

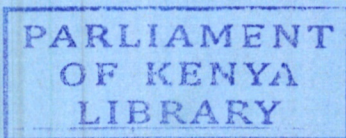
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



Paper laid by the
Leader of the Majority
Party on 10-04-2018
LRM



REPORT

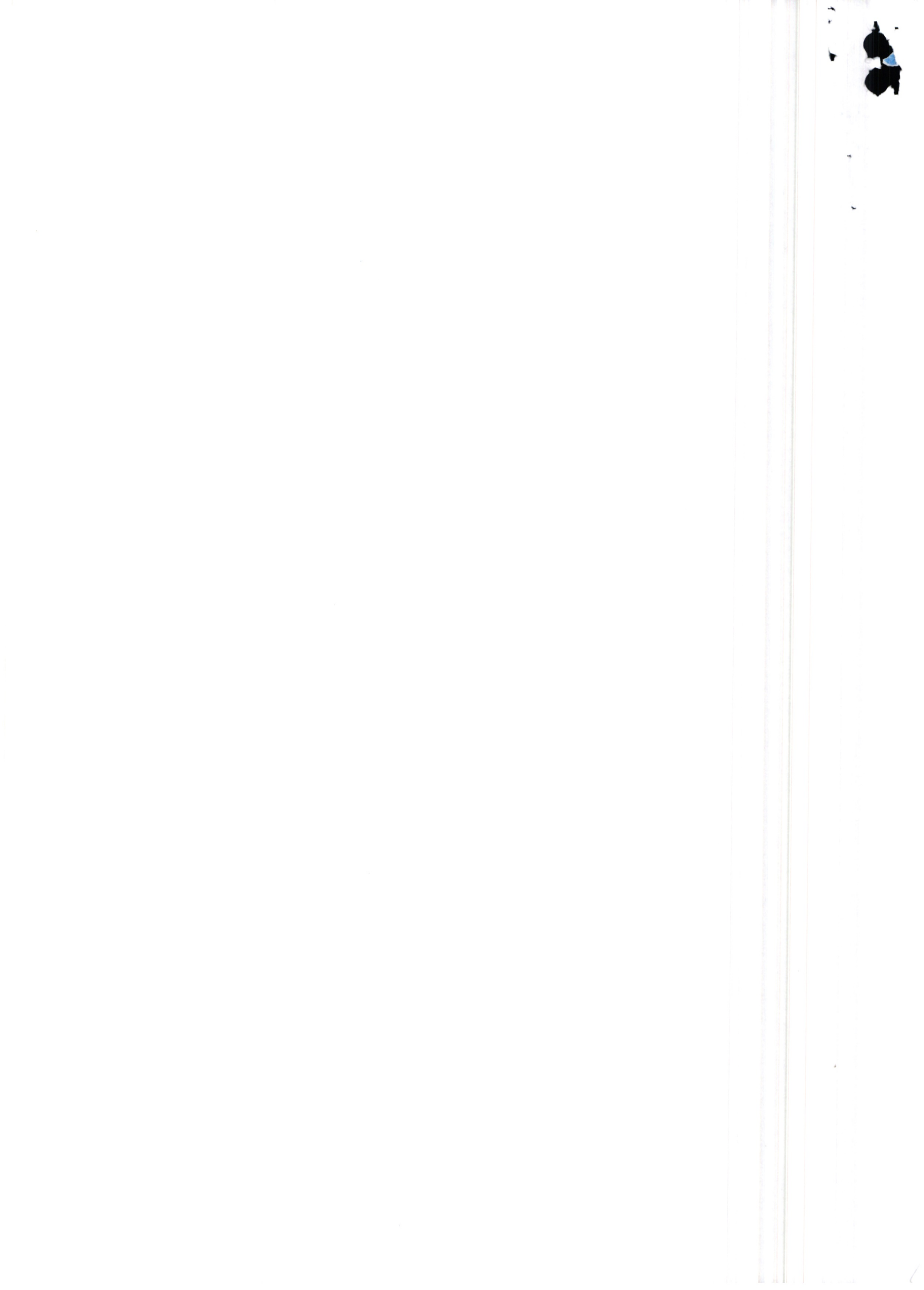
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA ROADS BOARD FUND**

**FOR THE YEAR ENDED
30 JUNE 2017**





KENYA ROADS BOARD FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

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Our Vision:

An effective road network for a prosperous nation.

Our Mission:

To fund, oversee and coordinate road development, rehabilitation and maintenance. We shall ensure prudent sourcing and optimal utilization of resources for social-economic development.

KEY ENTITY INFORMATION AND MANAGEMENT

a) Background Information:

Kenya Roads Board (KRB) is a state body corporate established under Chapter 408 of the Laws of Kenya 'Kenya Roads Board Act' which came into effect under Legal Notice No. 7 of 1999. The Board was established in accordance with the Chapter 446 (State Corporations Act) of the Laws of Kenya, which is 'An Act of Parliament to make provision for the establishment of state corporations: for control and regulation of state corporations; and for connected purposes'.

The Board is domiciled and operates within the Republic of Kenya. The registered office is as set out on page 7.

b) Principle Activity:

As stipulated in the Kenya Roads Board Act, 1999 "The object and purpose for which the Board is established is to oversee the road network in Kenya and coordinate the maintenance, rehabilitation and development funded by the fund and to advise the Minister responsible for matters pertaining to roads on all matters related thereto."

Specific Mandates:

The mandates of KRB are provided for in the Kenya Roads Board Act, No. 7 of 1999 as hereunder:

- a) *'coordinate the optimal utilization of the Fund in implementation of programmes relating to the maintenance, rehabilitation and development of the road network;*
- b) *seek to achieve optimal efficiency and cost effectiveness in roadworks funded by the Fund;*
- c) *manage the Fund;*
- d) *based on a five year road investment programme approved by the Minister and the Minister for Finance, determine the allocation of financial resources from any other source available to the Board required by road agencies for the maintenance, rehabilitation and development of the road network to ensure that the allocation of funds is pegged to specific categories of roads and that not less than*
 - (i) *twenty two percent (22%), which shall be deposited into a special bank account to be called Constituency Road Fund Account to be maintained by every constituency of monies from the Fund is allocated equally to all Constituencies in the country to be administered by the Rural Roads Authority;*
 - (ii) *ten percent (10%) of the monies from the Fund is allocated for the maintenance or development of link roads between constituencies and to serve as Government counterpart funds in funding works on rural roads, to be administered by the Kenya Rural Roads Authority and that the said per centum shall be equally distributed to the constituencies where Kenya Rural Roads Authority has the mandate.*
 - (iii) *forty percent (40%) of the monies from the Fund is allocated in respect of the national roads to be administered by the National Highways Authority;*
 - (iv) *fifteen percent (15%) of the monies from the Fund is allocated in respect of the Urban Roads Authority;*
 - (v) *one percent (1%) of the monies from the Fund is allocated in respect of roads in national parks and reserves to be administered by the Kenya Wildlife Service, and*

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- (vi) a maximum of two percent (2%) of the monies from the Fund is allocated in respect of recurrent expenditure of the Board under section 31(5).
- e) ensure that the remainder of the monies from the Fund (10%) described in paragraph (d) shall be allocated annually by the Board with the approval of the Minister to road investment programme derived from the five-year road investment programme approved by the Minister responsible for roads and the Minister for Finance.
- f) ensure that a maximum of ten percent (10%) of all monies allocated to each road agency is utilized for development purposes by the said agency
- g) monitor and evaluate, by means of technical, financial and performance audits, the delivery of goods, works and services funded by the Fund;
- h) in implementing paragraph (g), pay due regard to public procurement and disposal regulations and additional guidelines issued or approved by the Minister;
- i) recommend to the Minister appropriate levels of road user charges, fines, penalties, levies or any sums required to be collected under the Road Maintenance Levy Fund Act, 1993 and paid into the Fund;
- j) recommend to the Minister such periodic reviews of the Fuel Levy as are necessary for the purposes of the Fund, and
- k) identify, quantify and recommend to the Minister such other potential sources of revenue as may be available to the Fund for the development, rehabilitation and maintenance of roads.'

c) Key Management:

The entity's day-to-day management is under the following key organs:

- Board of Directors
- Accounting officer/ Executive Director
- Management

d) Fiduciary Management:

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

1. Executive Director - Eng. Jacob Z. Ruwa, OGW
2. General Manager, Finance - CPA Rashid K. Mohamed, MBS
3. General Manager, Technical Compliance - Eng. Stephen W. Ndinika
4. General Manager, Planning and Programming - Eng. Benjamin K. Maingi (Retired: 5th February 2017)
5. General Manager, Legal and Corporate Affairs - Ms. Lucy K. Gathika
6. General Manager, Human Resources and Administration - Mrs. Ruth M. Bitu (Retired: 23rd January 2017)

e) Fiduciary Oversight Arrangements:

The following committees provide fiduciary oversight over the management and activities of the Board;

- Audit and Risk Management Committee of the Board
- Finance Committee of the Board
- Technical Committee of the Board
- Human Resources and Management Committee of the Board
- Parliamentary Committee activities

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

f) Financial Statements:

The Financial Statements herein represent the utilization of the monies from the Kenya Roads Board Fund which is allocated in respect of the KRB Act of 1999, and the Constitution of Kenya, 2010.

Section 35(1) of the KRB Act stipulates that *“There shall be paid out of the Fund any expenditure incurred by the Board in the exercise of its powers or the performance of its functions under this Act”*. Financial Statements have been prepared in respect of the Operations of the Board.

The Financial Statements of the Kenya Roads Board Fund have been presented separately as required by Section 26 of Chapter 5, Public Finance Management Act of 2012 which deals with Administration of Special Funds.

g) Registered Office/Headquarters:

Kenya Re-Towers, 3rd Floor
Off Ragati Road, Upper Hill
P.O. Box 73718- 00200, City Square
NAIROBI, KENYA

h) Contacts:

Tel. No.: 4980000, 2722865/6
Fax No.: 254-020-2723161
Website: www.krb.go.ke
E-mail address: info@krb.go.ke

i) Principal Bankers:

Central Bank of Kenya
P. O. Box 60000-00200,
NAIROBI, KENYA

j) Independent Auditors:

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

k) Principal Legal Adviser:

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

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

THE BOARD OF DIRECTORS

The Board draws representatives from public and private stakeholders as set out in Section 7 of the Kenya Roads Board Act, 1999. Board members in FY 2016/2017 include the following:-

Representative	Organization
Eng. Jacob Ruwa, OGW (Executive Director)	Kenya Roads Board
Eng. John K. Mosonik	PS, Ministry of Transport, Infrastructure, Housing and Urban Development - State Department of Infrastructure
Dr. Kamau Thugge	PS, The National Treasury
Ms. Mwanamaka Amani Mabruki Until March 2017	PS, Ministry of Devolution & Planning
Mr. Micah Powon	
Mrs. Betty Maina	PS, Ministry of East African Affairs, Commerce & Tourism
Mr. Irungu Nyakera	PS, Ministry of Transport, Infrastructure, Housing and Urban Development - State Department of Transport
Eng. John Nyaguti	Institution of Engineers of Kenya
Ms. Rita Kavashe	Automobile Association of Kenya
Mr. Wilson Ndirangu Kamau	Institute of Surveyors of Kenya
CPA Charles Tirok	Institute of Certified Public Accountants of Kenya
Ms. Monika Solanki	Kenya Association of Tour Operators
Mr. Michael Karanja	Kenya Association of Manufacturers
Ms. Mary W. Wambugu	League of Kenya Women Voters
Alternate Representative	Organization
Mr. Nemwel Motanya	Ministry of Transport, Infrastructure, Housing and Urban Development - State Department of Infrastructure
Mr. Ontweka Onderi Naftali	National Treasury
Mr. James Mwanzia	Ministry of Devolution & Planning State Department for Devolution
Mr. Alfred M. Kitolo	PS, Ministry of East African Affairs, Commerce & Tourism
Mr. Paul King'ori	PS, Ministry of Transport & Infrastructure, Housing and Urban Development - State Department of Transport

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

MANAGEMENT TEAM

Executive Director	-	Eng. Jacob Z. Ruwa, OGW
General Manager, Finance	-	CPA Rashid K. Mohamed, MBS
General Manager, Technical Compliance	-	Eng. Stephen W. Ndinika
General Manager, Planning and Programming	-	Eng. Benjamin K. Maingi (Retired: 5 th February 2017)
General Manager, Legal and Corporate Affairs	-	Ms. Lucy K. Gathika
General Manager, Human Resources and Administration -		Mrs. Ruth M. Bitu (Retired: 23 rd January 2017)

CHAIRMAN'S STATEMENT

On behalf of the Members of the Board, it is my pleasure to present the Annual Report and Financial Statements for Kenya Roads Board Fund and Kenya Roads Board Operations for the year ended 30th June 2017.

General Economic Environment

Most global economies registered improved economic growth in the first quarter of 2017, with China, the US and the Eurozone registering growth of 6.9%, 1.4% and 1.9% respectively, compared to 6.7%, 1.1% and 0.5% in the corresponding period last year. The commodities markets saw increased activity, despite oil prices declining by 5.2% in the first half of 2017 – driven by increased oil production by the US, Libya and Nigeria.

Sub-Saharan Africa growth was strong at the beginning of 2017 with the region's GDP growth estimated to have increased to 2.1%, from 1.7% in 2016. This growth was driven by improvements in mining countries such as Mozambique, Cote d'Ivoire and South Africa as metal & mineral prices gained by 5.2%. Going forward, SSA's economic performance is expected to improve, with growth projected to come in at 2.7% in 2017 and 3.5% in 2018, according to the International Monetary Fund (IMF). Most East African countries are expected to experience a decline in GDP growth, mainly due to poor performance in the agricultural sector as a result of drought.

Kenya's macroeconomic environment has remained relatively stable in the first half of 2017, supported by (i) continued investment in infrastructure and real estate, (ii) a stable interest rates environment following the enactment of the Banking (Amendment) Act, 2015, and (iii) a relatively stable currency, having weakened by only 1.1% in H1'2017. The positive outlook on economic growth may however be adversely affected by the ongoing drought, political risk in the run up to the August General Elections and global strengthening of the dollar, which may lead to weakening of the shilling.

Provisional GDP growth estimates released by Kenya National Bureau of Statistics for Q1'2017 indicate that Kenya's economy expanded by 4.7% down from 5.9% in Q1'2016. The decline in growth rate is largely attributed to a contraction in agricultural activity due to the ongoing drought and a deceleration in credit uptake.

Strategy

The Board adequately implemented its Strategic Plan for the five-year period ending 30th June 2017. Following the lapse of this period, the Board has developed a new Strategic Plan for the period 2018-2023. The Board formulated a Business Plan for FY 2016/17 which was extracted from the five year strategic plan. The deliverables that were set out in the business plan and performance contract for FY 2016/17 were achieved.

Specifically, the Kenya Roads Board Fund collections exceeded the estimates, the APRP was approved and implemented during the year, the Board carried out monitoring and evaluation of utilization of the KRB Fund, and the internal capacity was strengthened to ensure effective delivery of the Board's mandates.

Corporate Governance

Strong Corporate Governance is integral to the Board's long-term success and is essential in delivering the KRB's strategy. The Statement of Corporate Governance, included in this report, details the measures that the Board has undertaken to ensure a robust corporate governance environment.

With regard to excellence in Financial Reporting and disclosure, the Board, for the FY 2015/2016 was nominated and declared the winner of the Financial Reporting (FiRe) Awards (Public Sector Category). The FiRe Awards are jointly organized by the Nairobi Securities Exchange, the Institute of Certified Public Accountants of Kenya and the Capital Markets Authority.

Future Outlook 2017/18

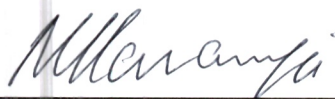
Kenya Roads Board will continue to align itself with the new Constitutional dispensation to serve Kenyans at the National and County levels of government. The Board is actively engaged in activities aimed at increasing and sustaining the KRB Fund to meet the ever increasing road maintenance needs. The Board remains committed to deepening relationships with its stakeholders and key partners. Further, the Board shall endeavor to develop its people and develop innovative and cost-effective methods of road construction and maintenance.

Acknowledgement

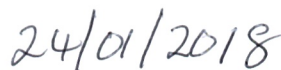
On behalf of KRB Directors and staff, I express my sincere gratitude to the Government of Kenya, Ministry of Transport and Infrastructure, Road Agencies, taxpayers and other stakeholders for their continued support. This has gone a long way towards building a solid institution that is responsive to its mandates and stakeholders' expectations.

I also wish to thank my fellow Directors for dedicating their time and effort to steer the Board. Their advice and guidance has played a key role in the attainment of the impressive results. Our management and staff have risen to the challenges with a great deal of resourcefulness, diligence, resilience and determination. We are proud of the team and greatly appreciate their ability and commitment towards achieving the Board's vision, mission and objectives.

I look forward to a promising financial year 2017/18. God Bless you all.



Eng. MICHAEL KARANJA
FOR : CHAIRMAN



DATE

REPORT OF THE EXECUTIVE DIRECTOR

Overview

Kenya Roads Board has continued to carry out its mandate of effectively and efficiently managing the Kenya Roads Board Fund. We are happy to note that the Board has achieved its ambitious performance targets set in the annual business plans, derived from the Strategic Plan 2013-2017.

Further, approximately forty percent of the road network is maintained by Road Maintenance Levy Fund (RMLF) funds. The Table below shows the total length of the road network that has been maintained in the last five financial years using RMLF.

Financial Year	Works Achieved (in Kilometers)	Percentage of Network Maintained
2011/2012	66,530	41
2012/2013	62,890	39
2013/2014	61,030	38
2014/2015	52,911	33
2015/2016	49,350	31

The decrease in percentage of roads maintained was caused by inflationary pressures that increased the cost of road maintenance. However, the increase in fuel levy rate from Kshs 12 to Kshs 18 in July 2016 is expected to have a significant effect on the percentage of roads maintained.

General Condition of Roads

In Kenya, ninety three percent (93%) of all freight and passenger traffic is carried by road. The road network is extensive, consisting of approximately 161,451.4 kilometers (out of which 10% is paved, while the rest of the network is either gravel or earth roads).

It is estimated that about 30% of the paved roads are in good condition while only about 20% of the unpaved roads is in maintainable condition. Hence a large portion of the network is in either poor or failed condition and requires urgent rehabilitation to restore it to a maintainable condition.

According to the latest data from the Road Inventory and Condition Survey (RICS) of 2009, the road network in Kenya is generally in poor condition. The condition of paved roads is - 19% good, 22% fair and 59% poor; while condition of unpaved roads is - 12% good, 22% fair and 66% failed. KRB is currently preparing a consultancy for a Road Inventory and Condition survey to update this information.

Performance & Utilization of Funds

In FY 2016/17, the Board received Kshs. 69.2 billion (2015/16: Kshs 50.8 billion) from Fuel Levy, Transit Tolls and Interest income, compared to a target of Kshs. 60.5 billion. The receipts are analyzed below:

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

	FY 2015/16	FY 2016/17
	(12 Months)	(12 Months)
	(KSHS)	(KSHS)
Fuel Levy	51,068,986,425	69,113,787,724
Agricultural Cess	101,797,247	-
TOTAL RECEIPTS	51,170,783,672	69,113,787,724

During FY 2016/17, the Board allocated funds to the road agencies totaling to Kshs 60.5 billion (2015/16: Kshs 40.5 billion). The disbursements are higher than prior year due to the increase in Fuel Levy from Kshs 12.00 to Kshs 18.00 per litre of petrol and diesel.

Road Reclassification

A new road classification system based on road function and covering the entire road network was adopted and gazetted in January 2016. The new road classification broadly defined National Trunk Roads and County Roads.

The road network was inventoried at 161,451.40 kilometres long, comprising of 39,995.10 kilometres of National roads and 121,456.40 kilometres of County roads.

Road Class	Length (in Kilometers)	Classification
A	7,698.20	
B	10,851.40	
C	21,445.50	
Sub-total	39,995.10	National Roads
D	11,123.30	
E	14,047.70	
F	9,625.60	
G	89,598.80	
Sub-total	121,456.40	County Roads
Sum-total	161,451.50	Entire Network

Road Sector Investment Programme (RSIP)

The Road Sector Investment Programme (RSIP) forms the basis of prioritization of roads in the APRP for each financial year. The RSIP clearly identifies the Road Section to be considered, types of interventions and the estimated costs.

The Board monitors the implementation of the RSIP through regular reports and stakeholders' meetings. The Board continues to ensure that the APRP prepared by Road Agencies is based on the RSIP in the prioritization of road works.

An interagency Task Force was appointed by Permanent Secretary, State Department of Infrastructure to develop the 2nd Phase of Road Sector Investment Program (2015-2019). The expected outcomes of the RSIP are; enhance road asset management in the country by optimizing allocation of resources to road investments, assist development partners in identification of support projects and determination of actual road network needs and funding gaps.

**KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017**

In January 2016, Kenya Roads Board engaged a consultant assist the above-mentioned Task Force in development of RSIP using HDM-4 (a road investment appraisal tool). Achievements to date are;

- a) KRB conducted 7 regional workshops to sensitize road agency staff on RSIP.
- b) Road condition data collected between Nov 2015 and Apr 2016 covering 8,000km. Consultant has configured and calibrated HDM-4 Kenya Workspace to local conditions.
- c) Draft RSIP report submitted in July 2016
- d) Multi-criteria analysis to be applied on RSIP developed using HDM-4 in order to integrate social and economic criteria. In this regard, Stakeholder surveys scheduled to be conducted in August covering 10 Ministries, 10 Counties and 40 sub-counties.
- e) Stakeholders workshop to be held in September 2016 to adopt RSIP 2015 - 2019

The Annual Public Roads Programme (APRP)

During the year, the Board allocated and released funds in accordance with the Annual Public Roads Programme (APRP).

As the process of alignment of the Roads Sector to the new Constitution continues, road works contained in the Annual Public Roads Programme for FY 2015/16 shall continue uninterrupted and will be undertaken by the designated road agencies.

Roads 2000 (R2000) Strategy

The GoK with the development partner support has over the years taken a number of initiatives to promote the use of local resources and labour based methods through road works:

- Rural Access Road Programme (1970's)
- Minor Roads Programme (1980's)
- Roads 2000 Programme (1990's)

The 1st five year R2000 Strategic plan (2005-2010) was developed in 2004. The interventions of this strategic plan improved 7,392 kilometers of rural roads to gravel standards at a cost of Kshs. 5.8 billion, generated 4.7 million person days of employment and trained 5,600 labour based contractors. More than Kshs. 1.0 billion was injected to the rural economy with minimum 25% of beneficiaries being women.

The 2nd five year R2000 Strategic plan (2013-2017) is in place and it builds on the successes of the 1st Strategic plan while addressing the weaknesses experienced during the implementation of the 1st plan period. The achievements by mid-term review are as stated below;

- (i) interventions of these strategic plan has, in the mid-term, improved 79,175 kilometers of rural roads to gravel standards at a cost of Kshs. 16.58 billion, generated 6.76 million person days of employment
- (ii) research on low volume seal roads surfacing, e.g. use of cold asphalt, emulsion treated base (ETB), Cobblestone, etc.

- (iii) opened up development opportunities for emerging Small scale contractors/entrepreneurs

Axle Load Control

The establishment of axle load limits is an important aspect in the management of the road network. The Board is dedicated to ensure compliance with axle load limits, and has engaged two consulting engineers to continue monitoring Axle Load. These consultancies cover the urban and rural network in addition to the national road network. The frequency of monitoring has also been increased from quarterly to monthly.

Performance Contracting

Kenya Roads Board signed the sixth performance contract with the Government of Kenya through the Ministry of Transport and Infrastructure. The Key Performance Indicators outlined in the Performance Contract include financial & stewardship, service delivery, operational and qualitative indicators derived from the Medium Term Expenditure Framework, Vision 2030 and Sector Performance standards.

Human Capital

At Kenya Roads Board, we believe that human capital is a key pillar to the successful execution of the Board's Strategic Plan. The input of members of staff is the most critical element guaranteeing the attainment of targets set in the Performance Contracts.

The Board's members of staff have received high quality training both locally and overseas through an elaborate training plan for all staff. There exists a performance management system that sets key performance benchmarks which when attained result in achievement of the Board's goals and reward of staff.

ISO Certification

The Board has been ISO 9001:2008 - Quality Management System (QMS) certified since 24th June 2010. The Board and Staff of KRB endeavor to maintain and continuously improve the effectiveness of its quality management systems that meet the stakeholders' expectations in accordance with ISO 9001:2008 requirements.

With regard to the above, the Board was re-certified for the first and second times in August 2013 and June 2016 respectively.

Future Outlook

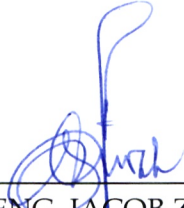
Kenya Roads Board will align itself with the new Constitutional dispensation to serve Kenyans at the National and County levels of government. The Board is actively engaged in activities aimed at increasing and sustaining the KRB Fund to meet the ever increasing maintenance needs.

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Appreciation

I would like to thank the Board of Directors, Management and Staff of Kenya Roads Board 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 and Infrastructure, the National Treasury, Road Agencies, stakeholders and taxpayers for their co-operation and support.

Finally, I would like to thank all taxpayers and stakeholders, and assure them of our strong commitment to deliver outstanding value to Kenyans as a whole.



ENG. JACOB Z. RUWA, OGW
EXECUTIVE DIRECTOR

23/1/2018

DATE

CORPORATE GOVERNANCE STATEMENT

1. Introduction

The Board of Directors recognizes the importance of applying the highest standards of corporate governance as a key contributor to its long term success, long term value and prosperity.

This enables effective and efficient decision making and gives a structural aid for the Directors to discharge their duty to promote the success of KRB while taking into account the interest of stakeholders.

Effective governance is achieved through a combination of strong process and structures, underpinned by the right values and culture. The principles of corporate governance are contained in the Mwongozo Code of Conduct & Ethics.

2. The Board

Board Size and Composition

The size, composition and appointments of the Members of the Board are prescribed in the Kenya Roads Board Act. Kenya Roads Board comprises of thirteen (13) independent non-executives board of directors of which eight (8) are from the private sector institutions and five (5) members representing the public sector. Each private member serves for a maximum of two terms of three (3) years each.

The Chairman of the Board is appointed by the President from among the eight members from the private sector.

Names of all members and changes thereto are published in the Kenya Gazette.

The public sector representatives are the principal secretaries or designated alternates not below the level of deputy secretary from the ministries responsible for matters relating to roads, finance, local authorities, regional co-operation, transport & communications.

The representatives from the private sector are appointed by the Minister responsible for roads from among the three persons nominated by each organization specified in the First Schedule to the Kenya Roads Board Act.

The Board is well composed in terms of range and diversity of skills, knowledge, age and experience in various sectors which makes it effective and provides an appropriate balance for the oversight of the Board's mandate. On gender, the Board has three (3) women out of eight (8) members from the private sector.

The Executive Director's position is filled through public advertisement. The Executive Director is appointed by the Board in consultation with the Minister.

The Executive Director is an ex-official member of the Board but has no voting right at any meeting of the Board and is the secretary to the Board.

Independence and Separation of Roles & Responsibilities

The roles and responsibilities of the Chairman of the Board, the Executive Director and non-executive directors' remain distinct and separate which ensures a balance of power of authority and provides for checks and balances such that no one individual has unfettered powers of decision making. Their roles have been documented and are expected to be independent and free from conflict upon appointment.

The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board's decisions. The Chairman builds an effective board and sets the board agenda in consultation with the Secretary/Executive Director and ensures effective communication to stakeholders.

The Executive Director is responsible to the Board and takes the overall responsibility for the management of the Kenya Roads Board Fund and takes responsibility for effective and efficient day to day running of the affairs of the Board. The Executive Director recommends the strategy to the Board and implements it and makes operational decisions. Noting that the position also doubles as the secretary to the Board, the Executive Director ensures appropriate and timely information flows within the Board, its committees and management.

The non-executive directors are independent of management, they appoint the Executive Director and establish a framework for the delegation of authority and ensure succession planning for the executive director and senior management is in place. Their role is to advise, constructively challenge and monitor the success the management is delivering the agreed strategy within the risk appetite and control framework that is set out by the Board.

Board Responsibilities

The Board's responsibility is to promote the long term success of the Board. The Board provides leadership and concentrates its efforts on the strategic and governance issues. The Kenya Roads Board Act, the Board Charter and the Mwongozo Code of Ethics defines the governance parameters within which the Board exists and operates, the specific responsibilities to be discharged and powers of the Board, its committees and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.

The Board is charged with the following responsibilities:-

- a) Defining the purpose of the Kenya Roads Board, that is, its strategic intent and objectives, and its values which should be clear, concise and achievable;
- b) Strategy formulation and ensuring there are appropriate policies, systems and structures to effectively and successfully implement the strategies;
- c) Provide leadership within a framework of prudent and effective structures which enable risks to be assessed;
- d) Identify the opportunities as well as the principle risks in its operating environment including the preparation of the risk policy plans/risk management policies and

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

implementation of appropriate measures to manage such risks or anticipated impact on the corporate business;

e) Review on a regular basis the adequacy and integrity of the internal controls, acquisition and divestures, management information systems including compliance with applicable laws and regulations;

f) In stewardship and in discharging its obligations, the Board assumes responsibility in the following areas:

(i) *Retaining full and effective control over KRB, and monitoring management in implementing Board plans and strategies;*

(ii) *Ensuring ethical behavior and compliance with relevant laws and regulations, audit and accounting principles, and KRB's own governing documents and Code of Ethics; and*

(iii) *Defining levels of materiality, reserving specific powers to the Board and delegating other matters with the necessary written authority to management and instituting effective mechanisms that ensure Board responsibility for management performance of its functions; among other mandates and responsibilities as stipulated in the Kenya Roads Board Act.*

Meetings Attended by Board Members

Kenya Roads Board Act provides that the Board holds meeting at least once every month. The Board therefore holds regular scheduled meetings throughout the year and supplementary meetings are held as and when necessary. In case of non-attendance due to other commitments, such information was communicated to the chair prior to the date of the scheduled meeting.

REGULAR BOARD MEETINGS	2016/17	
	Meetings Attended	% Attendance
MONIKA SOLANKI	8	100%
CHARLES TIROK	4	50%
ENG. JOHN NYAGUTI	7	88%
THEODORA GICHANA (INSPECTORATE)	3	38%
MARY WAMBUGU	7	88%
MICHAEL KARANJA	8	100%
MWANAMAKA MABRUKI, PS	1	13%
WILSON N. KAMAU	8	100%
ALFRED KITOLO	4	50%
ONDERI ONTWEKA	5	63%
PAUL KING'ORI	5	63%
RITA KAVASHE	5	63%
NEMWEL MOTANYA	5	63%
JAMES MWANZIA	5	63%
MICAH POWON, PS	1	13%
Total Number of Meetings held during the year	8	

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

	2016/17	%
HR & MANAGEMENT COMMITTEE	Meetings Attended	Attendance
MONIKA SOLANKI	5	100%
ALFRED KITOLO	5	100%
RITA KAVASHE	2	40%
MICHAEL KARANJA	5	100%
THEODORA GICHANA	1	20%
Total Number of Meetings held during the year	5	

	2016/17	%
FINANCE COMMITTEE	Meetings Attended	Attendance
MARY WAMBUGU	1	50%
JAMES MWANZIA	2	100%
NEMWEL MOTANYA	2	100%
CHARLES TIROK	1	50%
ONDERI ONTWEKA	1	50%
Total Number of Meetings held during the year	2	

	2016/17	%
AUDIT & RISK MANAGEMENT COMMITTEE	Meetings Attended	Attendance
MONIKA SOLANKI	2	100%
ONDERI ONTWEKA	2	100%
NEMWEL MOTANYA	2	100%
WILSON KAMAU	2	100%
RITA KAVASHE	1	50%
Total Number of Meetings held during the year	2	

	2016/17	%
TECHNICAL COMMITTEE	Meetings Attended	Attendance
PAUL KINGORI	2	100%
MARY WAMBUGU	2	100%
ENG. JOHN NYAGUTI	2	100%
MICHAEL KARANJA	2	100%
WILSON KAMAU	1	50%
Total Number of Meetings held during the year	2	

Board Committees and Responsibilities

The Board delegates certain functions to well-structured committees but without abdicating its own responsibilities. The Board has developed a committee structure that

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

assists in the execution of its duties, powers and authorities. Each Committee is guided by a Committee Charter/Terms of Reference, which outlines its responsibilities as mandated by the Board and is reviewed on a yearly basis. The Committees are appropriately constituted drawing membership from amongst the board members with appropriate skills and experience.

The Chairman of the Board and external parties/advisors are required to attend the committee meetings only by invitation.

The committees are expected to operate transparently and full disclosure to the Board and also to conduct themselves within the rules and procedures set out by the board. Matters deliberated by the Committees are presented to the board by the respective chairman during the next board meeting.

The Board Committees are Audit & Risk Management, Finance, Human Resources and Management and Technical. The responsibilities and attendance of meetings during the year is as summarized below:-

Finance Committee

The Finance Committee assists the board in fulfilling its oversight responsibilities for funds collection and sourcing, funds allocation & disbursements, review of budgets and APRP and the implementation reports.

The responsibilities of the committee are as follows:-

- (a) Management of KRB Fund (Funds allocation, collections and disbursements)
- (b) Budgeting and Planning (Review of KRB Operations Budget and the APRP)
- (c) Identification and recommending other potential sources of Revenue
- (d) Recommending periodic reviews of the fuel levy
- (e) Recommending appropriate levels of road user charges
- (f) Financial Reporting
- (g) Compliance with Public Finance Management (PFM) Act and other related legislation
- (h) Review of funds utilization and absorption

Audit & Risk Management Committee

The Audit and Risk Management Committee assists the board in fulfilling its oversight responsibilities for the work's programming and monitoring as well as the advisory role to the Minister for Roads. The Audit and Risk Management committee has authority to conduct or authorize investigations into any matters within its scope of responsibility.

The committee has the following responsibilities:-

- (i) Ensures external audit recommendations are fully addressed; and
- (ii) Ensures that the quality of internal audit is of appropriate standard and that line management has full regard to internal audit recommendations.

In particular, the Audit and Risk Management Committee shall be responsible for the review of the following areas:-

- (a) Risk Management and Compliance
- (b) Internal Audit
- (c) External Audit

Human Resources and Management Committee

The Management Committee oversees strategic planning, staff matters, performance contracting and general management oversight.

Specifically the committee is responsible for the following:-

- (a) Setting the policies and strategic direction of the organization;
- (b) Review the Strategic Plan and the Business Plan for approval by the Board;
- (c) Monitoring the implementation of the Strategic Plan;
- (d) Evaluation of the performance of the organization, Executive Director, staff and departments;
- (e) Negotiating the annual performance Contract between KRB and the Ministry of Roads;
- (f) Reviewing of the organization structure of KRB;
- (g) Reviewing KRB's staff terms and conditions of service;
- (h) Reviewing the various management policies aimed at enhancing staff performance;

Technical Committee

The Technical committee oversees the optimal utilization of the fund by Roads Agencies.

Specifically the committee is responsible for the following:-

- a) Coordinating the optimal utilization to achieve efficiency and cost effectiveness in road works;
- b) Monitor and evaluate by means of Technical, financial and performance audits the delivery of road works;
- c) Coordinate/Monitor implementation of road maintenance programmes;
- d) Implementation of the Road Sector Investment Programme;
- e) Research and Development in Roads sub sector;
- f) R2000 Strategy;
- g) Road Maintenance Management System(RMMS); and
- h) Advising the Cabinet Secretary on Road maintenance policies.

Remuneration of the Board

The non-ex-official Board members are paid taxable sitting allowance as approved by the Minister responsible for Roads following guidelines from the State Corporations Advisory Committee. The Chairman is paid honoraria at a rate approved by the Government.

Transport expenses are reimbursed on travel for Board business at the prevailing AA rates. The members are also entitled to outpatient and inpatient medical cover and a personal accident cover as applicable.

Directors Induction and Training

The Board develops induction and training programs designed to introduce new directors to the operations of the Board and related governance matters.

The programs are also aimed at deepening the understanding of the changes in risks, laws and business and political environment in which the Board operates.

Board Effectiveness and Evaluation

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees, an annual evaluation is undertaken in accordance with the widely accepted principles of corporate governance.

The self-evaluation reviews the capacity, functionality and effectiveness of its performance in the achievement of its goals and objectives. It assesses the performance and independence of the Board and committees jointly, individual members of the Board and the Executive Director.

The Executive Director is assessed in his roles as the CEO and the secretary to the Board. The Chairman's ability to add value, his performance against what is expected of his role and function, is also assessed.

The results of the evaluation form the basis on which action/work plans for the preceding year are formulated, assists to identify the training needs for directors and it also forms the basis of re-appointment.

Conflict of Interest, Code of Conduct and Ethics

The directors and employees of the Board have a fiduciary duty to act honestly and in the best interest of the Board. Business transactions with all parties must be carried out at arm's length and with integrity. The Board provides effective leadership based on ethical foundation and ensures all deliberations, decisions and actions are based on the Boards' core values underpinning good governance.

The Board has developed a Code of Conduct and Ethics Manual whose aim is to enhance relationships and fostering teamwork among board members and staff and to build respect, confidence and credibility with its citizens. The Code provides guidance to its members regarding ethical and behavioral considerations as they address their duties and obligations during their appointment and their term in KRB.

The Board has put various measures in place to ensure that there is no conflict of interest amongst its directors and staff. The Board has put in place Corruption Prevention and Code of Conduct & Ethics Policies that binds both the directors and the employees.

At the beginning of the financial year, all directors and employees signed a declaration of interest form declaring that they will disclose any interest that conflicts or possibly may conflict with the interests of the Board. At the commencement of any business to be transacted, all directors/staff are required to declare their interest, if any.

All staff and directors declared their wealth as required to the Public Service Commission.

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

During the year, the directors and employees demonstrated their commitment to the public service through professionalism, integrity, moral and ethical requirements, conflict of interest, and political neutrality through compliance with relevant laws as evident from the legal audit, internal audit, and external audit reports presented to the Board.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Introduction

The Board works with its staff and stakeholders to enrich public/community life and participate in charitable projects. The main activities carried out during the year were as follows:-

Research and Development

KRB is committed to promoting research and development with the aim of improving road works delivery in the country and thus optimizing utilization of funds. To effectively advise the Cabinet Secretary on the impact of road development programmes there is need for such advice to be continuously informed by research.

As a result, the Board support road related research in the application of emerging technologies such as cobblestones and low volume seals roads (LVS).

A baseline survey on research undertaken in the road sector was recently undertaken, the outcome of which was an in-depth analysis of the researches undertaken and an identification of research gaps in the road sub-sector.

KRB in collaboration with Material Testing & Research Department (MTRD) and Africa Community Access Partnership (AFCAP) supported the 1st International Conference on Transport and Road Research (iTRARR) in 2016 with the overall aim to enhance coordination of transport related research efforts within the region.

Roads 2000 (R2000) Strategy

The Roads 2000 strategy is a method of road development and management that ensures optimum utilization and development of locally available resources where technically, economically feasible and in a socially responsive manner.

KRB coordinates the R2000 strategy in the country to promote the use of the local resources and labour-based methods in road maintenance

The strategy aims to create short-term employment through the rehabilitation of rural access roads and other labour intensive projects. The strategy has been in place for approximately two decades during which it has had great impact in providing part-time employment opportunities to the marginalized groups such as women, youth and people living with disabilities. The strategy has also facilitated the training of several small to medium scale contractors on local resource-based methods.

Standard Chartered Marathon

KRB staff and families participated in the 2016 Standard Chartered Marathon. The marathon is held under the “Seeing is believing” community initiative, which is the Standard Chartered Bank’s flagship CSR initiative that aims to raise funds for the needy in the community and on eradication of avoidable blindness in Kenya.

To ensure sustainability, the annual Standard Chartered Marathon now forms an important part of the Board’s calendar as the Board ‘shares vision’ with needy and disadvantaged persons.

Protecting the Environment

Environmental Conservation is one of the enablers to the Social Pillar in the country’s economic blue print ‘Vision 2030’. Road projects have the potential of damaging the natural resources upon which economies are based. The environment is the resource base for materials used in road construction. It assimilates road construction waste, hence affecting the lifespan of roads.

To minimize the negative environmental impact, the Board requires the Road Agencies to factor in mitigation measures at the planning stage, during and after construction for all rehabilitation and periodic maintenance projects.

These measures include control of soil erosion through construction of gabions, tree planting, covering and enhancing borrow pits to provide water catchment areas for use by local residents.

During the year the Board planted over 6,000 trees in Kisumu and Homabay Counties. To ensure survival of the trees, the Board partnered with primary schools and local polytechnics. The Board catered for the tree planting while the schools were to ensure that watering and maintenance is done. The trees were purchased from the local community.

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting their report together with the audited financial statements for the year ended 30th June 2017 which show the state of the Board's affairs.

PRINCIPAL ACTIVITIES

The Board is primarily engaged in management of the Kenya Roads Board Fund together with other mandates specified in the Kenya Roads Board Act, 1999.

RESULTS

The results for the year ended 30th June 2017 are set out on page 26.

DIRECTORS

The Board of Directors who held office during the year is shown on pages 8.

In accordance with Section 7(4) of the Kenya Roads Board Act, 1999 '*the Chairman and members of the Board, other than ex-official members shall hold office for a period of three years from the date of appointment but shall be eligible for re-appointment for one further term of a period not exceeding three years.*' The appointment and vacation of office of any member of the Board shall be in accordance with Section 2 of the Second Schedule to the Kenya Roads Board Act, 1999.

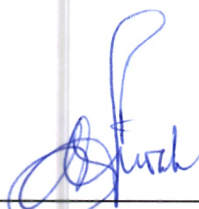
FINANCIAL STATEMENTS

At the date of this report, the Board was not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

AUDITORS

The Auditor General is responsible for the statutory audit of the Board's books of account in accordance with Sections 14 and 39 (i) of Chapter 12 of the Laws of Kenya, Public Audit Act, 2015.

BY ORDER OF THE BOARD



ENG. JACOB RUWA, OGW
SECRETARY TO THE BOARD

23/1/2018

DATE

STATEMENT OF THE BOARD'S RESPONSIBILITIES

The Kenya Roads Board Act, 1999 requires the Board to prepare financial statements of each financial year which give a true and fair view of the state of affairs of the Roads Board as at the end of the financial year and of the Board's operating results for that year. It also requires the Board to ensure that the Roads Board keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board and to ensure that the Financial Statements comply with the enabling Act. They are also responsible for safeguarding the assets of the Roads Board and taking reasonable steps for prevention and detection of fraud and other irregularities.

The Board accepts responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and the requirements of the Kenya Roads Board Act. The Board is of the opinion that the financial statements give a true and fair view of the state of affairs of the Roads Board and of its financial performance. The Board further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements.

The Board is required to prepare the financial statements on a going concern basis unless it is determined that after the reporting period, the Board intends to liquidate or cease its activities, or that it has no realistic alternative but to do so. Nothing has come to the attention of the Board to indicate that Kenya Roads Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

Kenya Roads Board's Financial Statements were approved by the Board on 5th September 2017 and signed on its behalf by:



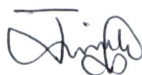
ENG. MICHAEL KARANJA
FOR: CHAIRMAN
KENYA ROADS BOARD

DATE: 24/01/2018



ENG. JACOB RUWA, OGW
EXECUTIVE DIRECTOR
KENYA ROADS BOARD

DATE: 23/1/2018



CPA CHARLES TIROK
DIRECTOR
KENYA ROADS BOARD

DATE: 24/1/2018

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR GENERAL ON KENYA ROADS BOARD FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Kenya Roads Board Fund, set out on pages 29 to 53, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 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 Roads Board Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Kenya Roads Board Act, Cap 408 of Laws of Kenya.

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

Basis for Opinion

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

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. I have determined that there were no Key Audit Matters to communicate in my report.

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

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

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

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

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

Auditor General's Responsibilities for the Audit of the Financial Statements.

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

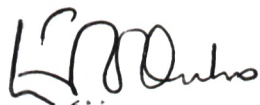
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the project's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the project 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

20 March 2018

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2017**

		2016/17	2015/16
	Note	KShs'000	KShs'000
Receipts	8	69,113,788	51,170,784
Disbursements	9	(60,468,600)	(40,544,182)
Net Assets Available for Distribution		8,645,188	10,626,602

The notes on pages 34 to 52 form an integral part of these financial statements.

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

**STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2017**

<u>ASSETS</u>	Note	2016/2017	2015/2016
		KShs'000	KShs'000
CURRENT ASSETS			
Cash and Cash Equivalents	10	40,814,525	19,665,708
TOTAL ASSETS		40,814,525	19,665,708
LIABILITIES			
CURRENT LIABILITIES			
Payables	11	21,644,533	9,039,106
TOTAL LIABILITIES		21,644,533	9,039,106
TOTAL NET ASSETS		19,169,992	10,626,602

NET ASSETS			
Net Assets Available for Distribution	12	19,169,992	10,626,602
TOTAL NET ASSETS		19,169,992	10,626,602

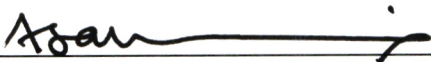
The notes on pages 34 to 52 form an integral part of these financial statements.

The financial statements on pages 26 to 47 were approved and authorized by the Board of Directors and signed on its behalf by:




ENG. MICHAEL KARANJA
FOR: CHAIRMAN

24/01/2018
DATE



CPA RASHID MOHAMED, MBS (ICPAK No. 4801)
GENERAL MANAGER FINANCE

22/01/2018
DATE



ENG. JACOB RUWA, OGW
EXECUTIVE DIRECTOR

23/1/2018
DATE

KENYA ROADS BOARD FUND
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

**STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED 30TH JUNE 2017**

		2016/17	2015/16
	Note	KShs'000	KShs'000
Net Assets, as at 1st July	12	10,626,602	6,210,856
<i>Collections in the year:</i>			
Road Maintenance Levy	8	69,113,788	51,068,987
Agricultural Cess	8	-	<u>101,797</u>
<i>Funds available</i>		79,740,389	57,381,640
Disbursements of Funds	9	<u>(60,570,397)</u>	<u>(46,755,038)</u>
Net Assets, as at 30th June	12	<u>19,169,992</u>	<u>10,626,602</u>

The notes on pages 34 to 52 form an integral part of these financial statements.

KENYA ROADS BOARD FUND
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

**STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30TH JUNE 2017**

		2016/17	2015/16
	Note	KShs'000	KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash from operations	13	21,250,615	18,930,240
Disbursements of prior year funds		(101,797)	(6,210,856)
Net cash from operating activities		21,148,817	12,719,384
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		21,148,817	12,719,384
MOVEMENT IN CASH AND CASH EQUIVALENTS:			
At the beginning of the year		19,665,708	6,946,324
Net increase in cash and cash equivalents (above)		21,148,817	12,719,384
At the end of the year	10(b)	40,814,525	19,665,708

The notes on pages 34 to 52 form an integral part of these financial statements.

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30TH JUNE 2017**

	BUDGET	ACTUAL	VARIANCE	VARIANCE
	2016/17	2016/17		
	KShs'000	KShs'000	KShs'000	%
Receipts				
Road Maintenance Levy	60,468,600	69,113,788	8,645,188	14%
Agricultural Cess	-	-	-	-
Total Receipts	60,468,600	69,176,319	8,645,188	14%
Disbursements	(60,468,600)	(60,468,600)	-	-
Net Assets	-	8,645,188	8,645,188	

Budget Notes:

The variance of Kshs 8.6 Billion (14%) was as a result of the increase in fuel levy from Kshs 12.00 to Kshs 18.00 per litre of petrol and diesel in July 2016. This increment was not budgeted for.

NOTES TO THE FINANCIAL STATEMENTS

1.0 GENERAL INFORMATION

Kenya Roads Board (KRB) is a state body corporate established under Chapter 408 of the Laws of Kenya 'Kenya Roads Board Act' which came into effect under Legal Notice No. 7 of 1999. The Board is domiciled and operates within the Republic of Kenya.

As stipulated in the Kenya Roads Board Act, 1999 *"The object and purpose for which the Board is established is to oversee the road network in Kenya and coordinate the maintenance, rehabilitation and development funded by the fund and to advise the Minister responsible for matters pertaining to roads on all matters related thereto."*

2.0 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

3.0 ADOPTION OF NEW AND REVISED STANDARDS

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

Standard	Impact
<p>IPSAS 33: First time adoption of Accrual Basis IPSAS</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p><i>The entity adopted IPSAS in the year ended 30 June 2012 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</i></p>

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

<p>IPSAS 34: Separate Financial Statements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p><i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 35: Consolidated Financial Statements</p>	<p>Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p><i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p><i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>

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<p>IPSAS 37: Joint Arrangements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p><i>The entity does not have an interest in a joint arrangement and therefore the standard does not apply.</i></p>
<p>IPSAS 38: Disclosure of Interests in Other Entities</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p><i>The entity does not have an interests in other entities and therefore the standard does not apply.</i></p>

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

Standard	Effective date and impact:
<p>IPSAS 39: Employee Benefits</p>	<p>Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p>
<p>IPSAS 40: Public Sector Combinations</p>	<p>Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>

iii. Early adoption of standards

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

4.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of Compliance

The financial statements for the year ended 30th June 2016 have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) as issued by International Public Sector Accounting Standards Board (IPSASB), the Public Finance Management Act, 2012, Public Audit Act, 2015 and Kenya Roads Board Act.

For the Public Finance Management Act, 2012, Public Audit Act, 2015 and Kenya Roads Board Act reporting purposes, in these financial statements the “balance sheet” / “statement of assets and liabilities” is represented by and is equivalent to the statement of “financial position” and the “profit and loss account” / “statement of income and expenditure” is presented in the statement of “financial performance”.

(b) Basis of Preparation

The financial statements have been prepared under the historical cost convention, unless otherwise stated. The financial statements are presented in the functional currency, Kenya Shillings (Kshs.), and all values are rounded to the nearest thousands (Kshs. '000) except when otherwise indicated.

(c) Presentation of Financial Statements

The financial statements comprise of statement of financial performance, statement of financial position, statement of changes in net assets/equity and the statement of cash flows and the notes to the financial statements.

The Board 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.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating, investing and financing activities.

Starting 1st July 2010, Kenya Roads Board adopted the IPSAS 1 on Presentation of Financial Statements. In previous years the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs). The change was necessitated by the reporting standards on public entities which are not Government Business Entities (GBE) as defined and required by IPSAS 1-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

'Presentation of Financial Statements' which states that the scope of application is for *'all public sector entities other than Government Business Enterprises'*.

The requirement by the Auditor General to present separate financial statements for the Kenya Roads Board Operations and the Kenya Roads Board Fund has led to reclassification of assets and liabilities including prior year to each set of financial statements.

(d) Budget Information

International Public Sector Reporting Standards allow for non-disclosure where (a) an entity is not required to disclose its budget information publicly and (b) the entity has elected not to present its approved budget publicly.

The Board is not required to publicly avail the approved KRB Operations budget and has elected not to present its budget publicly. Therefore the Board has not attached a Statement of Comparison of Budget and Actual amounts. However it is observed that the Approved KRB Budget amounts for the year have not been exceeded.

(e) Functional Currencies

(i) Functional and Presentation Currency

The financial statements are presented in the functional currency, Kenya Shillings (Kshs.), which is the Board's presentational currency. The financial information is rounded to the nearest thousands (Kshs.'000) except when otherwise indicated.

(ii) Transactions and Balances

a) Translation of Foreign Currencies

Transactions in foreign currencies during the year are converted into the functional currency using the prevailing exchange rates ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies have been translated at the mean rates of exchange ruling at the end of the reporting period.

The foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through the statement of financial performance in the year in which they arise.

b) Translation of Foreign Operations

The Board does not have any foreign operations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(f) Revenue Recognition

In accordance with the Kenya Roads Board Act, 1999, the Board is allocated 2% of the Road Maintenance Levy Fund (RMLF) for its operations and is recognized on accrual basis. An inflow of the funds is recognized as revenue and a liability

Is recognized in respect of the same inflow upon approval of the disbursements by the Board. Revenue is generally recognized in the Statement of Financial Performance on accrual basis.

Interest income from all interest bearing financial instruments is recognized in the Statement of Financial Performance on accrual basis using the effective interest method.

Other incomes are recognized as they accrue unless the collectability is in doubt.

(g) Cash and Cash Equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise of cash and cash balances held at the bank with less than three months maturity from the statement of financial position date. These include notes and coins on hand and deposits held at call with banks.

(h) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Board provides money or services directly to a debtor with no intention of trading the receivable.

Receivables are amounts due from the Kenya Roads Board Fund which are accrued in the ordinary course of business and there is no intention of trading the receivable.

Receivables are recognized initially at the fair value (transaction price/ carrying value less any discounts). 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 Board 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Receivables are classified as current assets 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 assets.

(i) Inventories

Given the nature of the Board's operations and mandates, items in stock relate to stationery. Stationery costs are recognized as an expense when deployed for utilization in the ordinary course of the Board's operations.

As at 30th of June 2017, the Board did not have any inventory.

(j) Property and Equipment and Depreciation

All property and equipment are initially stated at cost and thereafter at historical cost less accumulated depreciation and any accumulated impairment loss. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

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 Board and the cost can be reliably measured. All other repairs and maintenance are charged to the Statement of Financial Performance during the financial year in which they are incurred.

Depreciation is calculated on straight line basis at annual rates estimated to write down the carrying value of the assets over their expected useful lives. The annual depreciation rates in use are:-

	<u>Rate</u>		<u>Rate</u>
Computer Equipment	33 ¹ / ₃ %	Motor Vehicles	25.0%
Office Equipment	12.5%	Furniture & Fittings	12.5%

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or losses on de-recognition of the asset is included in the Statement of Financial Performance in the year the asset is de-recognized.

(k) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

(l) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Board as the lessee. All other leases are classified as operating leases.

Where the Board is the lessee, the total payments made under operating leases are charged to the statement of financial performance on a straight line basis over the period of the lease. When an operating lease is terminated before the expiry of the lease period, any payment required to be made to the lessor by way of penalty is recognized as expense in the year in which termination takes place.

Rentals payable under operating leases are amortized on the straight line basis over the term of the relevant lease.

(m) Impairment of Non-financial Assets

At each reporting period end, based on internal and external sources, the Board 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 Board estimates the recoverable value of the asset.

Any 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.

(n) Provisions

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

(o) Retirement Benefit Obligations

The Board operates a defined contribution provident fund for eligible employees. The fund is administered by an independent administration company and Trustees. It is funded by contributions from both the employer and employees.

The Board and its employees also contribute to the statutory pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently limited to Kshs. 200 per employee per month. The Board also sets aside on quarterly basis the gratuity for its employees who are on contract basis.

The Board's contributions in respect of staff retirement benefit costs are charged to the statement of financial performance, as they fall due or in case of service gratuity as they accrue to each employee.

(p) Guarantees, Acceptances and Letters of Credit

Guarantees are accounted for as off statement of financial position transactions and disclosed as contingent liabilities.

(q) Subsequent Events

There have been no subsequent events that would have an impact on the financial statements for the year ended 30th June 2017.

(r) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.0 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY - (CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS)

In the process of applying the Board'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.

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

(a) Critical Judgments in applying the Board's accounting policies

In the process of applying the Board'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

(i) Useful Lives of Property, Plant and Equipment

The directors make estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy (j) above for property and equipment.

The Board reviews the estimated useful lives of plant and equipment at the end of each reporting period. During the financial year, no changes to the useful lives were identified by the directors.

(ii) Contingent Liabilities

As disclosed in these financial statements, the Board 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 Board incurring related liabilities. However, provisions

NOTES TO THE FINANCIAL STATEMENTS (Continued)

are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

(iii) Provision for Doubtful Debts

The organization reviews its travel advances portfolio to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Board 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.

(iv) Other Provisions

Other provisions are recognized when the Board 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.

(v) Impairment Losses

At each reporting period end, the Board 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 Board 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.

6.0 SEGMENT REPORTING

The Board does not have any branches/reporting segments. All the operations of the Board are managed from the registered office. The core business of the Kenya Roads Board continues to be management of the Kenya Roads Board Fund together with other mandates as stipulated in the Kenya Roads Board Act.

There is no distinguished component of the Board that is engaged in providing an individual service that is subject to risks and returns that are different from the main mandates of the Board.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7.0 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board has initiated and facilitated the process that will see the enhancement of risk management. The Board has an integrated risk management framework/strategy. The Board'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 Board 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 Board'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.

This risk management framework captures the following among other things:-

- The Board's risk appetite and parameters;
- The Board's risk matrix that highlights the rating of risks;
- The structure of managing risks and accountabilities
- The processes, procedures and reports that manage risks;
- The mitigating factors, prevention, contingency plans and controls.

The Board's 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.

- a) Operational risks are events, hazards, variances or opportunities which could influence the achievement of the Board's compliance and operational objectives.
- b) 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.
- c) Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the entity.

One of the key risks the Board has identified in both the operational and strategic areas is the sustainability of the Road Maintenance Levy in line with the Constitution. Financial risk as defined in IPSAS 15 and the management thereof, form part of this risk area.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Members of the Board have the overall responsibility for the establishment and oversight of the Board's risk management framework. The Board has delegated its risk management to the 'Audit and Risk Committee'. One of the responsibilities of this committee is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial transactions and processes are managed by the 'Finance and Planning Committee' of the Board.

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

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

The Board 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 Board'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 a diverse range of funding sources with adequate back up facilities,
- Managing the concentration and profile of debt maturities, where applicable,
- Maintaining liquidity and funding contingency plans.

The table shows the undiscounted cash flows on the Board's financial assets and liabilities on the earliest possible contractual/maturity date. The liquidity ratio in FY 2016/17 is 1.9 (FY 2015/16: 2.2)

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Note	2016/17	2015/16
Financial Assets		KShs '000	KShs '000
Cash & Cash Equivalents	8	40,814,525	19,665,708
Total Financial Assets		<u>40,814,525</u>	<u>19,665,708</u>
Financial Liabilities			
Payables	9	21,644,533	9,039,106
Total Financial Liabilities		<u>21,644,533</u>	<u>9,039,106</u>
NET LIQUIDITY		<u>19,169,992</u>	<u>10,626,602</u>
LIQUIDITY RATIO		<u>1.9</u>	<u>2.2</u>

The Board has an established corporate governance structure and process of managing risks regarding guarantees and contingent liabilities. All guarantees issued are approved by the Members of the Board and are administratively managed by the finance department.

The primary sources of revenue for the Board are receipts from the Kenya Roads Board Fund, mainly receipts from fuel levy fund. The Board is pursuing additional sources of revenue for which approval has been sought from Ministries of Finance and Roads.

a) 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 Board 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

The Board collects Kshs. 12 per litre of diesel and petrol imported into the country. The Board 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 is backed up by an Act of Parliament and changes thereof require approval by Parliament.

(iii) Interest Rate Risk

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Board'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 Board 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 Board's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Board's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of financial transactions;
- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirement for the reporting of operational losses and proposed remedial action;
- Development of Business Contingency Plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where it is effective.

Operational risks are documented in the 'Framework for Management Control' and 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.

c) Compliance and Regulatory Risk

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

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) 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 Board, failure to protect the title to and inability to control the rights to assets of the Board (including intellectual property right), changes in law, or jurisdictional risk.

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

8.0 RECEIPTS

	2016/17	2015/16
	KShs '000	KShs '000
Road Maintenance Levy	69,113,788	51,068,987
Agricultural Cess	-	101,797
Total Operating Revenue	69,113,788	51,170,784

Revenue mainly represents receipts of Road Maintenance Levy from the Kenya Revenue Authority.

The Board did not receive any transfers of any form, (including assets, gifts, donations, goods and service-in-kind, advance receipts, pledges, expenses paid on behalf and concessionary loans) from national and local government, public entities, Donor & International development agencies.

9.0 ISBURSEMENTS OF FUNDS

The Board allocates funds to the road agencies in accordance with the allocation criteria set out in the Kenya Roads Board Act, 1999, and in line with the Constitution of Kenya, 2010 which includes funding to County Governments as shown below:

Road Agency:	Particulars/ Class of Roads	Allocation
Kenya Roads Board	Administration	2%
Kenya National Highways Authority	National Trunk Roads	40%
Kenya Rural Roads Authority	National Rural Roads	22%
Kenya Urban Roads Authority	National Urban Roads	10%
Kenya Wildlife Service	Park Roads	1%
County Governments	County Roads	15%
Allocation by Kenya Roads Board/Ministry	Development of roads	10%
Total		100%

Effective July 2015, the Board began collecting funds for the Roads Annuity Program. Based on the above, the Board disbursed funds as follows during the year:

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016/17	2015/16
Agency	KShs '000	KShs '000
Kenya Roads Board	775,027	649,272
Kenya National Highways Authority	20,459,228	11,940,280
Kenya Rural Roads Authority	10,893,617	9,188,761
Kenya Urban Roads Authority	5,106,383	4,307,232
Kenya Wildlife Service	500,000	287,149
Allocation by Kenya Roads Board/Ministry	5,000,000	2,871,488
County Governments	7,500,000	3,300,000
Roads Annuity Programme	9,800,000	8,000,000
Other	434,345	-
Total Disbursements	60,468,600	40,544,182
Add: Releases of Prior year funds	101,797	6,210,856
Total Funds Disbursed in the Year	60,570,397	46,755,038

10.0 CASH AND CASH EQUIVALENTS

(a) Analysis of bank and cash balances:

These represent cash held at various banks, as follows:

	2016/17	2015/16
	KShs '000	KShs '000
Amounts held in local currency	40,814,525	19,563,914
Amounts held in foreign currency	-	101,794
Total	40,814,525	19,665,708

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

(b) Cash and cash equivalents

For 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.

Analysis of cash and cash equivalents is as set out below:-

	2016/17	2015/16
	KShs '000	KShs '000
Bank and Cash Balances	40,814,525	19,665,708

KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11.0 PAYABLES

These represent funds due to the road agencies and Roads Annuity Programme, but not released as at 30th June 2017, as follows:-

	2016/17	2015/16
	KShs '000	KShs '000
Road Agency Funds	3,747,420	1,039,106
Roads Annuity Funds	17,897,113	8,000,000
Total	21,644,533	9,039,106

12.0 NET ASSETS AVAILABLE FOR DISTRIBUTION

These represent amounts received over and above the approved budget for the year, as follows:

	2016/17	2015/16
	KShs '000	KShs '000
Road Maintenance Levy	19,169,992	10,524,805
Agricultural Cess	-	101,797
Total	19,169,992	10,626,602

The funds are allocated to the road agencies in the subsequent year in accordance with the Kenya Roads Board Act, 1999.

13.0 CASH GENERATED FROM OPERATIONS

Reconciliation of Net Cash Flows from Operating Activities to Surplus for the year:

	Note	2016/17	2015/16
		KShs '000	KShs '000
Net assets available for distribution	12	8,645,188	10,626,602
<i>Changes in working capital balances:</i>			
Increase in Road Agency Funds		12,605,427	8,303,638
Net cash flows from operating activities		21,250,615	18,930,240

14.0 CONTINGENT LIABILITIES

Though the Board is involved in some legal proceedings, the directors believe, based on the information currently available, that the Board does not have any contingent liabilities which are likely to have a material effect on the results of the Board's operations, financial position or liquidity. Therefore, no provision has been made in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15.0 FAIR VALUE

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

16.0 CAPITAL COMMITMENTS

All capital commitments contracted for and authorized at the reporting period end have been recognized in the financial statements.

17.0 POST BALANCE SHEET EVENTS

The Directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of Kenya Roads Board Fund and results of its operation as laid out in these financial statements.

18.0 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.

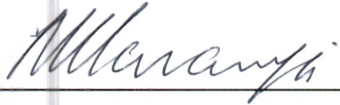
19.0 CURRENCY

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

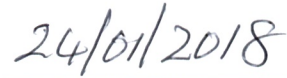
KENYA ROADS BOARD FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMENDATIONS

All audit issues raised by the external auditor were resolved and concluded during the audit process. There are no audit issues that were carried forward.



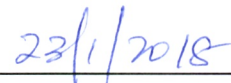
ENG. MICHAEL KARANJA
FOR: CHAIRMAN



DATE



ENG. JACOB RUWA, OGW
EXECUTIVE DIRECTOR



DATE

