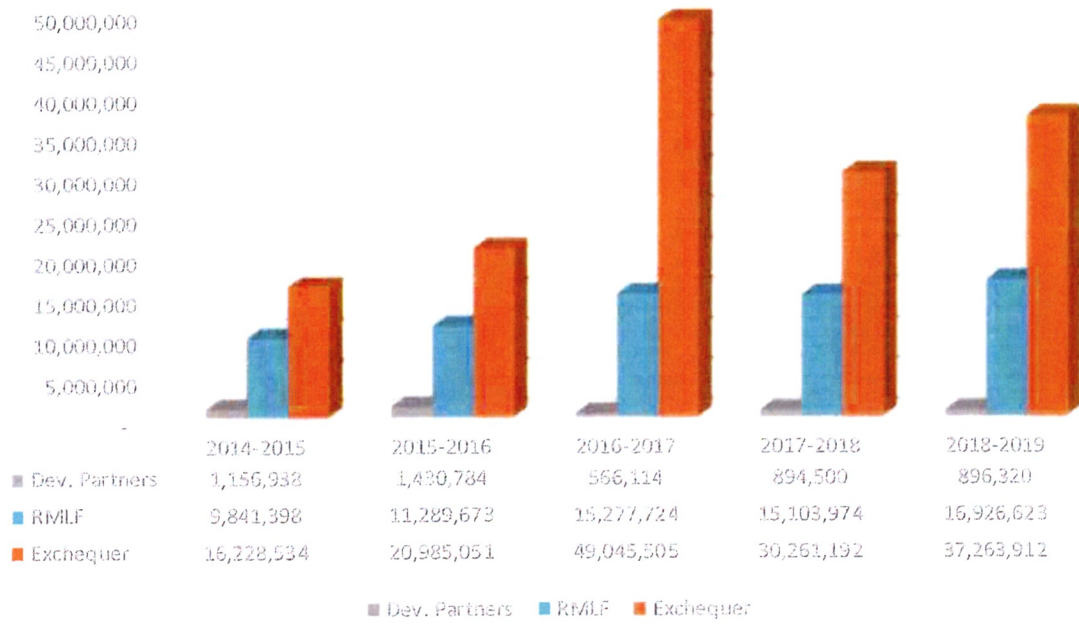
**Total Revenue: 55,876,703**



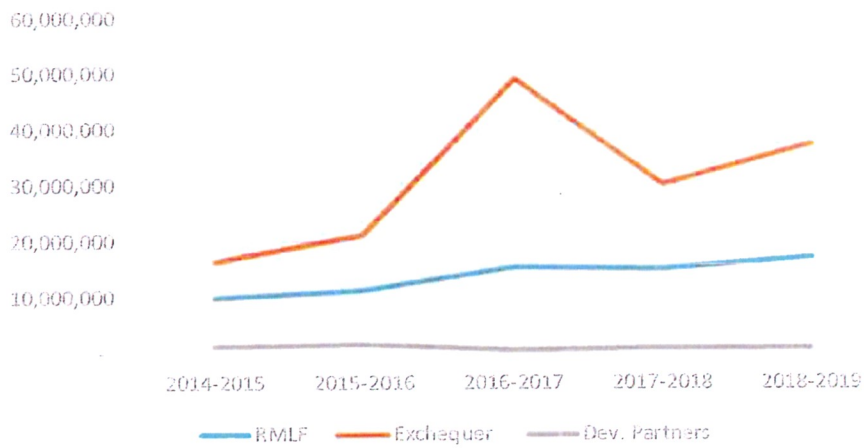
▪ 10% Constituency Link Roads ▪ 10% Special allocation  
▪ 22% Constituency Roads Fund ▪ RMLF Operations

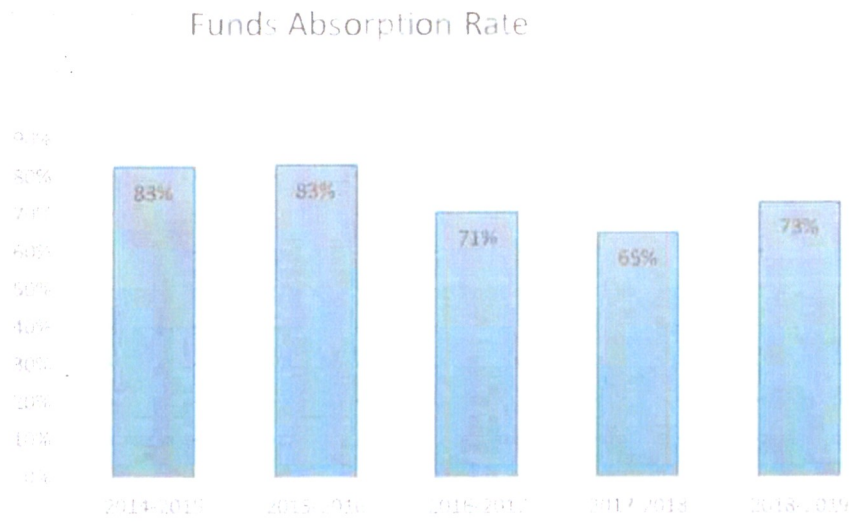
**Total RMLF: 16,926,623**

### Funding History



### Funding Trends





## **CHAIRMAN'S STATEMENT**

Our roads are being built to a standard that will cater for their intended transport function for many years into the future. The ultimate impact of the Authority's efforts is the improvement in the quality of people's lives and the enhancement of economic performance through shorter journey times, greater connectivity and the creation of safer driving conditions.

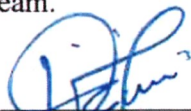
The board is committed to good corporate governance and complying with the best practices as per the Mwongozo code of conduct. To this regard, the Board remain updated with respect to achievement of Authority's objectives, goals, strategies and financial performance through review of reports from management, internal auditors and other stakeholders as a result the Board the was able to provide effective leadership to deliver on the Authority's mandate.

In the Period under review, the Authority received a total of 55.086 Billion against a budget allocation 63.0 Billion for the full financial year. The outlook for the future remains positive given our accomplishments during the year. More challenges may await us in the next year and beyond, particularly in honoring financial obligations. However, the National Government's commitment continues to be seen through the improved budgetary allocation to the road sector as a timely measure to address this funding challenge.

During the year under review, we continued to implement 135 road work contracts (5,651Kms) worth Kshs. 258 Billion for the R10000 LVSR Programme. 14 road work contracts (133Kms) under Design and Construction worth Kshs. 23.7 Billion among other contracts for rehabilitation/reconstruction works and periodic and routine maintenance works. The Board is encouraged by the Authority's efforts to create jobs and grow the economy. During the year, the Authority created 49,170 jobs and enhanced mobility and accessibility by upgrading 1,549 Kms of new roads.

The Authority's process of reviewing its Strategic plan for the year 2018-2022 is at advanced stages while the proposed Quality Management Systems under ISO: 9001:2015 transition by the end of the FY 2019/20 has been finalized.

I wish to express my gratitude and appreciation to my fellow members of the Board, the Chief Executive Officer, management and the staff members of the KeRRA for their efforts in making the period under review a success. I look forward to the future with such a dedicated team.



---

**Director**

## REPORT OF THE DIRECTOR GENERAL



Roads as an enabling infrastructure provides a base for economic transformation through which a multitude of productive activities contribute to expanding the economy, creating jobs and promoting mobility. The road network plays a key role in Kenya's ability to achieve faster growth in gross domestic product, as well as promoting security, safety and social development.

**Over the last two decades the Roads Sub-sector has undergone tremendous reforms aimed at providing a high quality road network to support Kenya economic development.**

The Authority conducted its operations in accordance with relevant legislative frameworks. The operations of the Authority are guided by ethical practices that seek to promote strong corporate governance and corporate social responsibility practices for effective and efficient service delivery.

During the reporting period, the rural road network **output of new construction** was 1549 kilometers of bitumen standard consisting of 1359 Kms - R10000 LVSR, 72 Kms Conventional Approach and 23Kms - R2000 LVSR, and Annuity Programme 52KM. **This is an improvement compared to previous achievements of 1011Kms a year**. Routine Maintenance was also carried out on 28,035Kms within the Rural Road network.

The Authority is privileged to have a dedicated team that produces work of a high quality. Competency-based staff development was offered to staff members through an elaborate training plan for all staff. A total number of 105 No. staff members completed various short courses during the period under review. Youth Internship and industrial attachments to offer practical work exposure to graduate and undergraduate students were also extended to 530 No. students, who were attached to different Directorates and Sections within KeRRA to gain on-the-job experience for a period of three months.

Our plan is to remain a focused, learning institution that nurtures talent and delivers on its mandate to the people of Kenya.

Implementation of the Staff re-categorization process from PC 3A to PC 7A continued during the period under review. Placements for the various Directorates has been completed and interviews and placements for other cadres are at an advanced stage.

KeRRA continues to make a significant contribution towards road safety by developing, maintaining and managing the rural road environment and by identifying and addressing road safety concerns. We also collaborate with other government and non-governmental institutions concerned with road safety to learn more and share experiences on how to improve the road safety of the rural road network for road users.

We have adopted a New Strategic Plan (2018-2022) for the Authority for the next five years. This provides a road map for meeting our Vision which is "To be a provider of an adequate, quality, safe and efficient rural road network". The Plan inculcates good corporate governance, accountability, performance improvement and effective service delivery as key hallmarks in its mission of achieving its mandate. It also takes cognizance of the changes in the operating environment such as the implementation of the Constitution of Kenya 2010.

Government laws and policies, the second Kenya Road Sector Investment Programme, the Third Medium Term Plan (2018-2022),

I wish to recognize with gratitude, the vital support, loyalty and trust that we have continued to receive from our clients and other stakeholders within the roads sector. I wish to thank the Board of Directors, Management and Staff of Kenya Rural Roads Authority for their continued support and dedication, without which our ambitious objectives could not have been achieved.

I would also wish to extend our gratitude to the Government of Kenya, the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works, the National Treasury and Planning and sister Road Agencies for their continued support.



Eng. Luka K. Kimeli  
**Ag. Director General**

## **CORPORATE GOVERNANCE STATEMENT**

### **Overview**

The Board emphasizes on principles of good Corporate Governance in the discharge of its mandate. The positions of chairman and Chief Executive are held by different persons. The Director General is the Secretary to the Board and works closely with the Board to ensure that the Board discharges its mandate. The Board has 4 committees through which it discharges its mandate. The Board undertakes Board evaluation every year. The Board provides oversight to management who are responsible for the day to day running of the organization. The Board and management have been trained on the Mwongozo Code of Corporate Governance for State Corporations.

### **Organization structure of the Authority**

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

- a) Directorate Corporate Services
- b) Directorate Research, Strategy & Compliance
- c) Directorate Road Asset Management
- d) Directorate Planning , Design and Environment
- e) Directorate Development
- f) Directorate Audit Services
- g) Deputy Directorate Corporation Secretary/ Legal Affairs
- h) Deputy Directorate Supply Chain Management

### **Appointments to the Board**

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

### **Board Organisation and structure**

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

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

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

### **Activities of the Board**

It is the responsibility of the Chairman and the Secretary to work closely together in planning the annual program and agendas for meetings. The Board is required to meet at least four times a year and

the meetings are structured to allow open discussion. All substantive agenda items have comprehensive briefing papers, which are circulated well in advance.

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

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

### **Board Effectiveness**

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

### **Board meeting attendance for the period 1.7.2018 - 30.6.2019**

Member	11/07 /2018	27/09 /2018	11/10 /2018	25/10/ 2018	29/11 /2018	10/01 /2019	24/01/ 2019	21/03/ 2019	25/04 /2019
Eng. (Prof.) OyukoMbeche	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mrs Rose W. Githua	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms Margaret Osilli	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mrs Margaret Muiru OGW	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eng Francis Gitau	✓	✓	✓	✓	✓	✓	✓	✓	✓

### **Board Committees**

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

#### **Audit, Risk & Governance Committee**

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

**Finance Committee**

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

**Board Human Resource Committee**

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

**Board Technical Committee**

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



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**DIRECTOR**

## **REPORT OF THE DIRECTORS**

The directors submit their report together with the audited financial statements for the year ended 30th June 2019, in accordance with the provisions of section of the 38 of Kenya Roads Act 2007 which disclose the state of affairs of the Authority.

### **Principal activities**

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

### **Results**

The results for the Authority for the year ended 30 June 2019 are set out on page 28.

### **Directors**

The directors who held office during the year and to the date of this report are set out on page 3-6.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Authority's books of account in accordance with the provisions of Article 229 of the Constitution of Kenya, Kenya Roads Act 2007 and the Public Audit Act, 2015

By order of the board



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Eng. Luka K. Kimeli  
**Secretary to the Board**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **SECTION A**

#### **The entity's operational and financial performance**

The National Government's commitment continues to be seen through the improved budgetary allocation to the road sector. In the Period under review, the Authority received a total of 55.086 Billion against a budget allocation 63.0Billion for the full financial year.

### **SECTION B**

#### **Entity's compliance with statutory requirements**

The Authority has complied with all statutory requirements externally imposed throughout the Period. There are no major noncompliance issues that may expose the authority to potential contingent liabilities.

### **SECTION C**

#### **Key projects and investment decisions the entity is planning/implementing**

The Authority has an ongoing portfolio of 7080 Kms of awarded contracts worth Kshs.277.7 Billion with 6,928 Kms expected to be completed within the next three years at total cost of Kshs. 259 Billion. The bulk of the contracted works falls under the Roads 10,000 low volume sealed roads programme. During the Year the Contracts under the Annuity Programme through Public Private Partnership has progressed past the 1<sup>st</sup> Milestone on Ngong-Kiserian-Isinya and Kajiado Imarora Roads and LVSR has achieved a cumulative 1,502.81 Km in terms of Milestones.

### **SECTION D**

#### **Major risks facing the entity**

The major risks that the authority is exposed to are reported on the note 26 of this report

### **SECTION E**

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

The Authority is not in arrears in the payment of statutory obligations though it has pending bills of approximately 22.40billion as at 30<sup>th</sup> June 2019. These have been included as part of Payables.

### **SECTION F**

#### **The entity's financial probity and serious governance issues**

There has been no reports of financial improbity by the internal audit, external audit nor Other Government agencies.

## CORPORATE SOCIAL RESPONSILTY STATTEMENT/ SUSTAINABILTY REPORTING

Kenya Rural Roads Authority is responsible for construction, maintenance, rehabilitation, and overall management of rural roads in Kenya. The Authority aims to discharge its mandate in a manner that is economically, socially and environmentally sustainable while contributing to the national development long term and short term goals.

### Environment sustainability

Road works can potentially result in environmental hazard through for instance spillage of carbon products which may contaminate the surrounding land, dust and noise pollution, interference with the natural drainage resulting in soil erosion among others. Such potential damages and the mitigating measures are identified during the planning phase in line with the relevant legislation and government regulations.

Activity	Potential Environmental Effects											
	Land use change	Vegetation Loss	Habitat Degradation	Erosion and Sedimentation	Noise and Vibration	Air pollution	Traffic Conflicts	Chemicals and fuels	Wastes	Public Safety	Public Health	Cultural Heritage
Work site Survey and clearance	x	x		x								x
Removal Storage and reuse				x								
Drainage works				x								
Establishment and management of the site camps			x				x		x	x	x	
Establishment and management of site office and workshops					x	x	x	x	x			
Construction equipment and fleet						x	x			x		
Borrow Pit establishment and management	x	x		x	x	x	x					
Production of concrete					x	x		x	x	x		
Construction of deviations(side roads)				x	x	x	x					
Culvert construction or lengthening				x			x					
Formation and widening of cuts				x	x	x	x					
Material haulage					x	x	x	x				
Placement and compaction of fill and shoulder materials				x	x	x	x	x				
Asphalt based pavement works							x	x	x	x		

Aggregate stockpiling and pre-coating					X	X	X	X				
Management Hazards and hazardous materials								X		X		
Decommissioning of work sites							X	X	X			
Rehabilitation and re-vegetation of all areas				X								

**Table 1: Construction Activity and Environmental Impact matrix**

### **Water Quality**

The primary sources of water contamination in road works include soil sediments and wastes- human, solid or hazardous materials which includes petroleum hydrocarbons such as petrol, diesel, solvents and bitumen. These are mitigated through soil erosion prevention and sound waste management. The Authority achieves these through strict adherence to the environmental guidelines during construction. This includes installation of correct sizes of culverts and performance of routine and periodic maintenance. In addition monitoring through annual environmental audits is done.

### **Air Quality**

Reduced air quality is one of the major environmental impacts from the construction activities. Fugitive or airborne dust is the most common air pollutant associated with road construction. Dust is labeled as fugitive air contaminant because it is distributed over a wide area and not restricted to a single point source. The impact from dust particles can be significant because dust is discharged and dispersed at ground level. This adversely and irreversibly affects the health and safety of the flora and fauna in the surrounding environment.

Emissions from diesel engines contain high levels of fine particles -2.5microns or smaller in particle size known as **PM**. However, diesel emissions from road construction in the rural Kenya setting do not constitute a significant source of air degradation in these areas. Scientific studies have linked particle pollution especially fine particles with a series of significant health problems. In addition to negative health effects, airborne dust reduces road safety with cloud of dusts roiled up by vehicles moving along unpaved roads put in danger all road users.

To address the air contamination issues, the Authority has put in place safety measures to safeguard the construction workers as well as other road users. These include dust suppression and controlling of speed of the construction related vehicles and machinery. At the tendering stage, the Authority requires the contractor to conduct training for workers about the importance of dust suppression and reduction. The contractor is also required to disclose the source and the declared quantity available for dust suppression. Certain measures are taken during the construction stage including ensuring that diesel generators in contractor camps are positioned away from all office and accommodation buildings and blocks, ensuring that diesel engines in construction trucks and machinery are regularly maintained to avoid excessive diesel-

exhaust discharges. In the contractor is required to provide necessary protective equipment to the workers during construction. Regular monitoring is done to ensure compliance with the guidelines.

#### **Noise and Ground vibration**

Noise and ground vibration generated by road construction are usually brief in duration. These are typically characterized as local given that they tend to decay rapidly as distance from the sources increases. While they may be temporal and spatial in nature, mitigating noise and ground vibrations is necessary because of their deleterious health and economic effects on nearby receptors. Excessive noise emissions and ground vibrations are regulated by NEMA through the Environmental and Coordination (Noise and Excessive Vibration Pollution Control) regulations 2009. These regulations require mandatory Environmental Impact Assessment (EIA) on all construction projects. The Authority ensures that EIA reports are done and approved before commencement of works on all projects. The contractors are also required as part of the TOR to prepare and submit a Noise and ground vibration control plan(NGVCP) that declares the contractors intentions and methods for reducing and controlling noise and ground vibration.

#### **Land Use**

While road construction and rehabilitation increases land access, changes to land use can arise from construction activities. For instance, the sites where road materials are extracted are often permanently changed in use. Whereas laterite borrow pits can be partially or wholly reinstated to allow the lands return to its former use, quarries are rarely if ever restored to productive uses for agriculture, forestry or urban development. Extracting sand from designated sand harvesting sites can alter land uses but the amount of sand required for road construction are minor in comparison to laterite and crushed rock. In certain cases, contractors may dispose at will construction rubble and oversize rock there by changing the affected land from productive to non productive land use. The Line Ministry has developed guidelines regarding the management of materials on site, debris disposal and road induced changes in resource management. As part of the mitigation measures, the Authority ensures that compensation agreements between the contractors and the owners or users of land with rock deposits for quarrying acknowledge post construction uses that include continued operation when and where residual materials remain. The Authority continuously monitors the effectiveness of the environmental guidelines implementation to assure satisfactory mitigation of adverse impacts from improper disposal of construction debris while maintaining a working relationship with KFS/KWS planners and specialists to control to advise and consent to more effective resource management strategies made necessary by improved access.

#### **Community Health**

Road infrastructure development brings with it a lot of benefits to the community but with costs. It is therefore necessary to mitigate the costs for the purposes of enhancing the benefits. One of the pronounced costs to the community associated with road construction is proliferation and transmission of HIV/AIDS.

People concentrated in the contractor camp can carry and introduce the virus into nearby community, which may not be prepared to deal with an influx of road workers many from outside and with money to spend.

A typical contractor camp houses construction workers majority of which are recruited from outside the community. These workers, usually young and sexually active are frequently responsible for spreading STDs and HIV/AIDS among camp followers and within nearby villages or towns. Several measures are required to reduce the threat of HIV/AIDS that is related to road construction both inside and outside the camps. The Authority sets aside funds in each project for HIV/AIDS awareness programs to be carried out by the contractor during project implementation period. In addition other measures aimed at protecting the community against vector borne diseases and other diseases caused by fugitive dust and noise and ground vibration pollution are put in place. The community is continuously involved in ongoing monitoring of the measures implemented to protect the health, safety and welfare of the community members and the workforce.

### **Community Welfare**

Providing employment to community members is an uncontested benefit from road construction and maintenance. In an effort to achieve this, the road contractor is encouraged to recruit labor locally. This is often valid where a road is to be built using labor intensive technology. The Authority has put mechanism in place to ensure that local workers are recruited in preference to outside labor requiring equivalent qualifications and skills, hiring of unskilled and semi skilled workers recruited from the local labor pool is gender neutral and ensuring that the wages paid to locally recruited workers are equivalent and competitive with wages paid to outside laborers.

### **Cultural and Natural Heritage**

Historic sites/artifacts as well as places of historical, cultural scientific and scenic interests are more often at risk during road construction or maintenance. In addition to placement and reservations on both sides of the road where construction can also take place, the activities and actions associated with site preparation, earthworks, drainage works and materials development are likely to adversely impact resources of cultural and natural significance.

Sites of cultural and natural importance have been mapped to provide transportation planners and engineers with advance information about cultural and natural sites necessary in planning and designing infrastructure. Field assessment of cultural and natural heritage resources potentially affected by developing transportation infrastructure is frequently part of an archeological impact Assessment (AIA), a component of an ESIA. AIA is undertaken by a qualified archeologist and or geologist. Where the AIA is not possible, the task of identifying and protecting Kenya's unknown cultural and natural heritage resources falls to the construction workforce- the supervision engineer and construction foreman.

### **Other Environmental initiatives**

The Authority undertook various initiatives in the course of the year geared towards environmental conservation measures. These included:

- i) Staff sensitization workshops on the Environmental Management & Coordination Act (EMCA), Environmental Policy and Waste Management were conducted in 10 Regional offices.
- ii) Environmental Sustainability Sub-Committees were established in 45 Regions
- iii) Project Environmental Sustainability Units were established in Nine (9) major projects
- iv) 6,000 No. trees were planted in various Regions (Counties) across the Country

### **Stakeholder engagement**

The authority continued to engage the public in road prioritization and monitoring activities through the Constituency Roads Committees and through sensitization workshops. During the year the Authority entered into Memorandum of Understanding (MOU) with several county governments for the continued implementation of road works following a court petition that suspended procurement and implementation of works in 29 counties.

### **Employee Welfare**

To Authority continued to provide economic empowerment to the staff by availing loans through the KeRRA Sacco. Entitlements under the staff mortgage scheme were increased considerably as the Authority implemented the SRC recommendations. The fund which currently stands at Ksh.274 Million recorded a 100% uptake at the end of the year.

### **Staff training and Development**

The training committee approved training for various cadres during the year. In addition several workshops on cross cutting matters were held during the year. A total of 530 Youths were offered and took up internships/ Attachments.

### **Ethics and Integrity**

Integrity Officers were trained by EACC. All are certified as Integrity Assurance Officers representing HQ and respective Regional Offices.

### **Building capacity for Small Scale Contractors**

The Authority in collaboration with the Development Partners is implementing various programmes throughout the country which includes training component. Several training initiatives were undertaken under these programmes during the year.

## **Training under Improvement of Rural Roads and Market Infrastructure in Western Kenya**

The programme is co-funded by the Government of Kenya and the German Development Bank through their lending arm-KfW on 50-50 basis. The programme aims at improving a continuous 355 kms of rural road network in five counties in western Kenya namely Bungoma, Vihiga, Kakamega, Busia and Siaya counties.

As part of capacity building, the programme targets to train 250 small scale Contractors in Labor Based Technology. So far seventy five (75) persons from 25 construction firms have undergone Classroom Training in labor based technology at Kisii Training Centre. Suitable trial contracts have been drawn for them to undertake before they get certified as qualified contractors. Another set of Eight (8) contractors underwent Classroom training at KTC together with nine (9) private sector supervisors who were recruited in 2014. Each of the Eight (8) firms provides one director and two supervisors for training.

The process of pre-qualifying another set of Contractors for training in labor based technology was undertaken during the year. The target for this phase is seventeen (17) contractors for normal labor based technology training and twenty five (25) for training under Routing Maintenance.

### ***Training under Central Kenya Rural roads improvement and maintenance project***

The programme which is implemented in collaboration with the French Government targets to improve 700 Kms of rural roads in Muranga, Kiambu, Nyeri Kirinyaga, and Laikipia to gravel standards and 165Km of low volume seal roads in the 6 regions

There were substantial training activities carried out under the Year 2 training. The training of the last 20 Low Volume Seal contractors was completed during the year and substantial work was done on the Low Volume Seal demonstration road. Overall the training program delivered a cumulative 24,296 trainee days or approximately 101% of the original training program.

### ***Sensitisation workshops for special interest groups and other trainings***

In addition to the above trainings, the procurement department held various workshops throughout the country targeting the special interest groups, i.e. women, youth and people living with disabilities. The workshops were aimed at sensitising these groups on available opportunities and how they can take advantage of the same.

## 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 that 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 (period) ended on June 30, 2018. 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, 2019, and of the Authority's financial position as at that date. The Directors further confirm 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.

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

### Approval of the financial statements

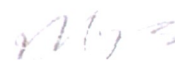
The Authority's financial statements were approved by the Board on 25/09 / 2019 and signed on its behalf by:



Director



Director

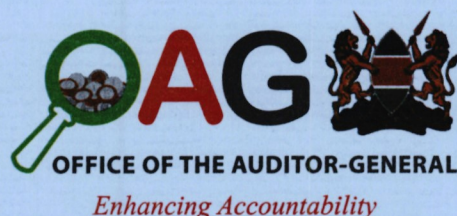


Director

**REPORT OF THE INDEPENDENT AUDITORS ON KENYA RURAL ROADS  
AUTHORITY.**

# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON KENYA RURAL ROADS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

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### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Kenya Rural Roads Authority set out on pages 28 to 65, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, 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, the financial statements present fairly, in all material respects, the financial position of Kenya Rural Roads Authority as at 30 June, 2019, 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Rural Roads Authority Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to report in the year under review.

## 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**

#### **Delays in Implementation of Projects**

The Authority implements road construction, improvement and rehabilitation projects in the Country in accordance with its mandate and mission. However, as highlighted in audit reports for previous years, delays in execution of the projects are common and often result in escalation of project costs through payment of interest and penalties to contractors. As at 30 June, 2019, records provided for audit indicated cumulative interest on delayed payments totaled Kshs.220,621,047 having risen by 7,463,935 from Kshs.213,157,112 at the end of the previous year.

Expenditure incurred on interest and penalties is avoidable and may therefore be considered as wasteful.

Management have explained the situation as having resulted from delays in receipt of exchequer issues to pay contractors. However, as highlighted in the attached Appendix, project management weaknesses, including award of contracts to contractors that lack capacity to execute large projects, may, to a large extent, explain the unsatisfactory implementation of the Authority's projects. No disclosure has been provided by Management on the measures or reforms started to ensure timely and effective execution of projects in coming years.

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

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of the intention to liquidate the Authority or 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, Management has 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 financial reporting process, reviewing the effectiveness of how the Authority 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 overall 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 control 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 control 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 control 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue 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 Authority 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 Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**09 August, 2021**

## **APPENDIX**

### **Delays in Implementation of Projects**

#### **1.0 Rehabilitation and Repair of Kasoiyo-Saos-Society (D350) Road**

As reported in the previous year, the Kasoiyo-Saos-Society (D350) Road rehabilitation Project was contracted Kshs.818,445,018 and the commencement and expected completion dates set for 10 October, 2012 and 10 February, 2016 respectively. The latter was thereafter revised to 10 April, 2016. Examination of records on the Project revealed the following unsatisfactory issues:

##### **1.1 Re-Assignment of Works**

Works valued at Kshs.504,824,286 were re-assigned to a new contractor on 28 January, 2015 after the original contractor was deemed to have performed poorly.

##### **1.2 Delayed Project Implementation**

The Project Progress Report dated 5 August, 2016 indicated an overall completion level of 99.9% with 130.2% of the contract period lapsed. In spite of the contractor having requested for substantial project completion inspection on 13 September, 2016, Management had not carried out the inspection as at 30 June, 2019. Management has not explained the reasons for the delay in inspecting and taking over the project and why the main contractor originally awarded the Project was made to re-assign part of the works to another contractor.

##### **1.3 Construction of Muranga-Gitugi and Njumbi-Miuro (E546)**

As reported in 2017/2018, the contract was awarded at Kshs.2,120,325,200 with commencement and expected completion dates of 31 July, 2012 and 2 February, 2015 respectively. A review of the Project file and the related records revealed the following unsatisfactory matters:

##### **1.4 Delayed Project Delivery**

Overall project delivery was at 73% as at 30 June, 2018 despite 40 months of the contract period having lapsed. A review of the status as at 30, June 2019 revealed that the project was at 88% level of completion, which denoted that progress on its completion was slow in the year under review as well.

In addition, included in the project payment certificate Number 20 dated 27 June, 2017 was interest totalling to Kshs.7,001,678 charged on delayed payments. The cost would not have been incurred had the certificate been paid on time.

#### **2.0 Construction of Kaptama-Kapsokwony-Sirisia (257/265) Road**

The 67.79 Kilometers road project traverses Kimilili, Bungoma West and Mount Elgon sub-Counties of Bungoma County. The Project is divided into four (4) parts as follows:

i. Kamukuywa- Kaptama (D285)	14 KM
ii. Kaptama-Kapsokwony-Namwela (D275)	40.32 KM
iii. Kapsokwony-Kimilili (D265)	8.37 KM
iv. Namwela-Chwele (C42)	5.1 KM

Review of the project's records revealed the following unsatisfactory matters:

### **2.1 Delayed Project Delivery**

The Project completion status as of 31 July, 2015, indicated weighted average completion level of 94%. This was in spite of the contract period having expired on 13 May, 2010 and sixty-one (61) months having lapsed after the Project's contracted completion date.

Further, available information indicated that the project contractor was put under receivership in 2015. Consequently, the contractor's yard including the site offices at Kamukuywa, were placed under a Receiver Manager and all site operations halted. Rent arrears totalling Kshs.3,028,125 due to the Authority from the contractor on account of Mwatunge Camp in Taita Taveta under a previous contract with the Authority were outstanding.

The Receiver Manager in July 2015 wrote to the Authority requesting for mutual winding up of the contract on account of insufficient contract fund balance for the remaining works. In response, the Authority concurred and requested the Resident Engineer to commence on the mutual winding up of the contract, undertake a project appraisal and submit a report with recommendations by 27 July, 2015. Further, the Attorney-General on 1 September, 2016 advised Management to terminate the contract forthwith in accordance with Clause 63.1 of the Conditions of the Contract. However as at 30 June, 2019, there was no evidence of any action having been taken to resolve the matter.

From the foregoing, the public may not have obtained value for money on the contract valued at Kshs.2,622,131,272.

### **3.0 Construction to Bitumen Standard of Naromoru-Munyu-Karisheni Road**

As reported previously, the project scope entailed construction of four (4) roads covering 45 kilometres in aggregate at a contract sum of Kshs.2,468,815,445. The contract commencement and expected completion dates were 1 October, 2012 and 30 September, 2014 respectively. The following anomalies were noted in respect to the project:

#### **3.1 Re-assignment of Works to a New Contractor**

The main contractor, after obtaining approval from the Authority in March, 2015, assigned another contractor works valued at Kshs.2,064,537,961 covering a distance of 39.9 kilometres on 21 April, 2015. The details of the assigned roads were as follows:

i. Road D448 6+000 to Km 21+200 (Karisheni)	15.2 Kms
ii. Road E171A Lusoi-Munyu-Kakuret	7.3 Kms

iii.	Road RAR27 Giting'a- Kamburaini-Sarafina	7.3 Kms
iv.	Road RAR 29 Ibauini-Mwicwiri-Njoguini	10.1 Kms

### **3.2 Delayed Completion**

After the re-assignment, the main contractor's scope was reduced to 6 Kilometres or 13.3% of the project's scope. However, as at 30 June, 2017, the overall project completion rate was 72% fifty-seven (57) months or nearly five years after the expected completion time. The assigned contractor's works were at 71.23% level of completion in spite of the contract period having lapsed two months earlier. Overall, the combined project delivery rates stood at 73.1%, 91% and 95.7% as at 30 June, 2017, 30 June, 2018 and 30 June, 2019. No adequate explanation was provided for the slow implementation of the project.

### **4.0 Rehabilitation and Repair of Eldoret-Ziwa-Kachibora-Eldoret-Kabenes Road**

As reported in 2017/2018 financial year, the contract cost was Kshs.1.435,212,465 with commencement and expected completion dates of 1 September, 2011 and 1 March, 2014 respectively. The completion date was thereafter revised to 1 March, 2016. Examination of the project's records revealed the following unsatisfactory matters:

#### **4.1 Scaling Down of Works**

The contract was subsequently repackaged into three (3) sections with a new total contract sum of Kshs.2,575,110,585 as follows:

- i) Eldoret-Kabenes 24 Kms Kshs.974,301,651;
- ii) Kabenes-Kachibora 31 Kms Kshs.1,064,762,019; and
- iii) Moi's Bridge-Kachibora 20 Kms Kshs.536,046,915.

The first section was repackaged as Addendum No.2 as approved by the Authority's Tender Committee on 12 September, 2014. It was to be executed under the initial contract. The second section was subjected to open tendering and to a new contractor on 19 June, 2015 at a contract sum of Kshs.1,313,914,382 whereas the third section estimated to cost Kshs.536,046,915 was deferred for implementation under the annuity programme.

#### **4.2 Delayed Project Implementation**

The revised contract period lapsed on 1 March, 2016. However as at 30 June, 2017, the overall progress was reported at 96% with only 88.2% of the works having been certified. Management did not provide a satisfactory explanation for the escalation of project costs by 79.5% of their original cost, and the significant delay in completion of the works even they were reportedly rationalized.

### **5.0 Construction of Kibunja-Molo-Olenguruone Road (D316)**

The project is located in Molo, Nakuru County and covers an approximate distance of 51 kilometres. It was awarded at a contract sum of Kshs.742,290,293 and thereafter revised to Kshs.844,347,348. The commencement and expected completion dates were

6 August, 2010 and 6 February, 2016 respectively. Examination of the project file and related records revealed the following unsatisfactory matters:

### **5.1 Assignment of Works**

The original contractor assigned works valued at Kshs.113,137,135 to another contractor in unclear circumstances.

### **5.2 Delay incompletion**

The progress of work report for December 2014, measured work done at 67.73% of the contract scope. However, the project was incomplete as at 30 June 2018 and a review of its status as at 30 June, 2019 confirmed that the pending issues had not been resolved.

## **6.0 Construction of Sigalagala-Musoli-Sabatia-Butere Roads (D260/E390)**

The project covers a distance of approximately 34.25 kilometres and was awarded at a contract sum of Kshs.1,809,465,663 on 28 March, 2011. The works were to be executed in twenty-four (24) months with the expected completion date set for 6 June, 2013. The following unsatisfactory issues were noted from examining the project's records:

### **6.1 Re-assignment of Part of the Works**

The main contractor entered into a works re-assignment agreement in December 2014, eighteen (18) months after the expiry of original contract date. Out of the total contracted distance measuring 34.5 kilometers, 25 kilometers or 73% was reassigned to a new contractor at a contract sum of Kshs.1,113,658,598. The assignee was to complete the works in 18 months.

### **6.2 Advance Payments**

As at 30 June, 2017, of the advance payments totalling Kshs.180,946,566 made to the main contractor, only Kshs.22,808,548 had been recovered leaving Kshs.158,138,018 outstanding.

### **6.3 Delayed Project Implementation**

Project progress report as at 30 June, 2018 indicated 74.3% combined level of project completion. The works were sixty (60) and twenty-four (24) months behind schedule for the main and assigned contracts respectively.

### **6.4 Failure to Invoke Liquidated Damages**

Clause 47.1 of the conditions of the contract which required the Employer to deduct liquidated damages amounting to Kshs.100,000 per day after expiry of contract period if no extension of time was granted, had not been enforced. Management did not provide a satisfactory explanation for its failure to enforce the Clause or extend the contract as necessary.

As at 30 June, 2019, the Project had not been completed. No adequate explanations were provided by Management for the unsatisfactory execution of the contract.

#### **7.0 Isiolo Township Roads Lot 1 RWC/174A**

The contract for Isiolo Township roads was awarded on 6 January, 2017 at a contract sum of Kshs.980,682,371. It was to be implemented in twenty-four (24) months ending on 23 March, 2019. The progress of work report dated 21 June, 2019 indicated that work done was equivalent to 53% of the scope of the project. The value of certified works paid was Kshs.501,618,904 equivalent to 56% of the contract sum. Although the Project was behind its scheduled completion date, there was no evidence of the contract period having been extended or Management having invoked liquidated damages clauses in the contract.

Further delay in completing the project may result in escalation of its costs due to economic or other causes.

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

### Statement of Financial Performance

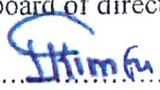
		2018-2019	2017-2018
	Note	Jun-19 Shs'000	Jun-18 Shs'000
<b>REVENUE</b>			
<b>Revenue from Non Exchange Transactions</b>			
Road Maintenance Levy Fund	6	16,926,623	15,103,974
Government Grants	7	168,000	150,000
Development partners' Grants	8	896,320	894,500
<b>Total Revenue from Non Exchange Transactions</b>		<b>17,990,943</b>	<b>16,148,474</b>
<b>Revenue from Exchange Transactions</b>			
Finance Income	9	720,189	888,592
Other income	10	68,537	23,354
Rental Revenue	11	1,122	1,339
<b>Total Revenue from Exchange Transactions</b>		<b>789,848</b>	<b>913,285</b>
<b>Total Revenue</b>		<b>18,780,790</b>	<b>17,061,759</b>
<b>EXPENDITURE</b>			
Road Works costs	12	18,017,728	13,804,282
Directors' Costs	13	33,635	21,839
Employment Costs	14	2,336,998	1,675,909
Repairs and maintenance	15	51,016	57,743
Other Operating Costs	16	392,507	358,513
Depreciation and amortization expense	17	112,200	73,274
<b>Total Expenditure</b>		<b>20,944,083</b>	<b>15,991,561</b>
<b>Operating Deficit /Surplus for the year</b>		<b>(2,163,293)</b>	<b>1,070,198</b>

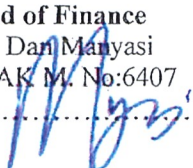
The significant accounting policies on pages and the notes on pages 32 to 60 form an integral part of these financial statements.

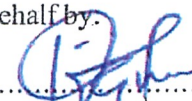
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

		2018-2019	2017-2018
		Jun-19	Jun-18
	Note	Shs'000	Shs'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	18	28,487,736	24,622,378
Receivables from exchange transactions	19	18,904,974	20,314,024
Receivables from non exchange transactions	19	5,799,942	9,517,569
Inventories	20	5,124	6,292
		53,197,776	54,460,262
<b>Non-Current Assets</b>			
Property Plant and Equipment	21	292,774	202,656
Road Infrastructure Assets	22	67,992,504	39,229,092
Capital Work In Progress	23	115,170,082	83,428,741
		183,455,361	122,860,489
<b>Total Assests</b>		236,653,137	177,320,751
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables from exchange transactions	24	28,645,936	6,485,758
Payables from Non-Exchange transactions	24	-	-
Employee benefit obligation	25	124,468	100,282
		28,770,405	6,586,040
<b>Non Current Liabilities</b>			
Payables from exchange transactions	24	7,711,642	5,500,090
		7,711,642	5,500,090
<b>Total Liabilities</b>		36,482,047	12,086,130
<b>Net Assets</b>		<b>200,171,090</b>	<b>165,234,622</b>
<b>REPRESENTED BY:</b>			
GOK Development Fund	SCNA	201,422,676	164,326,764
Staff Mortgage Fund	SCNA	277,844	273,996
Accumulated(Deficit)/ Surplus	SCNA	(1,529,430)	633,862
<b>Total Net Assets and Liabilities</b>		<b>200,171,090</b>	<b>165,234,622</b>

The significant accounting policies on pages and the notes on pages 26 to 52 form an integral part of these financial statements. The financial statements on pages 26 to 52 were approved for issue by the board of directors on -----and were signed on their behalf by.

  
 Ag. Director General  
 Eng. Luka Kimeli  
 Date: 25/9/2019

  
 Head of Finance  
 CPA Dan Manyasi  
 ICPAK M. No:6407  
 Date: 25/9/2019

  
 Chairman of the Board  
 Name: MARGARET OLLU  
 Date: 25/9/19

## **STATEMENT OF CHANGES IN NET ASSETS**

**For the Year Ended 30 June 2019**

	Note	Accumulated	GOK Development	Staff Mortgage	Total
		Surplus	Fund	Fund	
		Shs'000	Shs'000	Shs'000	Shs'000
<b>At 1st July 2017</b>					
Funds received during the year		(356,335)	129,053,515	193,996	128,891,175
Surplus for the year		1,070,198	35,273,250	80,000	35,273,250
			-	-	1,070,198
<b>At 30th June 2017</b>		633,862	164,326,765	273,996	165,234,623
<b>At 1st July 2018</b>		633,862	164,326,765	273,996	165,234,623
Funds received during the year		-	37,095,912	3,848	37,099,761
Surplus for the year		(2,163,293)	-	-	(2,163,293)
<b>At 30th June 2019</b>		(1,529,430)	201,422,677	277,844	200,171,091

The significant accounting policies on pages and the notes on pages 26 to 52 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2018

#### Statement of Cashflows

	Note	2018-2019 Jun-19 Shs'000	2017-2018 Jun-18 Shs'000
<b>Cash flows from operating activities</b>			
Surplus for the year		(2,163,293)	1,070,198
<i>Adjustments for:</i>			
<i>Prior Year adjustment</i>			
Depreciation of property, plant and equipment	21	112,200	73,274
Interest Income		(720,189)	(888,592)
<b>Changes in operating assets and liabilities</b>			
Receivables from exchange transactions		1,409,050	(3,165,411)
Receivables from non exchange transactions		3,703,678	4,391,739
Inventories		1,168	141
Payables from Non-exchange transactions		-	(5,162,058)
Payables from exchange transactions		24,385,680	2,235,975
Employee benefit obligation		24,187	40,028
<i>Net cash from operating activities</i>		<u>26,752,482</u>	<u>(1,404,705)</u>
<b>Cash flows from investing activities</b>			
Interest Income		720,189	888,592
Purchases of Property Plant and equipment	21	(202,318)	(71,869)
Addition in Road infrastructure assets	23	(60,504,754)	(31,930,339)
<i>Net cash used in investing activities</i>		<u>(59,986,883)</u>	<u>(31,113,616)</u>
<b>Cash flows from Financing activities</b>			
Capital Grant received		37,095,912	35,273,250
Mortgage Fund		3,848	-
<i>Net cash used from investing activities</i>		<u>37,099,761</u>	<u>35,273,250</u>
Net increase in cash and cash equivalents		3,865,359	2,754,929
Cash and cash equivalents at start of year		<u>24,622,378</u>	<u>21,867,450</u>
Cash and cash equivalents at end of year	18	<u>28,487,736</u>	<u>24,622,378</u>

The significant accounting policies on pages and the notes on pages 26 to 52 form an integral part of these financial statements.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT**

Annual Report and Financial Statements	Original Budget 2018-2019	Adjustments	Final Budget 2018-2019	Actual on comparison		Performance Difference 2018-2019	% Variance 2018-2019	Remarks
				Shs'000	Shs'000			
<b>Revenue</b>								
Road Maintenance Levy Fund	Note 6 17,590,213	-	17,590,213	16,926,623	663,590	4%	KRB Funding	
Government Grants	7 42,241,477	-	42,241,477	37,263,912	4,977,564	12%	GoK Funding	
Development partners' Grants	8 2,650,000	-	2,650,000	896,320	1,753,680	66%	Delayed Donor Disbursement	
Finance Income	9 580,000	-	580,000	720,189	(140,189)	-24%	Fixed Deposit Interest	
Other income	10 10,000	-	10,000	68,537	(58,537)	-585%	Slow uptake of Free Online Tender Documents	
Rental Revenue	11 2,200	-	2,200	1,122	1,078	49%	Low Occupancy Rates	
<b>Total Revenue</b>	<u>63,073,889</u>	<u>-</u>	<u>63,073,889</u>	<u>55,876,703</u>	<u>7,197,187</u>			
<b>EXPENDITURE</b>								
Road Works Costs-Maintenance	12 16,008,990	-	16,008,990	18,017,728	(2,008,738)	-13%	RMLF	The Director General Enrolments budget has been transferred from employment cost to Directors costs Budget
Directors' Costs	13 29,514	-	29,514	30,094	(580)	-2%		
Employment Costs	14 3,153,488	-	3,153,488	2,336,998	816,490	26%		Filing the established posts in Progress
Repairs and maintenance	15 90,199	-	90,199	51,016	39,183	43%		Cost containment of Maintenance
Other Operating Costs	16 970,802	-	970,802	396,048	574,754	59%		Included in the budget is ksh. 385M purchase of Fixed Assets
Depreciation and amortization expense	17 -	-	-	112,200	(112,200)	0%		
Development Fund				37,095,912				
<b>Total Expenditure</b>	<u>20,252,993</u>	<u>-</u>	<u>20,252,993</u>	<u>58,039,995</u>	<u>(691,090)</u>			
<b>Operating Deficit /Surplus for the year</b>	<u>42,820,897</u>	<u>-</u>	<u>20,832,413</u>	<u>(2,163,293)</u>	<u>7,888,277</u>			

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT  
DISCUSSION**

1. Development Partners Grants  
Shortfall was as result in delay Donor Disbursements
2. Finance Income  
Reduced fixed deposits due to Challenges in KRB Regional funding
3. Other Income  
Slow uptake of free online Tender documents from our Website.
4. Expenditure
  - i. Employments Costs –Delay in filling approved Re-categorization of the Structure
  - ii. Maintenance Cost- General cost containment.
  - iii. Operating Expenses – Delay implementation of computer Networking and Included in the Budget is Fixed Assets of Ksh 385M

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General Information

Kenya Rural Roads Authority (KeRRA) is a State Corporation established under the Kenya Roads Act 2007. The Authority is headed by a Board of Directors led by a chairman with the Director General being the Chief Executive of the Authority. The Authority is responsible for the management, development, rehabilitation and maintenance of the Rural Road network in Kenya classified as D, E and others.

### 2. Statement of compliance

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying Kenya Rural Roads Authority accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Kenya Rural Roads Authority .

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) issued by International Public Sector Accounting Standards Board (IPSASB), the Public Financial Management Act, 2012, Public Audit Act, 2015 and Kenya Roads Act 2007.

### 3. Adoption of new and revised Standards

#### i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	<p><b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p> <p><i>The Authority has not engaged in any business combination and thus the standard has no impact in financials</i></p>

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

Standard	Effective date and impact:
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</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 entity’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> <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 entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p><i>The Authority does not hold financial assets in the course its normal operations and thus the standard will not impact the financials. The authority is in the process of realigning its reporting to reflect the anticipated changes especially of assets held in the foreign currency.</i></p>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ol style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</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 entity’s financial performance, financial position and cash flows.</li> </ol> <p><i>The Authority currently does not have any ongoing social Benefits Programmes and thus the standard is not expected to have any impact.</i></p>

**i. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **(a) Basis of Preparation**

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

##### **(b) Presentation of Financial Statements**

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

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

The disclosure on risks are presented in the financial risk management objectives and policies contained in note 5.

##### **(c) Budget Information**

The original budget for FY 2018-2019 was approved by the National Assembly in June 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The Authority's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. 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. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. 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.

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.

##### **(d) Taxation**

The Authority is an appointed tax agent for Kenya Revenue Authority with the mandate to withhold tax and remit to Kenya Revenue Authority. The withheld taxes are recognized as current liabilities until paid to the relevant Authority.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**(e) Translation of foreign currencies**

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

**(f) Revenue recognition**

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

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

***i) Road Maintenance Levy Fund***

Receipts from the Road Maintenance Levy Fund comprise of 21% of collections from the Road Maintenance Levy Fund administered by the Kenya Roads Board in accordance with the Kenya Roads Board act 1999 and varied to accommodate the constitution in relation to Counties.

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

***ii) Agricultural Cess***

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

**iii) Transfers from Government and other entities**

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

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

**iv) Interest Income**

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

**v) Rental Income**

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

**vi) Other income**

Other income arising from sale of tenders and fees levied by the Authority is accounted for on receipt

**(g) Financial Instruments**

**(i) Financial assets**

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

**Receivables**

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

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

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

The carrying value less discounts and any impairment provision of impairment is assumed to approximate their fair values. For financial instruments such as short term receivables,

no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value.

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

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

**(ii) Financial Liabilities**

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

***Payables***

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

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

**(h) Provisions**

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

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

**Contingent Liabilities**

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

***Contingent assets***

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain

future events not wholly within the control of the Authority in the notes to the financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs

**(i) Operating leases**

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

**(j) Provision for liabilities and charges**

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

**(k) Property, plant and equipment**

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the statement of financial performance in the year in which they are incurred.

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

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

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

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

**(l) Specialised Public Service Assets-Infrastructure Assets**

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

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

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

**(m) Construction contracts**

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

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

The Authority uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future

activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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

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

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

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

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

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

**(o) Inventories**

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

Costs incurred in bringing each product to its present location and condition is accounted for, based on purchase cost using the weighted average cost method.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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

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

**(p) Cash and Cash Equivalents**

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

**(q) Nature and purpose of reserves**

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

***(i) Staff Mortgage Fund***

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

There was no transfer from the accumulated surplus to the staff mortgage fund during the year

***(ii) Capital Fund***

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

***(iii) Accumulated surpluses/Deficit***

Accumulated surpluses/ (deficit) represent excess operating revenue over expenditure which has accumulated over the years. These funds are available for utilization in the Authority's operations in the subsequent years.

***(iv) Development Fund***

Development fund represents the Authority's investment in infrastructure assets as funded by the exchequer development vote.

**(r) Changes in accounting policies and estimates**

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

**(s) Employee Benefits**

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

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

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

The total expense recognized in the income statement of Shs 84.74 Million (2016-2017: Shs 109.42 Million) represents contributions payable to the plan by the Authority at rates specified in the rules of the plan. The expense has been included within the staff pension costs under staff costs.

**(t) Comparatives**

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

**(u) Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**5. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS**

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

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

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

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

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

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

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

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

**(i) Contingent Liabilities**

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

**(ii) Provision for Doubtful Debts**

The Authority reviews its receivables to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due. Where necessary, an estimation of the amounts irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the Board of Directors.

**(iii) Other Provisions**

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

**(iv) Impairment Losses**

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

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

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>6. Road Maintenance Levy</b>		
10% Constituency Links Roads	2,801,941	2,668,000
10% Special allocation	4,916,410	3,678,924
22% Constituency Roads Fund	6,164,270	5,858,000
RMLF Operations	3,044,003	2,899,050
Total Road Maintenance Levy	<u>16,926,623</u>	<u>15,103,974</u>

	2018-2019 Shs'000	2017-2018 Shs'000
<b>7. Other Government Grants</b>		
Development Projects	37,263,912	30,111,192
Spot Improvement Projects	-	-
Administrative funds	-	150,000
Total Government Grants	<u>37,263,912</u>	<u>30,261,192</u>
Deferred Income	-	5,162,058
Transfer to Development Fund	<u>(37,095,912)</u>	<u>(35,273,250)</u>
	<u>168,000</u>	<u>150,000</u>
<b>8. Development Partners Grants</b>		
European Union	284,229	467,722
L'Agence Française de Développement(AFD)	550,798	74,642
German Development Bank(KFW)	53,496	352,136
BADEA	7,796	-
Total Development Partners'Grants	<u>896,320</u>	<u>894,500</u>
<b>9. Finance Income</b>		
Interest from fixed deposits	<u>720,189</u>	<u>888,592</u>
<b>10. Other Income</b>		
Receipts from sale of tenders	68,236	22,016
Other Levies	302	1,338
Total other income	<u>68,537</u>	<u>23,354</u>
<b>11. Rental Revenue</b>		
Receipts from operating lease rental	<u>1,122</u>	<u>1,339</u>
Total Rental revenue	<u>1,122</u>	<u>1,339</u>
<b>12. Road Works Expenditure</b>		
RMLF 10%-Constituency Link Roads	3,083,234	2,392,609
RMLF 22%-Constituency Roads Fund	6,773,012	3,432,840
RMLF 10%-Special Allocation	3,430,305	3,625,493
Donor Funded Projects	1,104,624	988,027
GoK Spot Improvement Funds	2,606,420	3,023,913
Coffee Cess	385	1,423
Equilisation Fund	1,019,748	339,979
<b>Total Road Works Expenses</b>	<u>18,017,728</u>	<u>13,804,282</u>

	2018-2019 Shs'000	2017-2018 Shs'000
<b>13. Directors' Costs</b>		
<b>a.Executive Directors</b>		
Emoluments	7,527	7,149
	<u>7,527</u>	<u>7,149</u>
<b>b.Non Executive Directors</b>		
Emoluments	5,302	-
Training and field activities	20,806	14,691
	<u>26,108</u>	<u>14,691</u>
<b>Total Directors Costs</b>	<u>33,635</u>	<u>21,839</u>
<b>14. Employment Costs</b>		
Salaries and Wages	1,721,413	1,137,369
Pension and Gratuity costs	184,610	84,742
Medical and Insurance	124,200	113,034
Training and Development	94,821	136,500
Travelling and accomodation	141,147	170,655
Other Staff welfare costs	70,807	33,609
<b>Total employment Costs</b>	<u>2,336,998</u>	<u>1,675,909</u>
<b>15. Repairs and maintenance</b>		
Office building	7,995	12,345
Furniture and equipment	18,308	13,775
Motor vehicles	24,712	31,623
<b>Total Repairs and Maintenance</b>	<u>51,016</u>	<u>57,743</u>

	2018-2019 Shs'000	2017-2018 Shs'000
<b>16. Other Operating Expenses</b>		
Public relations and Corporate affairs	11,752	7,066
Audit Fees	3,000	3,000
Advertisement and publicity	17,539	38,875
Rent and Rates	73,999	57,115
Electricity and Water	10,738	10,039
Cleaning and sanitation	5,804	6,301
Fuel and other vehicle running expenses	36,523	52,836
Security	37,729	44,225
Consultancies	20,870	6,669
Legal Fees	16,586	5,979
Printing and Stationery	32,751	29,674
CRC and tender evaluation Expenses	31,488	49,950
Telephone, Internet and Postage	24,308	37,452
Bank Charges	4,284	3,493
Office expenses	4,368	5,839
Performance Contracting	60,768	-
<b>Total Other Operating expenses</b>	<u>392,507</u>	<u>358,513</u>
<b>17. Depreciation and Amortization</b>		
Property Plant and equipment	<u>112,200</u>	<u>73,274</u>
<b>Total Depreciation Expense</b>	<u><u>112,200</u></u>	<u><u>73,274</u></u>

**18. Cash and cash equivalents**

These represent cash held at various banks, as follows:

Cash in hand and Bank	15,677,220	21,537,467
Staff mortgage Fund	8,424	45,117
Fixed term deposits	<u>12,802,091</u>	<u>3,039,794</u>
<b>Total Cash and Cash equivalents</b>	<u><u>28,487,736</u></u>	<u><u>24,622,378</u></u>

The cash and bank balances as the funds are held with sound financial institutions approved by Central Bank of Kenya as follows:

	2018-2019 Shs'000	2017-2018 Shs'000
KCB Bank Kenya limited	27,478,596	21,381,917
Equity Bank Kenya Limited	154,906	48,789
Cooperative Bank Kenya Limited	637,982	181,272
NIC Bank Kenya Limited	215,216	241,609
Cash in Hand	1,036	13,862
<b>Total cash in hand and bank</b>	<u>28,487,736</u>	<u>21,867,450</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months

## 19. Receivables

### a) Receivables from Exchange transactions

Contractors advances	18,904,974	20,314,024
<b>Total Receivables from Exchange transactions</b>	<u>18,904,974</u>	<u>20,314,024</u>

### b) Receivables from Non Exchange transactions

Advances to Staff	104,381	31,109
Deposits and Prepayments	44,077	27,047
Other Receivables(Accrued Income )	5,651,484	9,459,413
<b>Total Receivables from Non Exchange transactions</b>	<u>5,799,942</u>	<u>9,517,569</u>
<b>Total receivables</b>	<u>24,704,916</u>	<u>29,831,594</u>

Receivables constitute short term liquid assets which are recoverable within one year. Grants receivable represent development grants due from the National Government (Kshs 5.8 Billion, (2017-2018: Ksh 9.49 billion).The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Authority does not hold any collateral as security. The aged analysis of receivables is as follows:

	2018-2019 Shs'000	2017-2018 Shs'000
<b>20. Inventories</b>		
Consumable stores	5,124	6,292
<b>Total Inventories</b>	<u>5,124</u>	<u>6,292</u>

**21. Property Plant and equipment**

**Year ended 30 June 2019**

<b>Cost</b>	<b>Building</b>	<b>Furniture and Fittings</b>	<b>Motor Vehicles</b>	<b>Office Equipment</b>	<b>Computers and Software</b>	<b>Plant and Machinery</b>	<b>Total</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
At 1st July 2018	93,178	129,960	421,760	33,399	107,926	52,853	839,076
Additions	8,298	5,154	90,683	2,755	95,428	-	202,318
At 30 June 2018	101,477	135,114	512,443	36,154	203,354	52,853	1,041,394
<b>Depreciation</b>							
At 1st July 2018	14,042	111,978	351,060	22,566	85,241	51,532	636,420
Charge for the year	2,537	5,288	52,821	4,138	46,491	926	112,200
At 30 June 2019	16,579	117,265	403,881	26,705	131,732	52,458	748,620
<b>Net Book Value</b>							
At 30 June 2019	84,898	17,848	108,562	9,449	71,622	395	292,774

The gross carrying amount of fully depreciated property, plant and equipment amounted to Kshs 494,383,546

<b>Year ended 30 June 2018</b>		<b>Building</b>	<b>Furniture and Fittings</b>	<b>Motor Vehicles</b>	<b>Office Equipment</b>	<b>Computers and Software</b>	<b>Plant and Machinery</b>	<b>Total</b>
<b>Cost</b>		<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
At 1st July 2017	90,263	122,358	380,160	31,587	89,985	52,853	767,207	
Additions	2,915	7,602	41,600	1,812	17,940	-	71,869	
At 30 June 2018	93,178	129,960	421,760	33,399	107,926	52,853	839,076	
<b>Depreciation</b>								
At 1st July 2017	11,712	97,133	320,910	18,463	70,001	44,926	563,145	
Charge for the year	2,329	14,845	30,150	4,103	15,239.69	6,607	73,274	
At 30 June 2018	14,042	111,978	351,060	22,566	85,241	51,532	636,420	
<b>Net Book Value</b>								
At 30 June 2018	79,137	17,982	70,700	10,832	22,685	1,321	202,656	

The gross carrying amount of fully depreciated property, plant and equipment amounted to K.shs 442,564,472

	2018-2019 Shs'000	2017-2018 Shs'000
<b>22. Road Infrastructure Assets</b>		
At 1st July	39,229,092	39,229,092
Transfer from work in progress	28,763,412	-
	<u>67,992,504</u>	<u>39,229,092</u>
<b>23. Capital Work In Progress</b>		
At 1st July	83,428,741	51,498,401
Additions	60,504,754	31,930,340
Transfer to Road Infrastructure Asset	(28,763,412)	-
	<u>115,170,082</u>	<u>83,428,741</u>
<b>24. Payables</b>		
<b>(a) Exchange Transactions</b>		
<b>Current:</b>		
Due to Contractors	28,169,570	6,014,646
Other Trade payables(General Suppliers)	296,685	318,565
Staff Creditors	3,819	5,784
Other Payables(Accruals & provisions)	189,813	146,765
<b>Total current</b>	<u>28,659,886</u>	<u>6,485,758</u>
<b>Non Current:</b>		
Contract Retention	7,711,642	5,500,090
<b>Total Non Current</b>	<u>7,711,642</u>	<u>5,500,090</u>
	<u>36,371,528</u>	<u>11,985,848</u>
<b>(b) Non-Exchange Transactions</b>		
Due to KeNHA/KURA	-	-
Deferred Income	-	-
	<u>-</u>	<u>-</u>
	<u>36,371,528</u>	<u>11,985,848</u>

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

**25. Employee Benefit obligations**

	<b>Gratuity Ksh'000</b>	<b>Pension costs Ksh'000</b>	<b>Total Ksh'000</b>
As at 1st July 2018	12,160	48,093	60,253
Additional Provisions	36,075	28,140	64,215
Provision utilised	-	-	-
<b>As at 30th June 2019</b>	<u>48,235</u>	<u>76,233</u>	<u>124,468</u>

**26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

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

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

The Members of the Board have the overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority has delegated its risk management to the Audit and Risk Committee. One of the responsibilities of this committee is to review risk management strategies to ensure that an effective efficient and transparent system of risk management is maintained for sustainable management of the Authority.

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

The financial management objectives and policies are as outlined below:

***a) Liquidity Risk***

Liquidity risk is the risk that the Authority will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/ operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required.

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

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

- Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding, maintaining balance sheet liquidity ratios,
  - Maintaining/soliciting for a diverse range of funding sources with adequate back up facilities,
- The Authority has an established corporate governance structure and process of managing risks regarding guarantees and contingent liabilities.

The primary sources of revenue for the Authority are receipts from the Kenya Roads Board, mainly receipts from Road Maintenance Levy Fund, and Grants from the central Government and Development Partners.

The table below summarizes the maturity analysis for financial liabilities to their remaining contractual maturities

**Year Ended 30th June 2019**

	Less Than 1Month	Between 1-3 Months	Between 3-12 Months	Over One Year
Due to contractors			28,169,570	
Other Trade Payables	-	296,685	-	-
Staff Creditors	-	3,819	-	-
Contract Retention	-	-	-	7,711,642
Deferred Income	-	-	-	-
Other Payables	-	175,864	-	-
	<u>-</u>	<u>476,367.73</u>	<u>28,169,570</u>	<u>7,711,642</u>

**Year Ended 30 June 2018**

	Less Than 1Month	Between 1-3 Months	Between 3-12 Months	Over One Year
Due to contractors			6,014,645.60	
Other Trade Payables	-	318,564.81	-	-
Staff Creditors	-	5,784.37	-	-
Contract Retention	-	-	-	5,500,089.59
Deferred Income	-	-	-	-
Other Payables	-	146,764.51	-	-
	<u>-</u>	<u>471,113.69</u>	<u>6,014,645.60</u>	<u>5,500,089.59</u>

**b) Market Risk**

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

**(i) Currency Risk**

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

**(ii) Price Risk**

Kenya Roads Board collects Kshs. 18 per litre of diesel and petrol imported into the country, 32% of which is disbursed to the Authority. The Authority is exposed to the extent that the levy on diesel and petrol is reduced or eliminated due to changes in the international fuel prices, inflation or other macro indicators.

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

**(iii) Interest Rate Risk**

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

**c) Credit Risk**

The maximum exposure of the Authority to credit risk as at the balance sheet date is as follows:

**Year Ended 30th June 2019**

	Fully Performing	Past Due Date but not Impaired	Past Due Date and impaired	Total
Advances to Staff	104,381			104,381
Contractors advances	18,904,974			18,904,974
Deposits and Prepayments	44,077			44,077
Other Receivables	5,651,484			5,651,484
Cash at Bank	28,487,736			28,487,736
	<b>53,192,651</b>	<b>-</b>	<b>-</b>	<b>53,192,651</b>

**Year Ended 30 June 2018'**

	Fully Performing	Past Due Date but not Impaired	Past Due Date and impaired	Total
Advances to Staff	31,109			31,109
Contractors advances	20,314,024			20,314,024
Deposits and Prepayments	27,047			27,047
Other Receivables	9,459,413			9,459,413
Cash at Bank	24,622,378			24,622,378
	<b>54,453,971</b>	<b>-</b>	<b>-</b>	<b>54,453,971</b>

**c) Operational Risk**

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

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

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

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

- (i) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- (ii) Requirements for the reconciliation and monitoring of financial transactions;
- (iii) Compliance with regulatory and legal requirements;
- (iv) Documentation of controls and procedures;
- (v) Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- (vi) Requirement for the reporting of operational losses and proposed remedial action;
- (vii) Training and professional development;
- (viii) Ethical and business standards; and
- (ix) Risk mitigation, including insurance where it is effective.

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

#### **d) Compliance and Regulatory Risk**

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

#### **e) Legal Risk**

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

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

## 27. Related Parties Balances and Transactions

The Authority regards a related party as a person or an entity 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 Director General and senior managers.

### (a) Related party transactions

The following transactions were carried out with related parties during the year.

	2018-2019 Shs'000	2017-2018 Shs'000
<b>(i) Receipt and Transfers</b>		
The Government of Kenya	37,263,912	30,261,192
Kenya Roads Board	16,926,623	15,103,974
	<u>54,190,535</u>	<u>45,365,166</u>
<b>(ii) Directors Emoluments</b>		
Emoluments -Executive directors	7,527	7,149
Emoluments - Non Executive directors	5,302	-
Training and filed activities	20,806	14,691
	<u>33,635</u>	<u>21,839</u>

### (b) Outstanding balances arising from non-exchange transactions

The following were outstanding balances with related parties as at 30<sup>th</sup> June 2019

Receivable from related parties	<u>5,833,104</u>	<u>9,412,599</u>
Payable to related parties	<u>124,468</u>	<u>-</u>
Receivables from related parties can be analysed as follows:		
The Government of Kenya	4,034,066	9,412,599
Kenya Roads Board	1,799,037	-
Key management personnel	-	-
	<u>5,833,104</u>	<u>9,412,599</u>
Payables to related parties can be analysed as follows:		
Key management personnel	<u>124,468</u>	<u>-</u>

**28. Contingent Assets and liabilities**

**(i) Contingent Liabilities**

Due to the uncertainty of the outcome of our Legal cases, it is not practically possible to estimate the resulting liabilities and the effect they are likely to have on the results of the Authority's operations, financial position or liquidity. Therefore no provision has been made in the financial statements.

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>(ii) Contingent assets</b>		
Advance Guarantees	15,308,035,976	16,430,148,498
Performance Guarantee	19,210,002,526	19,362,214,841
	<u>34,518,038,502</u>	<u>35,792,363,339</u>

**29. Capital Commitments**

Authorised and contracted for	<u>-</u>	<u>-</u>
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Non-cancellable operating lease rentals are payable as follows:

<b>Operating lease rentals</b>	<b>2018-2019</b>	<b>2017-2018</b>
Non-cancellable operating lease rentals are payable as follows	<b>Shs'000</b>	<b>Shs'000</b>
Within one year	25,496	25,496
Later than one year but within five years	26,770	33,144
	<u>52,266</u>	<u>58,640</u>

The Authority has leased office premises under an operating lease. The lease typically runs for 5 years with an option for renewal. Lease payments are increased accordingly to reflect market rentals. The Authority does not have an option to purchase the leased asset at the expiry of the lease period. There are no contingent rents recognized in the Statement of Financial Performance.

**30. Reconciliation of surplus as per Budget statement and statement of financial performance**

	<b>2018-2019</b>
	<b>Shs'000</b>
Surplus as per statement of Budget and Actual amounts	1,958,638
Add: Transfer of Roadwork Costs to Infrast	-
Less: Transfer to Development Fund	-
Add: Transfer from Deferred Income	-
	<u>1,958,638</u>
<b>Surplus(Deficit) as per Statement of financial perform</b>	<b><u>1,958,638</u></b>

**31. Fair value**

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

**32. Events after the reporting period**

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

**33. Ultimate and holding entity**

The Authority is a State Corporation under the Ministry of Transport, Infrastructure, Housing and Urban Development, State Department of Infrastructure. Its ultimate parent is the Government of Kenya.

**34. Currency**

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

## APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

The following is the summary of issues that resulted in a qualified opinion of the external auditor on the financial statements for the year 2016/17, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. No on Audit Report	Issue / Observation by the Auditor	Management Comments	Focal Person to resolve the Issue	Status: Resolved or Not Resolved	Time frame
1	<b>Nugatory Expenditure</b> Authority had incurred a total of ksh 202,088,241 to pay interest on delayed payment and a further amount of ksh 4,253,404.04 2016/17. Total Nugatory Expenditure of ksh 206,341,645.04	This was occasioned by delayed exchequer releases	Director General	Not Resolved	
2	<b>Rehabilitation and Repair of Kasoiyo-Saos-Society (D350) Road</b> The Project was awarded to Bridgestone Construction Company Ltd at contract sum of ksh 818,445,018 and commenced on 10 <sup>th</sup> October 2012 with expected completion as 10 <sup>th</sup> February 2016 revised to April 2016 <b>2.1 Assignment of works</b> Project File revealed assignment of works valued at ksh 504,824,286 to Guangxi Hydroelectric Construction Bureau on the 28 <sup>th</sup> January 2015. <b>2.2 Delayed implementation.</b> The latest Progress report for 5 August 2016 showed the overall progress achieved was 99.91 against a lapse time of 130.2% of contract period Although contractor requested for substantial completion inspection on the 13 <sup>th</sup> September 2017. This had not been undertaken at the time of the Audit <b>3 Construction of Muranga-Gitugi(D427) and Njumbi –Mioro (E546)</b> <b>3.1 Delayed Project Delivery</b> Overall Project progress as at June 2017 was 47.23% against contract lapse period of 196.43% . This indicates the project is far behind schedule which could lead to cost escalation.	In order to ensure timely delivery of the project to the users, management made a decision to assign the works to another contractor after the initial contractor experienced challenges.	Resident Engineer	Resolved: The project is now completed	
3		Although there have been delays in the project this may not necessarily result to cost escalation since the Variation of prices (VOP) is capped the contractual completion date. To mitigate against further delays, the main Contractor	Resident Engineer	Partially Resolved	

	<p><b>3.2 Interest on late payment</b>                  Certificate No 20 dated 27<sup>th</sup> June 2017 Indicated that interest on delayed payments totalling ksh 7,001,678 had been incurred.</p>	<p>M/s Nyoro Construction Ltd has Subcontracted 10Km of the Njumbi-Mioro Section to M/s Gold Sun Investments Ltd.</p> <p><b>23.0Km</b> of Muranga-Gitugi is complete and construction of the Bridge across River Mathioya is ongoing.</p> <p>Work on the <b>14.0 Km</b> Njumbi-Mioro section is currently on-going and at various stages</p>		
<p>4.</p>	<p><b>Construction of Kaptama-Kapsokwony-Sirisia-Contract No RWC 023</b>  <b>The Project is divided into 4 distinct portions with total length of 67Km</b></p> <p><b>4.1 Delayed Project Delivery</b>                  The contract Commenced on 22 June 2007 with contract period of 35 Months to end 13 May 2010. Latest progress availed during audit for 31 July 2015 revealed a progress of 94% and there was no evidence of extension of time. During the year management did not avail information of the current status of the project.</p> <p><b>4.2 Financial Distress b the Contractor.</b>                  Contractor KSL International was put under receivership as indicated on the Daily Nation Monday 23 February 2015 page 37. Site Office at Kamkuywa was placed under Receiver Manager and site operations halted.                  The contractor has been unable to settle rent arrears owed to the Authority amounting to ksh 3,028,125. For Mwatunge Camp in Taita Taveta which was in a previous contract.</p> <p><b>4.3 Request for Mutual Winding Up of the Contract</b>                  The Receiver Manager vide Letter ref HG/JKM/RBH/JGM/62 dated 9<sup>th</sup> July 2015 requested for mutual Winding Up.                  Further, the Attorney General in a letter Ref:AG/ CONF/21/6/12 VOL1(7) dated 1<sup>st</sup> September 2016 advised the management to terminate the contract forthwith in accordance with clauses 63.1 of the conditions of contract but there was no evidence to show action taken so far at the time of the audit.</p>	<p>As stated in the audit findings the physical progress was at 94%.</p> <p>At that particular time interpretation of contract management was that issues of EOT were being recommended by The Engineer and Approved by The Employer only</p> <p>As indicated by the Auditor the contractor is currently under Receivership.</p>	<p>Resident Engineer</p>	<p>Not Resolved</p>

5.0	<p>In the circumstances it is not possible to confirm whether the public obtained value for money for expenditure of ksh 2,622,131,272 already incurred. Matter still unresolved in 2016/17</p> <p><b>Construction to Bitumen Standard of Naromoru-Munyu-Karisheni Road Contract NO RWC 040</b></p> <p>The project scope was construction of four roads with total length of 45.9Km and was awarded to M/S Kirinyanga Construction (K) Limited at a contract sum of ksh 2,468,815,445 and commenced on 1<sup>st</sup> October 2012 with completion date of 30<sup>th</sup> September 2014.</p> <p><b>5.1 Assignment</b></p> <p>The contractor entered into agreement with East Africa Development Engineering Trading Co. Ltd to assign the latter parts of the works total 39.9Km</p> <p><b>5.2 Delayed Project Delivery</b></p> <p>The combined overall progress as at 30 June 2017 was 73.1% Therefore the project was behind schedule.</p>	<p>Assignment was necessary in order to speed up progress of works</p> <p>Currently 39.9Km (89.9% Physical Progress) have been completed and handed over. The Contractor's section of 6Km is expected to be completed by September 2019.</p>	<p>Resident Engineer</p>	<p>Partially Resolved</p>	<p>To be completed by September 2019.</p>
6.0	<p><b>Rehabilitation and Repair of Eldoret – Ziwa-Kachibora-Eldoret – Kabanes Road</b></p> <p>The project was awarded to M/S Kimilili Hauliers at contract sum of ksh 1,435,212,465 and commenced on 1<sup>st</sup> September 2011 with expected date of completion as at 1<sup>st</sup> March 2014 which was revised to 1<sup>st</sup> March 2016.</p> <p><b>6.1 Scaling down of works</b></p> <p>The initial contract was repackaged into three components as follows:</p> <p>i) Eldoret-Kabanes 24KM – Ksh 974,301,651</p> <p>ii) Kabanes-Kachibora 31KM – ksh 1,064,762,019.00</p> <p>iii) Moi's Bridge Kachibora-20KM ksh 536,046,915.00</p> <p>1<sup>st</sup> Section repackaged as addendum No2 which was approved by the CTC on 12<sup>th</sup> September 2014 and is completed under the current contract. The second section was subjected to open tender and awarded to M/S China International Cooperation on 19<sup>th</sup> June 2015 at a contract sum of ksh 1,313,914,382. The Third Section is estimated to cost ksh 536,046,915 and will be implemented through an annuity programme.</p> <p>This repackaging of works brings up the contract sum form an original price of ksh 1,435,212,465 to ksh 2,575,110,585.00</p> <p><b>6.2 Delayed Project Implementation</b></p>	<p>Delay in project implementation was occasioned by the contract repackaging as detailed above.</p>	<p>Resident Engineer</p>	<p>Resolved: The project is now completed</p>	

	<p>The revised contract period lapsed on 1<sup>st</sup> march 2016 but the latest progress reported dated 30<sup>th</sup> June 2017 showed overall progress was at 96% with only 88.2% certified. The project is behind schedule which could lead to cost overruns.</p>			
7.0	<p><b>Contrauction of Kibunja-Molo-Olenguruone Road(D316)</b> The project was awarded to Kimili Hauliers at contract sum of ksh 742,290,293 revised to ksh 844,344,348.00 and commenced on 6<sup>th</sup> August 2010 with expected date of completion of 6<sup>th</sup> February 2016 <b>7.1 Assignment of Works</b> The contractor sun contracted Riflo Services for Ksh 113,137,730 to speed up the progress of the but the arrangement has not still delivered the project. <b>7.2 Failed Project Delivery/Termination</b> The project was to be completed on the 6<sup>th</sup> February 2012 but the last progress report from December 2014 indicates only 67.73 physical progress. There is no evidence of action taken by management in line with the terms of the contract.</p>	<p>There may have been a delay in the delivery of the project. However through timely intervention by the management the works are were substantially completed on 13<sup>th</sup> December, 2018. The road is under defects liability period of 24 months, and it will end on 14<sup>th</sup> December, 2020.</p>	Resident Engineer	Resolved: The project is now completed
8.0	<p><b>Construction of Sigalal-Musoli-Sabatia-Butere Roads(D260/E390)</b> The Contract was awarded to M/S Associated on 28<sup>th</sup> March 2011 at a contract price of ksh 1,809,465,663. Works commenced on 6<sup>th</sup> June 2011 and was to be completed by 6<sup>th</sup> June 2013 <b>8.1 Assignment of Part of the Works</b> East Africa Development Engineering and Trading Co. Ltd was assigned part of the works. The Assignee was to construct 20Km at a construct sum of ksh 1,113,658,598.00 and the main contractor to handle 14.25 Km. <b>8.2 Advance Payment</b> The main contractor was paid an advance of ksh 180,946,566.00 and out of which 22,808,548. Had been recovered by the time of the audit leaving at outstanding of ksh 158,138,018.69 <b>8.3 Delayed project Completion</b> The latest progress report dated 31<sup>st</sup> July 2017 showed that only 74.3% combined progress had been realized by both the main contractor and the assignee, an indication that the project was behind schedule which could lead to escalation of cost.</p>	<p>The Assignee Contractor has completed the assigned section of 20.0Km and the same has been Taken-Over. The Contractor for the project M/s Associated Construction (K) Ltd was granted an Advance Payment of Ksh.180,946,566.33. The full amount of the Advance Payment has been recovered as follows: i) Deduction from payment certificates - Kshs.60,651,357.25 Recall of Advance Payment Guarantee - Kshs.120,295,209.08</p>	Resident Engineer	Resolved: The project is now completed

9.0	<p><b>Construction of Sigiri Bridge and Approach Roads on Road R43 –RW C092</b></p> <p>The contract was awarded to China Overseas Engineering Group Co. Ltd on the 5<sup>th</sup> March 2015 at contract sum of Ksh 992,546,146. The project had a contract period 18 months and was expected to be completed by 12<sup>th</sup> February 2017</p> <p><b>9.1Slow Progress</b></p> <p>The Contract period elapsed on the 12<sup>th</sup> February 2017 and there was no evidence for approval of extension of time but latest progress dated 31 October 2017 had overall progress of 81.27 % against contract lapse time of 133.33% . The management indicated the contact was substantially complete, no evidence was availed to support this.</p>	<p>Works on the bridge has been successfully completed and opened to traffic. The Employer has recommended Taking –Over of the works</p>	Resident Engineer	Resolved: The project is now completed.	
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**APPENDIX II: DEVELOPMENT PARTNERS PROJECTS IMPLEMENTED BY THE AUTHORITY**

Project No.	Project Title	Development Partner	Development Partners Commitment	Separate Donor reporting Required	Consolidated in the financial statements
EUROPEAID/134053/IH/WKS/KE	Contracts For The Rural Roads Project In Eastern Region Of Kenya	EU	Euros 14,850,000	Yes	Yes
CREDIT NO. BMZ: 200765123	Improvement Of Rural Roads And Market Infrastructure In Western Kenya	KFW	Euros 9,000,000	Yes	Yes
CREDIT NO. CKE I01201B AND 1046 01J	Central Kenya Rural Roads Improvement And Maintenance Project	AFD	Euros 74,000,000	Yes	Yes
	Upgrading of "Gilgil Machinery" Road Project.	BADEA	USD 11,000,000	Yes	Yes

### APPENDIX III: INTER ENTITY TRANSFER

Particulars	Date Received as per Bank Statement	Total received during the year 2018-2019	FY to which the amount relates
<b>A. 22% ROAD MAINTENANCE LEVY FUND</b>			
First Tranche 22% 2018/2019	25-Sep-18	3,416,191,977.00	2018/19
Second Tranche 22% 2018/2019	07-Mar-19	4,275,619,754.00	2018/19
<b>Total 22% RMLF</b>		<b>7,691,811,731.00</b>	
<b>B. 10% RMLF CRITICAL LINKS</b>			
10% 2017/2018	10-Jul-18	891,977,357.00	2017/18
First Tranche 10% 2018/2019	25-Sep-18	581,082,773.00	2018/19
Second Tranche 10% 2018/2019	07-Mar-19	1,938,280,955.00	2018/19
Third Tranche 10% 2018/2019		-	
<b>Total RMLF-10% - Critical Links</b>		<b>3,411,341,085.00</b>	
<b>C. RMLF CABINET SECRETARY ALLOCATION</b>			
Fort Ternan-Chorangut & Ntamu- Bridge-Kimogoro roads	17-Sep-18	67,000,000.00	2017/18
CS Allocation	29-Oct-18	1,490,850,000.00	2018/19
CS Allocation	11-Nov-18	162,000,000.00	2018/19
CS Allocation FY 2018/19	24-Dec-18	2,297,224,100.00	2018/19
CS Allocation FY 2018/19	18-Mar-19	174,300,000.00	2018/19
CS Allocation FY 2018/19	28-Mar-19	725,035,963.00	2018/19
		-	
<b>Total RMLF-10% - Cabinet Secretary Allocation</b>		<b>4,916,410,063.00</b>	
<b>D. 10% OVERHEADS FUND</b>			
<b>Total Overheads Funds</b>		<b>-</b>	
<b>TOTAL RMLF FUNDS</b>		<b>16,019,562,879.00</b>	
<b>E. GOK ESCHEQUER FUNDS</b>			
Balance of Prior Year Funds - 2017/2018 LVSR	03-Jul-18	513,502,403.00	2017/18
Balance of Prior Year Funds - 2017/2018 LVSR	03-Jul-18	782,964,880.00	2017/18
Balance of Prior Year Funds - 2017/2018 LVSR	03-Jul-18	726,223,086.00	2017/18
Balance of Prior Year Funds - 2017/2018 Ongoing	03-Jul-18	647,745,226.00	2017/18
Balance of Prior Year Funds - 2017/2018 LVSR	03-Jul-18	675,789,752.00	2017/18
Balance of Prior Year Funds - 2017/2018 LVSR	03-Jul-18	606,089,122.00	2017/18
Balance of Prior Year Funds - 2017/2018 LVSR	03-Jul-18	1,036,750,000.00	2017/18
Balance of Prior Year Funds - 2017/2018 Ongoing	03-Jul-18	642,750,000.00	2017/18
Balance of Prior Year Funds - 2017/2018 Ongoing	03-Jul-18	2,669,275,946.00	2017/18
Cash Request 1	11-Oct-18	821,543,503.00	2018/19
Cash Request 2	11-Oct-18	1,410,923,690.30	2018/19
Cash Request 3	11-Oct-18	1,413,973,719.65	2018/19
Cash Request 4	11-Oct-18	1,134,756,801.00	2018/19
Cash Request 5	18-Oct-18	215,000,000.00	2018/19
Cash Request 6	11-Oct-18	1,656,467,834.00	2018/19
Cash Request 7	11-Oct-18	341,945,943.00	2018/19
Cash Request 8	28-Dec-18	397,500,000.00	2018/19
Cash Request 9	28-Dec-18	435,000,000.00	2018/19
Cash Request 10	28-Dec-18	587,250,000.00	2018/19
Cash Request 11	28-Dec-18	261,722,735.35	2018/19
Cash Request 12	28-Dec-18	794,421,849.90	2018/19
Cash Request 13	28-Dec-18	759,127,430.00	2018/19
Cash Request 14	28-Dec-18	767,430,700.00	2018/19
Cash Request 15	28-Dec-18	734,524,845.00	2018/19
Cash Request 16	28-Dec-18	952,875,000.00	2018/19
Cash Request 17	28-Dec-18	1,037,978,130.00	2018/19
Cash Request 18	28-Dec-18	529,050,590.00	2018/19
Cash Request 19	28-Dec-18	947,493,786.45	2018/19
Cash Request 20	11-Mar-19	1,925,367,658.05	2018/19
Cash Request 21	11-Mar-19	1,709,802,542.00	2018/19
Cash Request 22	11-Mar-19	1,167,430,700.00	2018/19
Cash Request 23	11-Mar-19	1,054,713,125.75	2018/19
Cash Request 24	11-Mar-19	1,561,911,321.55	2018/19
Cash Request 25	11-Mar-19	2,060,002,260.05	2018/19
Cash Request 26	18-Mar-19	1,185,661,970.00	2018/19
Cash Request 27	24-Jun-19	1,224,472,052.60	2018/19
Cash Request 28	24-Jun-19	435,000,000.00	2018/19
Cash Request 29	24-Jun-19	431,500,000.00	2018/19
Cash Request 30	6-Dec-18	1,366,000,000.00	2018/19
Cash Request 33	7-Apr-19	959,818,416.00	2018/19
Cash Request 34	7-Apr-19	1,133,101,934.00	2018/19
Cash Request 35	7-Apr-19	362,000,000.00	2018/19
Cash Request 36	7-Apr-19	371,000,000.00	2018/19
Cash Request 37	7-Apr-19	300,000,000.00	2018/19
Cash Request 38	7-Apr-19	710,000,000.00	2018/19
Cash Request 39	7-Apr-19	198,145,966.00	2018/19
Equalization funds	14-May-19	3,638,595,723.00	2018/19
<b>LVS And Conventional Annuity Funds</b>		<b>45,294,600,641.65</b>	
Annuity RWC Lot 33/78	01-Oct-18	50,460,424.15	2018/19
Annuity RWC Lot 33/78	14-Nov-18	295,168,431.45	2018/19
Annuity Lot 33	18-Feb-19	306,371,144.40	2018/19
<b>Total Annuity Funds</b>		<b>652,000,000.00</b>	
<b>Total GOK Eschequer Funds</b>		<b>45,946,600,642</b>	
<b>F. DEVELOPMENT PARTNERS</b>			
AFID Batch 2 LVS	24-Jan-19	89,441,288.70	2018/19
AFID Batch 3 LVS	13-Dec-18	450,000,000.00	2018/19
<b>Total Development Partners</b>		<b>539,441,289</b>	
<b>TOTAL FUNDS RECEIVED</b>		<b>62,505,604,809</b>	