

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA RURAL ROADS
AUTHORITY

FOR THE YEAR
ENDED 30 JUNE 2015

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KENYA RURAL ROADS AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
17 MAR 2016

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

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Abbreviations

AIA	Appropriation In Aid
EU	European Union
FY	Financial Year
GIS	Geographical Information System
GoK	Government of Kenya
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
KeRRA	Kenya Rural Roads Authority
KeNHA	Kenya National Highways Authority
KfW	Germany Development Bank
KM	Kilometres
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
KURA	Kenya Urban Roads Authority
MTEF	Medium Term Expenditure Framework
MoTI	Ministry of Transport and Infrastructure
RMLF	Road maintenance Levy Fund
RSIP	Road Sector Investment Programme
SIDA	Swedish Development Cooperation Agency

Our Vision

To be a provider of an adequate, quality, safe and efficient rural road network

Our Mission

To construct, maintain and manage the rural road network for sustainable socio-economic development

Core Values

As a public sector institution, Kenya Rural Roads authority is dedicated to excellence and provision of high quality professional services to the stakeholders. The values that guide KeRRA in achieving its vision and mission are:

a) Integrity:

We are committed to the promotion of honesty, transparency, accountability and professional ethics.

b) Leadership:

We practice servant leadership where customer is king.

c) Creativity:

We explore innovative methods of implementing our mandate.

d) Teamwork:

We recognize the synergy brought about by team work and actively promote the same.

e) Reliability in delivery of service:

We strive to deliver services in a timely and cost effective manner.

f) Environmental and Social Stewardship:

We are committed to mainstreaming of environmental, gender and other cross cutting issues in our operations.

Key Authority's Information and Management

a) Background information

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

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

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

b) Principal activities

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

c) Key Management

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

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

d) Fiduciary Oversight Arrangements

1. Ministry of Transport and Infrastructure
2. Kenya Roads Board

e) Independent auditor

The Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 49384-00100
Nairobi, GPO

f) Principal Place of Business

6th Floor, Blue Shield Towers,
Hospital Hill Road, Upper Hill,
PO Box 48151 – 00100,
Nairobi GPO

g) Principal bankers

Kenya Commercial Bank Limited,
Moi Avenue Branch,
P.O. Box 48400-00100,
Nairobi GPO





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

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

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

Board of directors

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

 <p>Eng. Richard Chepkwony Chairman</p>	<p>Eng. Richard Chepkwony was the Chairman of the Board for the period under review. He was born in 1950 and holds of a Master of Science degree in Forest Industries Technology and a Bachelor of Engineering degree (Civil) and a Higher National Diploma in Building and Civil Engineering. He has over thirty years experience in the Building and Civil Engineering Industry as a structural/civil engineer. He is a fellow of the Institution of Engineers of Kenya and a member of the Engineers Board of Kenya. He has held several senior positions within the public service. He is trained in Corporate Governance. He was appointed under section 8(1) f (i) of the Kenya Roads Act 2007 by the Institute of Engineers of Kenya.</p>
 <p>Mr. Henry K. Rotich Cabinet Secretary National Treasury</p>	<p>Mr. Henry K. Rotich is the Cabinet Secretary for National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 12 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist between 2001 - 2004. He has been a Director of several Boards of State Corporations including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics. Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA degrees in Economics (University of Nairobi)</p>
 <p>Eng. John Mosonik Principal Secretary- Infrastructure, Ministry of Transport and Infrastructure</p>	<p>Eng. John Mosonik is the Principal Secretary- Infrastructure, Ministry of Transport and Infrastructure. He holds Bachelor of Science in Electrical Engineering, an MBA in Strategic Management and Master of Science in Finance. He is trained in Corporate Governance.</p>
 <p>Ms Mwanamaka Amani Mabruki Principal Secretary-Devolution, Ministry of Devolution & Planning</p>	<p>Ms Mwanamaka Amani Mabruki is the Principal Secretary – Devolution, Ministry of Devolution and planning. She holds a masters and a Bachelors degree both in Economics from the University of Nairobi. Prior to appointment to her current position, she was previously the Principal Secretary East African Affairs. She has held senior management positions including Managing Director at Kenya National Shipping Line and Head of Corporate Development at Kenya Ports Authority.</p>



Eng. J.O.Ogango
Ag Director General and Secretary to the Board

Eng. John Ogango is the Director General having been appointed in December 2015. He was born in 1960 and holds MSc (Engineering) degree in construction Management from University of Birmingham UK in addition to First class Honours BSc (Civil Eng.) from the University of Nairobi. Eng. Ogango is a seasoned engineer with over 24 years of extensive experience in areas of strategic planning, Policy formulation, and Design and construction supervision management. He has held several senior positions in the public service including Chief Superintending Engineer, Project engineer. Eng. Ogango was seconded to Kenya Rural Roads Authority initially as the General Manager (Design and Construction) and later became the General Manger (Planning, Roads 2000 and Environment).He is a registered engineer with Engineers Board of Kenya and a member of the Institution of Engineers of Kenya (MIEK). He is trained in corporate Governance



Mrs Caroline Nkirote Nyororo
Intitute of Surveyors of Kenya

Mrs. Caroline NkiroteNyororo was born in 1969. She holds a Bachelor of Arts (Lands Economics) and Master of Business Administration (Strategic Management). Mrs.Nyororo has held various senior management positions and has been trained in Corporate Governance. She is a registered and practising valuer and is a member of Institution of Surveyors of Kenya. She was appointed under section 8(1) f (ii) of the Kenya Roads Act 2007.



Mr.Charles Birech
Kenya Farmers Association

Mr. Charles Birech was born in 1971. He is a holder of Bachelor of Arts General and a Master of Business Administration (Finance option). He has held several senior management positions and is a member of the Chartered Institute of Marketing (U.K). He is trained in Corporate Governance. He was appointed under section 8(1) f (v) of the Kenya Roads Act 2007.



Mr Festus King'ori
Alternate to the Cabinet Secretary –The National Treasury

Mr Festus King'ori was born in 1963.He holds a Bachelor of Commerce degree from the University of Nairobi and is finalizing an MBA from JKUAT. He also holds a post graduate certificate in Investment Appraisal and Management from Harvard University and has undergone extensive training in general management, strategic leadership and financial management, and corporate governance. He has extensive experience in financial and general management and corporate governance gained from interaction with both public and private sector institutions, as well as from the World Bank, where he has worked on secondment by the Government of Kenya. Mr.King'ori is also an alternate director in Kenya Ferry Services Ltd and Kenya Petroleum Refineries Ltd, and has previously served as an alternate director on many other boards in the public sector. He is a full member of the Kenya Institute of Management.



Amb. Philip Richard Owade
Alternate to Principal Secretary Ministry
of Devolution and Planning

Amb. Philip Owade was born in 1956. He holds a Master degree in Public Policy and Administration and a Bachelor of Laws degree. He is a career diplomat for over 29 years. He is trained in Corporate Governance and is currently the Secretary Devolution and Inter Governmental Relations, Ministry of Devolution & Planning.



Eng. P.C. Kilimo
Alternate to Principal Secretary- Ministry
of Transport and Infrastructure

Eng. P.C. Kilimo was born in 1957. He holds a Bachelor of Science degree in mechanical Engineering from the University of Nairobi. He has undergone leadership and various graduate courses at John F. Kennedy School of Government, Harvard University and various British Universities. Eng. Kilimo has extensive experience in public service having spent 34 years in Government in different capacities.



Eng. Mwangi Maingi, MBS, OGW
Director General and Secretary to the Board
(Retired in November 2014)

Eng. Mwangi Maingi was the Director General of the Authority and the Secretary to the Board of Directors between July, 2014 and November 2014. He was born 1953 and holds a Master of Science degree in Highway Engineering and Bachelor of Science degree in Engineering. He has held several senior management positions in the public service amongst them Chief Engineer (Roads), Chief Engineer (Materials), General Manager – Numerical Machinery Complex Limited and Registrar, Engineers Registration Board of Kenya. He is a registered Consulting Engineer and is a corporate member of the Institution of Engineers of Kenya. He is trained in Corporate Governance.



Eng. Frank D. Karanja
P.Eng., BSc., MIEK
Ag Director General
(December 2014-September 2015)

Eng. Frank David M. Karanja was the Acting Director General from December, 2014 to September 2015. He was born in 1955, and holds a BSc. (Civil Eng) from the University of Nairobi. He has an exemplary service record of over thirty five (35) years extensive experience in planning, design, construction supervision and management or maintenance of road infrastructure. He has held several senior management positions in the public service amongst them National Coordinator, R2000 Maintenance Programmes, Head-Feeder Roads Section of Maintenance Branch in Roads Department as chief Superintending Engineer, Head of Planning Branch in Roads Department as Principal Superintending Engineer. Eng. Karanja was seconded to the Kenya Rural Roads Authority in February 2009, initially as the General Manager (Planning, Roads 2000 and Environment) for four years, and later became the General Manager (Maintenance). He is a registered Engineer with the Engineers Board of Kenya (EBK), a Member of the Institution of Engineers of Kenya (MIEK). He is trained in Corporate Governance.

Management Team



Eng. John O. Ogango
P.Eng., BSc. MSc., MIEK.
Director General



Eng. Mwangi Maingi, MBS, OGW
P.Cons.Eng., BSc., MSc., MIEK
Director General (Retired in November 2014)



Eng. Frank D. Karanja
P.Eng., BSc., MIEK
Ag Director General
(December 2014- September 2015)



Dr. Peter Rutto
PhD, MBA, ACCA, BSc, BCom,
General Manager -Finance



Eng. George W. Chiaji
P.Eng., BSc., MIEK
Ag General Manager-Design and Construction



Eng. Peter Gichohi
P.Eng., MSc BSc., MIEK, A(CIAB)
Ag General Manager Maintenance



Eng. Alfred Achoki
P.Eng., BSc., MIEK
Manager -Quality Assurance



CPA Judith Chumo
Bcom, MBA, CPA(K)
Manager- Internal Audit



MS Judith Yamo
BEd, HNDP(HRM), IHRM, MBA
Manager-Human Resource & Administration



Mr. Justin Rapando
LLM, LLB Msc, Dip(KSL), CPS(K), M(CI Arb)
Manager- Legal affairs



MS. Margaret Muthui
Msc(Proc. & Logistics), Bsc(Computer Science), MKISM, MCIPS
Manager- Procurement



Mr. Kenneth Wando
Bsc(Surveying and Photogrammetry), MISK
Manager- Survey

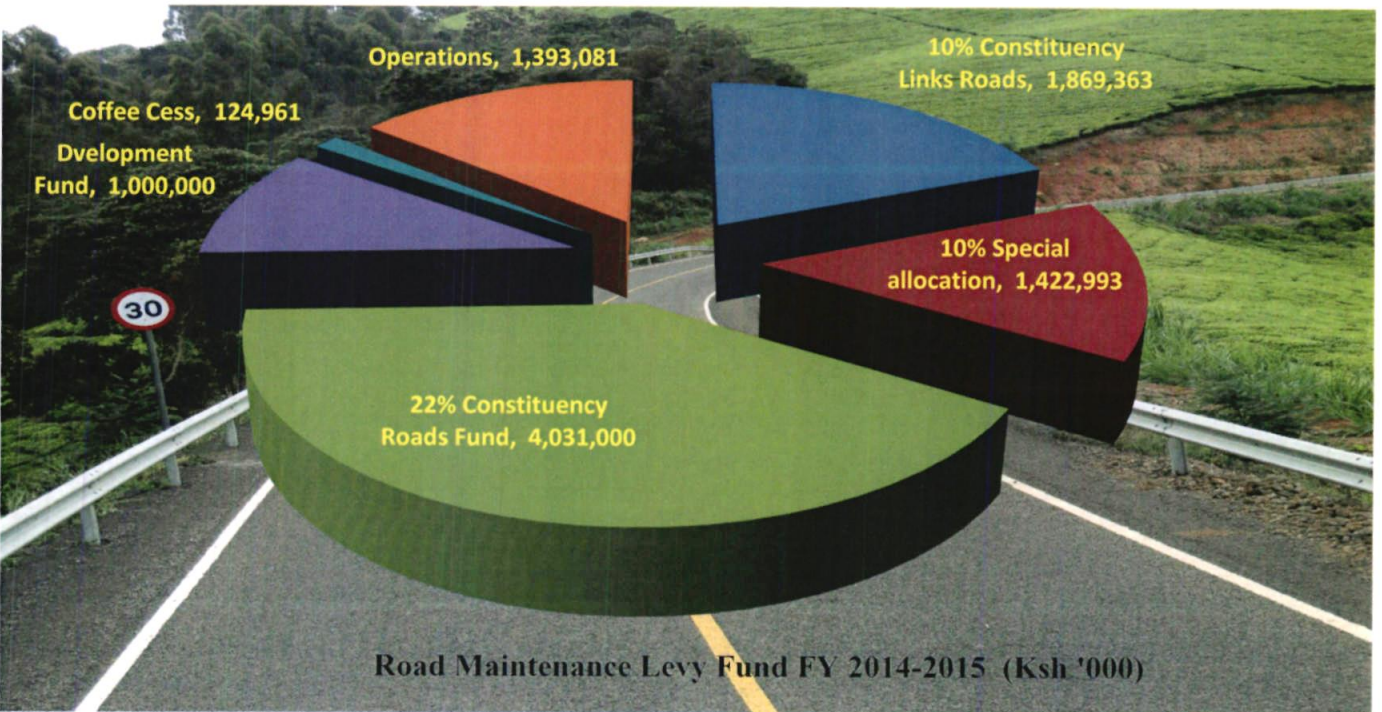
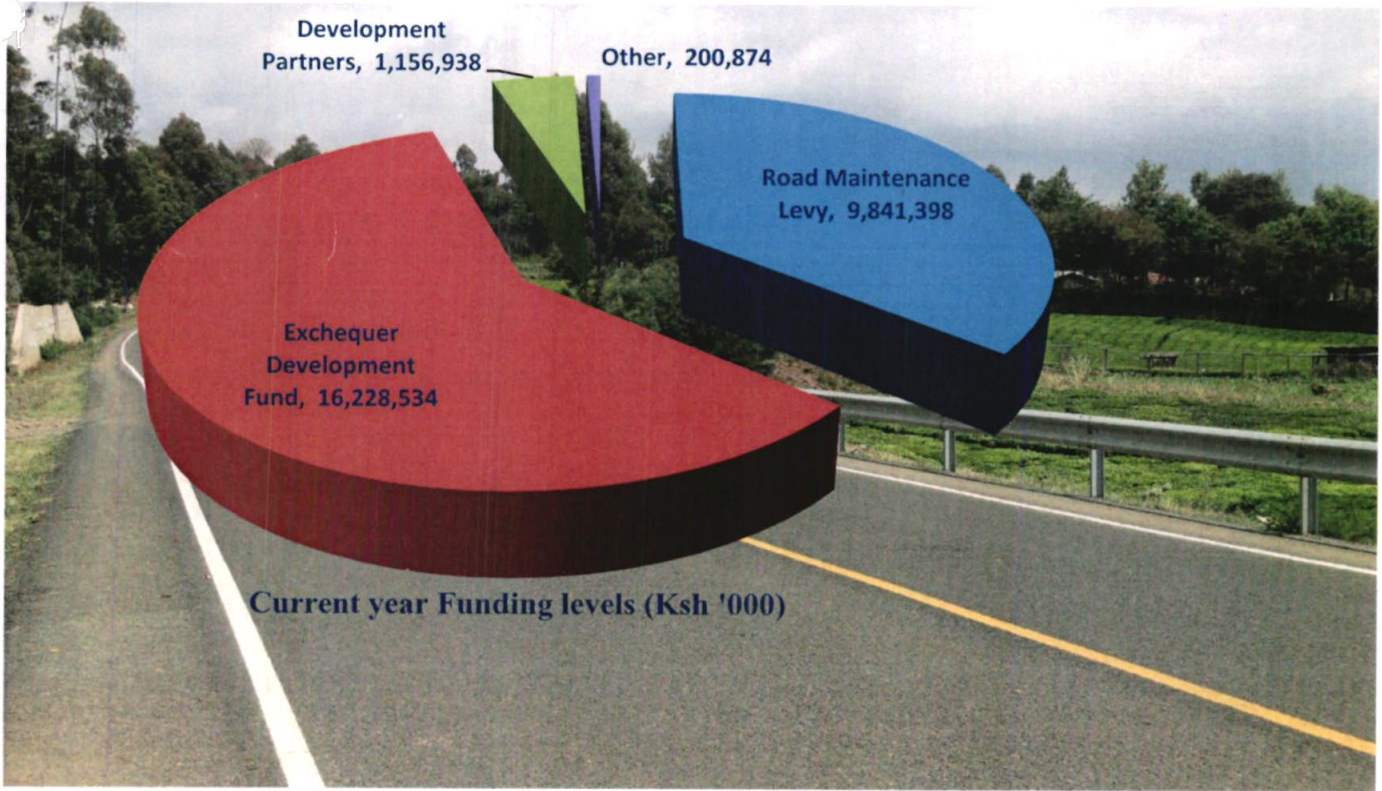


MS Catherine Butaki
BA(Comm), PGD(Mass. Comm), PRSK
Manager- Public relations

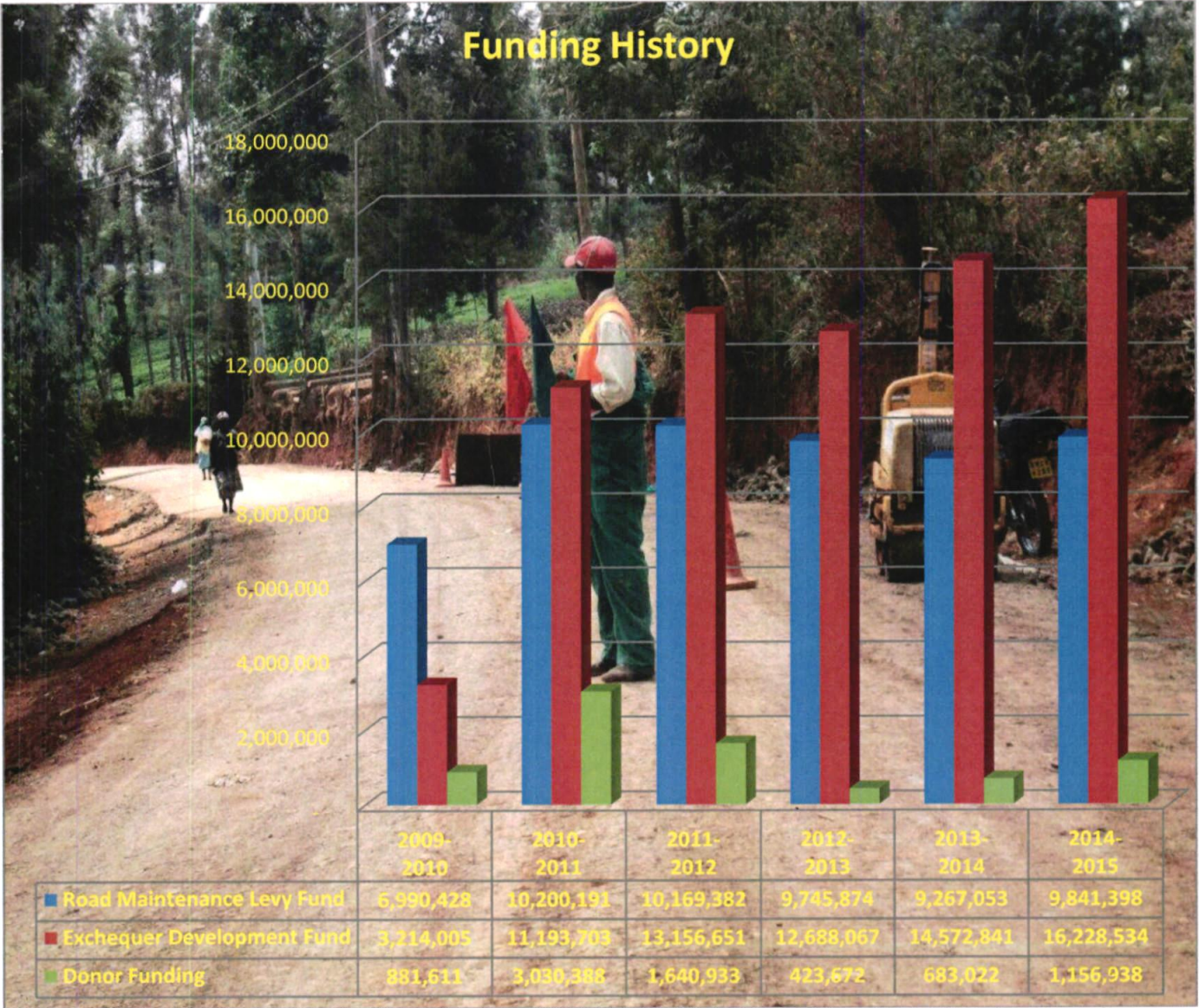


Mr. Samuel Kingori
BSc(Comp. Eng.), CCNA, MSCE
Ag. Manager- ICT

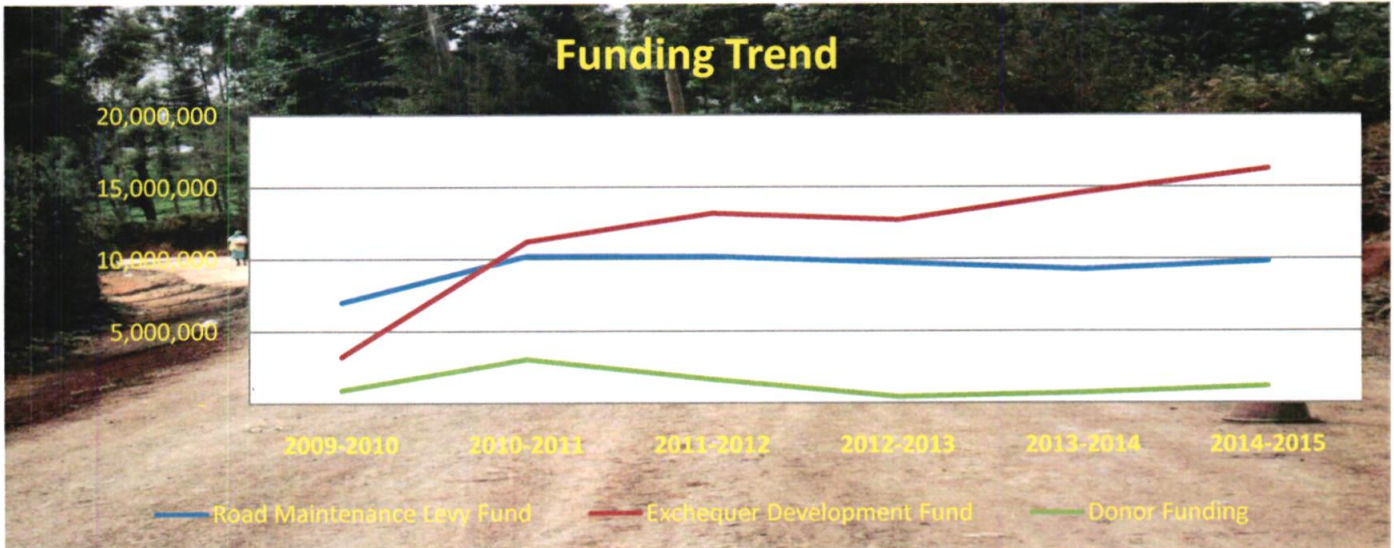
Financial Highlights

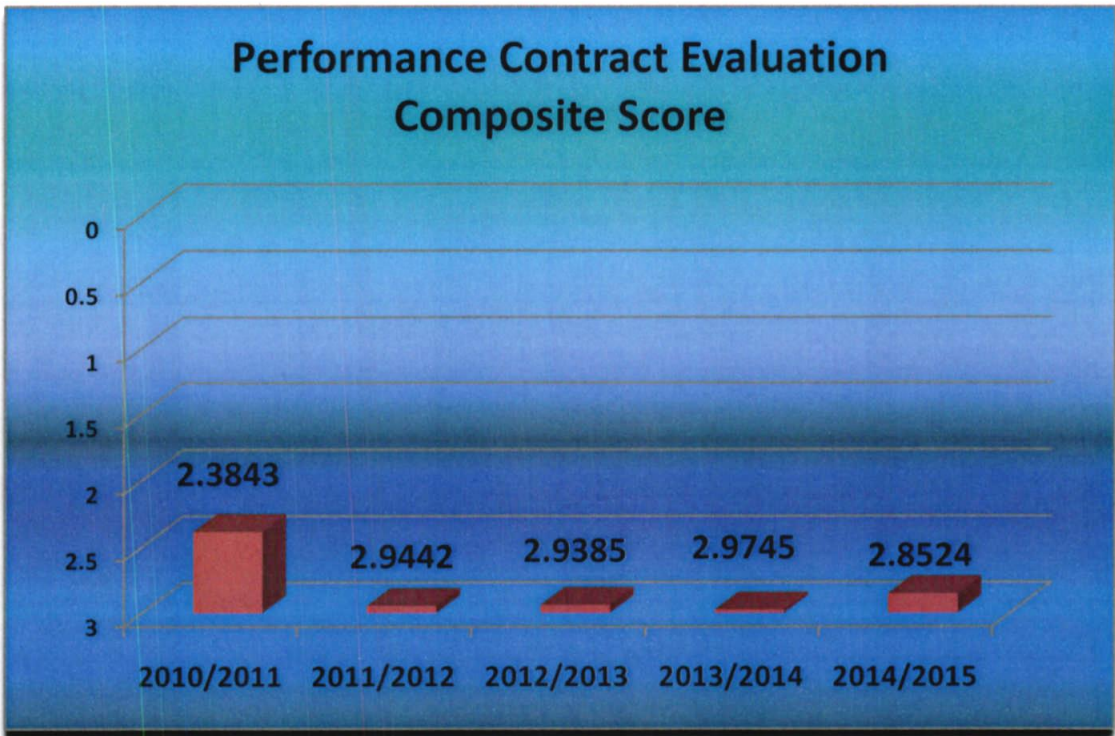
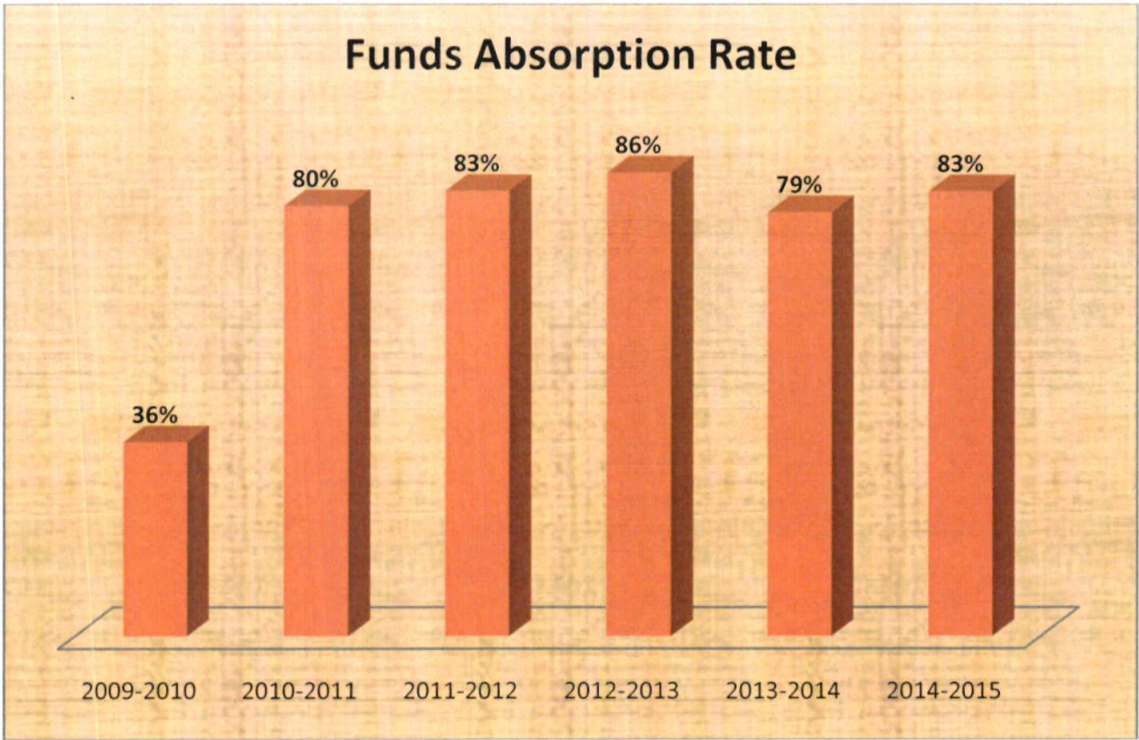


Funding History



Funding Trend





Chairman's Statement

Overview



I am pleased to present the Kenya Rural Roads Authority's sixth Annual Report and Financial Statement for the Financial Year 2014/2015. Road infrastructure is one of the key enablers identified under Kenya Vision 2030 development strategy. Kenya Rural Roads Authority is actively involved in the implementation of Vision 2030 infrastructural goals through fulfilling its mandate of construction maintenance and rehabilitation of Rural Roads Network.

Financial Performance

The Authority's overall funding level improved by 12% during the year to stand at Ksh 27.6 Billion up from Kshs 24.6 billion received in financial year 2013-2014. RMLF funding increased slightly by 6% with exchequer funding increasing by 14%. The Authority registered an impressive increase in Development Partners funding by 67%. The funds absorption rate stood at 84%. This was a slight improvement from last financial year's rate of 79%. The absorption rate heavily depends on the timely disbursement of funds by the National Government other related agencies.

Performance Contract

There was a slight improvement in the financial year under review 2014/2015. The overall performance contract composite score for the financial year was 2.8524 (Very Good). The Authority is currently implementing the targets set for the Financial Year 2015/2016 with the board having committed to improving on the score.

Project Implementation

As part of concerted efforts in delivering on its mandate, the Authority maintained a total of 102,203 lane kms in the financial year 2014/2015 against a target of 115,000 lane kms. A further 265.4 lane kms of new roads were constructed against a target of 242 lane kms. On the other hand 98.86 lane kms were reconstructed/rehabilitated against a target of 83 lane kms with 495.6 lane kms designed against a target of 454 lane kms. Under Roads 2000 Programme 729.94 lane Kms were maintained exceeding the target of 700 lane kms. The under achievement noted in some areas was mainly attributed to delay in the receipt of funds. The Authority plans to complete the programmed maintenance works for the Financial Year 2014/2015 in the current financial year.

Corporate Governance

The Board continued to emphasise on good Corporate Governance in the discharge of its mandate with clear separation of roles between the Board and Management. The offices of Chairman and Chief Executive are held by different persons. The Board provides oversight role to management who are responsible for the day to day management of the affairs of the organisation. Members of the Board and Senior Management have been trained on good corporate Governance practices to enhance their capacity including the Mwongozo Code of Corporate Governance for State Corporations.

In compliance with His Excellency's directive on procurement in the public service, the Authority aligned its procurement systems to the e-procurement platform developed by the National Treasury. The authority further set aside 30% of its contracts for the Youth, Women and other disadvantaged groups in support of the Government initiatives.

ISO Certification

The Authority's ISO 9001:2008 Quality Management Systems Certification Audit was carried out during the fourth quarter. The Authority successfully complied with all the conditions necessary for certification and was awarded ISO certification in the month of June 2015.

Road Sector Reforms

The process of aligning the Authority to the constitution has been ongoing. The Kenya Roads Bill 2015 which is aimed at addressing the matter is before the National Assembly awaiting deliberations. The Board is keenly following the developments and is prepared to facilitate the transition envisaged in the above bill.

Way Forward

The Authority under the direction of the Board is committed and remains focused on enhancing socio economic development in the country by fulfilling its statutory mandate. The Board will ensure that the performance contracting targets are met. The Authority is committed to strengthen its structures and policies to execute its mandate fully.

Acknowledgement

I take this opportunity to express my sincere gratitude to the Government of Kenya, Ministry of Transport and Infrastructure, Development Partners, taxpayers and other stakeholders for their continued support, providing an enabling environment, co-operation, guidance and continued confidence in Kenya Rural Roads Authority

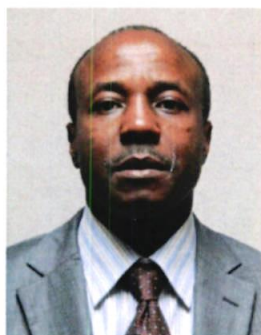
I wish to thank my fellow Board members for their support and contributions made during deliberations on policy issues and support to management. I also take this opportunity to convey my appreciation to the entire staff and management for their commitment, diligence, and resilience towards delivering the Authority's mandate.



Eng. Richard Chepkwony

Chairman

Overview



The transport sector and road sub sector in particular is a key enabler of economic growth by providing access for goods and services for inputs and also to markets. The roads sub sector has been identified under Kenya's vision 2030 as one of the key sectors to drive the economy towards poverty reduction. The subsector plays an important role for freight and passenger movement in the country.

1.1 Management of rural Roads

Kenya roads Act 2007 provided for establishment of three authorities namely:

- i. Kenya National Highways Authority (KeNHA), whose broad function is management development and maintenance of national roads;
- ii. The Kenya Urban Roads Authority (KURA) whose broad function is management development and maintenance of urban roads; and
- iii. Kenya Rural Roads Authority (KeRRA) whose broad function is management development and maintenance of rural roads



The authority continues to discharge the following mandate as stipulated in the Kenya Roads Act 2007:

- i. Constructing, upgrading, rehabilitating and maintaining roads under its control;
- ii. Controlling reserves for rural roads and access to roadside development;
- iii. Implementing road policies in relation to rural roads;
- iv. Ensuring adherence by motorists to rules and guidelines on axle load control rules prescribed under the Traffic Act or any other regulations under the Act;

- v. Ensuring that the quality of road works is in accordance with such standards as may be defined by the Cabinet Secretary;
- vi. Overseeing the management of traffic on rural roads and issues related to road safety in collaboration with the Ministry responsible for transport and the police department,
- vii. Collecting and collating all such data related to the use of rural roads as may be necessary for efficient forward planning.
- viii. Monitoring and evaluating the use of rural roads;
- ix. Planning the development and maintenance of rural roads;
- x. Liaising and co-coordinating with other Authorities in planning and operations in respect of roads;
- xi. Preparing the road work programmes for all rural roads;
- xii. Advising the Minister on all issues relating to rural roads and;
- xiii. Performing such other functions related to the implementation of this Act as may be directed by the cabinet secretary.

1.2 Rural roads network

Roads are classified into various categories from A to E corresponding for International trunk roads to District roads respectively. The Authority manages the rural roads network classified as D, E and others totalling to 136,375Kms as indicated below.

No	Class/description	Pavement Type		Total(Kms)
		Paved(Kms)	Unpaved(Kms)	
1	Class D Roads	1,233.28	9,485.38	10,718.67
2	Class E Roads	590.58	26,133.52	26,724.11
3	Special Purpose Roads	100.10	10,405.92	10,506.03
4	Unclassified Roads	700.52	87,725.61	88,426.14
Total(Kms)		2,624.50	133,750.44	136,374.94
Percentage		1.9%	98.1%	100%

1.3 Condition of rural roads network

The Government of Kenya has made considerable investment in the road network over the last few years; however a more investment is still required to bring the network to the acceptable conditions. Currently the demand for maintenance of roads outstrips the funding capacity.

1.4 Adequacy of funding

Kenya's Infrastructure Funding Gap is estimated at US\$2.1 billion (KShs 180 billion) annually, for the next ten(10) years. The Roads Sub-Sector alone has a corresponding gap of US\$ 44 million (approx. KShs 40 billion) per year. Infrastructure gaps could be halved through eliminating inefficiencies, and adoption of appropriate financing strategies and technologies.

1.5 Projected contribution levels to vision 2030

The Kenya Vision 2030, a long term planning blueprint launched in the year 2008 recognizes the improvement of infrastructure as one of its foundations to creating a globally competitive and prosperous country with high quality of life by the year 2030. However, this comes in a background of inadequate rural road network in terms of coverage to meet current and future demands.

Improvement of infrastructure is seen as fundamental to the growth of the identified driving sectors of the economy. Better roads contribute to poverty reduction by lowering the costs of goods and services, improving access to social facilities and administration centres and improving safety and security.

Rural roads form the bulk of the road network. They not only interconnect vital sectors of the economy within the rural areas, but also link rural areas to higher class roads. The Authority's mandate for the development, maintenance and management of rural roads contributes to the attainment of the Kenya Vision 2030.

The Authority continues to implement the Roads 2000 Strategy which aims at utilizing labor for maintenance of roads in rural areas and hence contributing towards eradication of poverty. It also supports "the Kenya Youth Empowerment Programme (KYEP)" adopted by Government for providing employment to the youth in the country.

Several Development Partners namely SIDA, KfW, DANIDA, AfDB, EU and AFD have supported the R2000 Strategy with several projects currently ongoing in the Country.

- i. AFD is implementing Phase II of its R2000 Programme in five counties in Central Kenya and Laikipia County.
- ii. The EU programme is expected to roll out phase III soon which will cover most of the Counties in Eastern Province under EDF 10.

- iii. The KfW programme for R2000 is implementing projects in Western Kenya while the Finland Government is supporting Busia County through PALWECO.

Many of these programmes employ the use of Low Cost/Volume sealing approach along with other research and pilot studies on concrete paving, cobblestone and Do-Nou Technology.

1.6 Projected optimum level of network

The Ministry of Transport and Infrastructure published a blue print on the Road Sector Investment Programme and strategy 2010-2024. Overall, it is projected that there will be construction of 206 Kms of new roads at Kshs. 27 billion, upgrading of 3,884 Km to bitumen standards at Kshs. 163 billion and upgrading of 1175 Km to low volume seal at a cost of Kshs. 18 billion.

1.7 Extent of financing required

The optimal requirement for routine and periodic maintenance for Road network in Kenya stands at KShs 40 billion while the Road maintenance Levy realizes only KShs 25 billion annually. The shortfall for maintenance of existing road network amounts to KShs 15 billion annually which poses a big challenge to the Authority in attaining fulfilling its mandate.

The Authority's resource requirement based on its Strategic Plan is tabulated below:

	2014/2015	2015/2016	2016/2017
Source of Funds	Kshs- Billions	Kshs Billions	Kshs Billions
RMLF (22% and 10%)	9,317	10,249	11,274
Direct GOK Funding	19,913	21,904	24,095
Total Government Funding	29,230	32,153	35,368
AFD	932	932	1,025
KFW/EU	1,772	1,949	2,144
Total Development Partner Funding	2,703	2,880	3,168
TOTAL	31,933	35,033	38,537

The financial requirements are continuously reviewed annually to ensure consistency with the MTEF budget ceilings. The Authority is exploring ways of raising funds through development partners as well as forming partnerships with county governments and other stakeholders.

1.8 Technical adequacy and cost effective efficiency of road management operations

Authority implemented standardized tender documents and specifications for works carried out under RMLF funding making it possible to compare and therefore control unit costs.

The Authority continues to implement the Low Volume Sealed Roads for the low trafficked roads based on the Pavement Design Guidelines for Low Volume Sealed Roads released in April 2014 by the Materials Testing and Research Division of the Ministry of Transport and Infrastructure. The Low Volume Sealed Roads are optimised to be cost effective and ensures that the low trafficked rural roads are not overdesigned.

Adequate and quality supervision remains a challenge together with lack of experienced local contractors. Deliberate training programmes at the Kisii Training School assisted by development partners, have been pursued to alleviate this situation.

1.9 Coordination with other stakeholders

At the policy level, coordination between Authorities has been carried out very well by the Ministry of Transport and Infrastructure through regular executive committee meetings chaired by the Cabinet Secretary.

The meetings have provided the right forum for harmonization of policies, standards and public outlook. At the county level, the Authority has continued to engage with the county government and the local leaders on prioritisation of the roads to be maintained.

The Authority's regional offices have continued to provide technical assistance to the county governments, Constituency Development Fund and all interest groups wishing to enjoin the Authority in the maintenance of the rural roads network while engaging the public through the Constituency Road Committees at the constituency level.

1.10 Performance & Utilization of Funds

Kenya Rural Roads Authority is committed to ensure that the funds received from the government as well as development partners have been applied for the purpose for which it was intended and that the use of such resources is efficient and transparent, in accordance with the principles, procedures and requirements of the authority and sound professional practise. The authority aims to ensure that value for money is achieved.

The average utilization of available funds was 84% while the extent of implementation of the APRP was at 105%.

1.11 Fuel levy funded projects (maintenance)

These were implemented under three RMLF allocation heads, 22% and 10%.and coffee cess

Funding Source	Km planned	Funding (Kshs)	Km Achieved	Expenditure (Kshs)
22% RMLF	47,999	4,350,000,000	33,096.53	4,998,163,624
10% RMLF	16,834	2,279,201,312	9,826	2,076,938,727
Minister Allocation	3,457	1,400,902,295	3,799	1,684,971,665
Coffee Cess	627	124,960,757	510.81	147,815,788

1.11.1 Design and construction projects

The total Kilometres upgraded to bitumen during the year was 265.4 lane km against a target of 242 lane km. A total of 4 drainage structures (bridges) were constructed, while 495.6 lanes Km were designed to final engineering reports. Several other roads were in various stages of design.



1.11.2 Roads 2000 Projects

As part of the overall strategy to promote economic growth, poverty reduction and market integration, the Government of Kenya in consultation with the donor community, developed in the early 1900's a roads 2000 concept which aimed at improving the road network and creating employment opportunities through the use of

appropriate mix of labour and equipment for a well maintained and sustainable road network. The Roads 2000 Programme utilizes the strategy of maximizing labour for road improvement and maintenance in order to create employment in the country.



The concept focuses on four main objectives namely;

- i. Implementation of spot improvement and partial rehabilitation of damaged rural roads in each network;
- ii. Training of engineers and other technical staff on the technical contract administration and business skills;
- iii. Development of locally based small scale contractors for routine maintenance and improvement works and;
- iv. Strengthening the institutional capacity in each district.

The strategy employs a regional based approach to maintenance of roads while Utilising local resources, appropriate technology and labour based methods where and when these are cost effective, with an aim of alleviating poverty. The strategy further focuses on Nationwide approach to capacity building within areas of training and road maintenance system development and emphasises on utilising the private sector where and when cost effective

A total of 700 lane Kms of roads had been targeted for improvement during the period under review through various financiers such as KfW, AfD, EU and GoK. As at 30th June 2015, the Authority had achieved 729.94 lane Kms against a target of 700 lane kms. The achievement was boosted by timely disbursement of funds by Development Partners and delegation of supervisory roles to Consultants. Coordination of activities during project implementation period between GoK and Development Partners' Staff was also key in enhancing the achievement.



1.11.3 Reconstruction and rehabilitation

The total length of roads reconstructed/rehabilitated in 2014/15 was 49.43 km (98.86 lane km) exceeding the target of 41.5 km (83 lane km), as at 30th June, 2015.

The impressive result in this area is attributed to improved cash flow during first three quarters of the financial year.

1.12 Quality control

The Authority is committed to adhering to the quality standards and ensures value for money in all its expenditure. The Authority has developed a total quality assurance system for implementation of projects and operations as a whole. The total quality system covers all the Authority's activities from policy and regulations, to construction norms and standards, contract supervision and workmanship.

1.13 ISO Certification

During the year the Authority improved on its Quality Systems. Certification audit was conducted by Kenya Bureau of Standards in the fourth quarter and the Authority became ISO 9001:2008 certified in the month of June 2015.

1.14 Road Sector Investment Programme (RSIP)

The Roads Sector Investment Programme and Strategy identifies activities that will provide efficient road transport. These include construction and rehabilitation of roads, concessioning, rehabilitation of rural access roads and reclassifying existing roads among others.

The Road Sector Investment Programme (RSIP) forms the basis of prioritization of roads in the Annual Road works Program implemented by the Authority in each financial year. The RSIP clearly identifies the Road Section to be considered, types of interventions and the estimated costs.

Kenya Roads Board monitors the implementation of the RSIP through regular reports and stakeholders meetings.

The implementation of the RSIP requires great cooperation and support financially or otherwise from the Government, Ministry of Transport and Infrastructure, Kenya Roads Board, Development Partners, Private Sector and other stakeholders. The Authority shall continue to ensure that the APRP is based on the RSIP in the prioritization of road works.

1.15 Strategic Plan

The Authority is currently implementing its five Year Strategic Plan (2012/13 - 2017/18) to align the Authorities activities with changing demands and Kenya Constitution 2010.

The plan was developed and formulated based on the current government strategic direction as highlighted in Kenya Vision 2030. Further the strategic plan was necessitated by the dynamism in the organization of Government that requires all Government institutions to appropriately align their strategic objectives to government policies. In addition, the Authority has aligned its strategic plan with the objectives of the Road Sector Investment Plan (RSIP) of the Ministry for the period 2010-2024.

The strategic goals, objectives and planned outcomes together with a summary of the progress made during the 2014/2015 are summarised in the table below.

Table 2: Strategic Goals, Objectives and Planned Outcomes

Key Results Areas	Strategic Objectives	Planned Outcomes	Output 2014/15
Goal 1: Design, construct, Rehabilitate and Maintain entire rural road network to support accessibility to all production, market and social centres for enhanced economic growth.			
New roads constructed (lane Km)	To upgrade 242 Lane km of rural roads network to bitumen standards	Opening up rural roads to reduce transport cost and journey time.	265.4 lane km
Roads maintained (Lane Km)	To maintain 115,000 Lane km of rural road network	Well maintained rural roads	97,515 Lane km
Roads maintained under Roads 2000 Program (Lane Km)	To maintain 700 lane Km using labour based methods	Use labour based method in maintaining rural roads	402.8 Lane Km
Bridges Constructed	To construct 5 bridges	Design and construct bridges to support accessibility to all production, market and social centers' for enhanced economic growth	4 (four)
Goal 2: Build and Strengthen Institutional capacity to execute the mandate of KeRRA			
KeRRA Board Members, staff and other stakeholders empowered	Training of staff, Board members and other stakeholders	Development of career progression Guidelines Enhanced Value from the Board Audit Committee Continuous Professional Development for all professional staff Succession & institutional capacity	As part of Continuous professional development, all professional staff attended workshops and seminars as prescribed in their professional Institutes. This include Engineers, Accountants and Auditors.

Key Results Areas	Strategic Objectives	Planned Outcomes	Output 2014/15
Goal 3: Ensure all cross cutting issues are mainstreamed in KeRRA's operations			
Environmental sustainability - Chair OSH- Occupational Safety & Health_HR			
Implementation of the Quality Management System	ISO certification and continuous improvement	-Continuous staff training on ISO -Undertake Internal Quality audits - Invite certifying body to conduct certification audit	-Trained all Head office staff and 15 (fifteen) regional offices -Undertook four Internal quality audits -Certification audit was carried out by the certifying body, KEBS (awaiting ISO 9001:2008 certificate)
Development and Implementation of Enterprise Risk Management (ERM)	Build and strengthen the institutional capacity through the development of the Enterprise Risk Management Framework	Identify risks inherent in our processes and procedures and come up with mitigation or preventive measures. Risk Management policy developed and	Risk management policy developed Risk Management Committee Constituted All the forty seven regions were trained and regional office risk registers developed. Board training and Board Risk register developed. Rapid response areas for the Board were developed. Departmental risk registers were developed.
Build and strengthen institutional capacity to execute the mandate of KeRRA	Strengthen the HR function of the Authority	Trained staff. Medical Benefit Enhanced job satisfaction	The expansion of medical coverage in April, 2014 to include all staff of the Authority (now at 702 plus their dependants). The procurement of staff GPA/GLA and WIBA cover for all staff of the Authority. Tax exemption for staff who are Persons with Disabilities, implemented for one (1) member of staff from August, 2014. Mortgage Facility, access to loans under this facility was ongoing throughout 2014 / 2015. The KeRRA Sacco facility continued to disburse loans to staff for self development.

			<p>Recognized and rewarded long serving staff members (issued with a certificate of long service).</p> <p>Staff sensitization on the new NSSF Act 2013</p> <p>Fire Marshalls Training country wide to enhance staff awareness on safety measures in the workplace, and enhance awareness on disaster preparedness.</p>
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1.16 Performance Contracting

As part of its Corporate Governance, the Authority signed 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. The Authority has consistently maintained achievement of its performance targets as indicated below.

Financial Year	Performance Contract Evaluation Composite Score	Performance
2009/2010	N/A	N/A
2010/2011	2.3843	Excellent
2011/2012	2.9442	Very Good
2012/2013	2.9385	Very Good
2013/2014	2.9745	Very Good
2014/2015	2.8524	Very Good

The Authority is committed to meeting its performance targets and improving service delivery while delivering its mandate.

1.17 Degree of realization of the objectives of the enabling legislation

The Kenya Road Act 2007 was enacted to provide for the establishment of the three Road Authorities amongst them the Kenya Rural Roads Authority and to make provisions for the powers and functions of the authorities and other connected purposes.

Kenya Rural Roads Authority was established under section 6 of the Act. The Board of Directors of the Authority was launched in 2008 and the Authority is fully functional. The Authority has continued to discharge its responsibility for the management, development, rehabilitation and maintenance of rural roads as stipulated under section 7 of the Act. The discharge of these functions has been facilitated by the exercise of the powers bestowed to the Authority under the Act

1.18 Levels of compliances with the provisions of the Roads Act 2007

The Authority carries out its operations within the framework of the provisions of the Roads Act 2007 as illustrated below:-

Item No.	Provision in the Act	Level of compliance
1	Part I on the title, commencement and interpretation	The Authority continues to note the title and commencement date of the Act and further recognizes the definitions attached to the key terms in part I of the Act.
2	Part II on the establishment of the various Roads Authorities	The Authority operates as a legal entity in the discharge of its functions. The composition of the Board of Directors is as per the provisions of the Act. The Board conducts its affairs and business as per the stipulations of the Act.
3	Part III on the administration of the authority	The internal administration of the authority is as per the provisions of the Act. The members of the Board and the Director General have qualifications required of them under the Act. The staff of the Authority are appointed and remunerated as per the provisions of the Act. The Authority has established regional offices that operate as per the provisions of the Act.
4	Part IV on the powers of the Authorities generally	The Authority exercises the powers conferred to it. This is bearing in mind the purpose for which the organization was set up for. The exercise of the powers is on need basis.
5	Part V on financial provisions	<p>The Authority manages its financial matters as per the provisions of the Act. This includes:-</p> <ol style="list-style-type: none"> i. Recognizing and utilizing the funds allocated to it. ii. Investing funds as per the legal guidelines. iii. Participation in preparation of Roads Investment Programme iv. Preparation of Annual Road work plans v. Preparation of Budgets for all financial years and abiding by them. vii. Submission of Annual work plans to the Kenya Roads Board. viii. Keeping of proper books of accounts and preparation of Annual Financial statements ix. Ensuring Audit of the financial statements by the Auditor-General. x. Ensuring sound financial management of the Authority

6	Part VI on Miscellaneous provisions	<p>The authority abides by the miscellaneous provisions of the Act in the discharge of its mandate. This is in regard to :</p> <ol style="list-style-type: none"> i. Protection of employees from liability for bonafide acts done in the course of duty ii. Performance agreement obligations iii. Submission of Annual Report to the Minister. iv. Ministers power of direction Making of regulations v. Classification of roads vi. Inventory of roads vii. Structures and works over and above roads viii. Compliance with the provisions of the Roads Act 2007 ix. Confidentiality of information x. Offences under the Act xi. Making of returns
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1.19 Policies and Procedures

The following policies were developed and are updated continuously based on the operating environment. The main purpose of these policies is to guide the implementation of the Strategic Plan and the general functioning of the Authority.

Item No.	Policy	Purpose
1	<i>Internal Audit Charter</i>	Serves as a guide to the Internal Audit Department of the Authority in the performance of its roles and responsibilities. It provides a basis for management and the Audit Committee of the Board to use in evaluating the functions of the Internal Audit Department
2	<i>Information Communication Technology Policy</i>	Deals with the Development, Investment and Application of the Information Communication Technology within the authority.
3	<i>Board Charter</i>	Defines the Board's roles and responsibilities, structures and its strategic function.
4	Service Charter	Defines the Authority's obligations and duties to our clients. It also provides for the Authority's Goals, Values and Mission Statements.
5	<i>Anti-Corruption Policy</i>	Sets out the values and principles of the Authority and the practical steps to deal with instances of corruption within the Authority.
6	Human Resource Management Policies	Defines the relationship between the Authority and its employees on a wide range of issues such as training, recruitment, staffing, performance appraisal and staff benefits.
7	<i>Risk And Governance Policy</i>	Aimed at promoting good governance within the Authority and minimize the exposure to risks in the transactions involving the Authority.

8	<i>Procurement Policies and Procedure Manual</i>	Main aim of the policy is to procure goods, works and services in the most economically favourable, open and transparent manner. Soliciting for competitive bids is the guiding principle based on clear and accurate description of technical requirements of materials, products and services to be procured.
9	<i>Environmental Planning and Management Policy</i>	Policy provides a framework for the Authority's environmental objectives and targets, to manage all its activities with a view to prevent, reduce, or mitigate harmful effects on natural resources, and ensuring that man-made changes to the environment do not have harmful effects on humans and the environment.
10	<i>Finance Management Policies</i>	They guide the management of the Authority's financial and non financial resources. They consist of the various International Accounting Standards and the Regulations issued by the Government of Kenya.

1.20 Challenges

The following are the major challenges facing the authority in delivering its mandate:

CHALLENGE		PROPOSED SOLUTIONS
SNO.		
1.	Inadequate maintenance funding for projects under the Authority's purview leading to huge maintenance backlog eventually resulting to "orphaned roads".	There is increased liaison with other government agencies, development partners and stakeholders with an aim of increasing the funding towards rehabilitation and maintenance of roads. Public Private Partnerships (PPPs) are also being explored to provide additional financing. The sub sector is currently putting in measures to create conducive environment for increased private sector participation in roads. This is to ease the resource strain on the national government. This effort has led to an initial allocation of Kshs. 1 Billion budget for periodic maintenance for "orphaned roads" during the 2015/2016 financial year
2.	Inadequate supervision personnel i.e the road engineers and other technical staff hampering implementation of works.	Recruitment of additional staff to fill the gap
3.	Inadequate local capacity in road construction	Enhanced funding for capacity building
4.	Encroachment on road reserves	Demarcate road reserves and mapping of the road corridors with a view of acquiring title deeds.
5.	Overloading by motorists	Rigorous implementations of laws relating to management of axle load and have several

		weighbridges as a compliance control.
6.	Depletion of natural road construction materials	Development of new roads construction technologies to conserve natural construction materials e.g. trials on low volume sealed roads using alternative stabilizing materials. More funding for research and trials on road construction materials and technologies
7.	A vast unclassified network of roads	To set out criteria for road classification consistent with the mandates of the two levels of government as stipulated in the Fourth Schedule of Constitution. Kenya Roads Board has already spearheaded the re-classification of the road network which outlines proposed national trunk roads and county roads. National government will be responsible for the management and development of trunk roads while each county government will manage and develop its county roads.

1.21 Way Forward

Lack of sustainable and bankable funding remains one of the most serious problems facing Kenya's efforts to develop and maintain road infrastructure despite past attempts to address the same. The optimal budget for the routine and periodic maintenance of our roads stands at KSh40 billion, while the Road Maintenance Levy Fund nets just KSh25 billion annually, leaving a yawning deficit of KSh15 billion. The Authority continues to seek alternative funding sources including Public Private Partnership and Development partners.

1.22 Conclusion

I take this opportunity to thank the Government of Kenya and development partners for funding the Authority which has enabled us to achieve the results we have recorded. I wish to further express my sincere gratitude to the board members for their support in ensuring that the Authority continues to discharge its mandate effectively

I thank the management team and all the KeRRA staff for their untiring efforts which enabled the Authority to deliver on its mandate and continue opening up rural Kenya.

I look forward to a brighter financial year 2015/2016

Eng. J.O. Ogango

Director General

Corporate Governance Statement

Overview

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

Organisation structure of the Authority

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

- a) Planning and Environment
- b) Design and Construction
- c) Maintenance
- d) Finance
- e) Human Resources and administration
- f) Internal Audit
- g) Quality Assurance
- h) Information, Communication and Technology (ICT)
- i) Procurement
- j) Legal Affairs
- k) Public relations

Appointments to the Board

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

Board Organisation and structure

The composition of the Board during the period under review is as indicated above. The composition of the Board is as per the provisions of Section 8 of the Kenya Roads Act 2007. The Board is composed of representatives of relevant Government Ministries and private sector as represented by the various nominating bodies and is independent of management. The Board has set up 4 standing committees to enable it discharge its oversight role.

The role of the Board

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

Activities of the Board

It is the responsibility of the Chairman and the Secretary to work closely together in planning the annual program and agendas for meetings. The Board is required to meet at least four times a year and the meetings are structured to allow open discussion. All substantive agenda items have comprehensive briefing papers, which are circulated well in advance.

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

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

Board Effectiveness

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

Board meeting attendance 2014-2015

Member	4/7/2014	13/10/2014	30/10/2014	11/11/2014	28/11/2014	14/1/2015	28/1/2015	24/03/2015	2/4/2015	14/4/2015	4/6/2015
Eng. Richard Chepkwony	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eng. P.C Kilimo	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mrs. Caroline Nyororo	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Charles Birech	✓	✓	✓	✗	✓	✓	✓	✓	✗	✓	✓
Mr. Festus Kingori	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Amb.P.R.OOwade	✓	✗	✓	✗	✓	✓	✓	✗	✓	✗	✓

Board Committees

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

Audit, Risk & Governance Committee

The Board Audit Committee was established in accordance with the provisions of Treasury Circular No 16. of 2005. The Board receives reports from the Audit Committee. The Internal Audit function reports directly to the Board Audit Committee and is independent of management operations.

Finance Committee

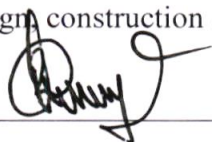
The committee assists the Board in its oversight role of the Authority relating to Authority's financial matters. This is as per the committees Terms of Reference.

Board Human Resource Committee

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

Board Technical Committee

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



Eng. Richard Chepkwony

Chairman

Sustainability Report

The Authority made concerted efforts and carried out various activities during the year aimed at enhancing environmental sustainability and ensuring compliance with the Environmental Management and Coordination Act.

Environmental awareness creation programmes

The authority undertook sensitisation workshops in eight counties which saw 330 staff members sensitized and 32 trained in environmental matters. Contractors were also sensitized on environmental policy health and safety.



Measures for mitigation against water, air, noise and other forms of pollution

Environmental and Social Impact Assessments were undertaken on 13 projects during the year and two reports forwarded to the relevant bodies. The Authority also carried out Environmental audit on two major projects during the year.

Promoting Environmental Protection and Conservation through partnership with Stakeholders

During the year, the Authority undertook and participated in the following activities:-

- i) Finalizing and signing an MOU with the Kenya Forest Service in tree planting
- ii) Participation in 'Clean Up The World Day' National Event which was held in Wabera Primary School, Isiolo County on Saturday 20th September, 2014

- iii) Participated in the World Wetlands Day National Commemoration held on 2nd February, 2015 at Atebwo Primary School in Nandi County
- iv) Nairobi City Monthly Clean Up Exercise held on 29th November 2014 at Muthurwa Estate, Nairobi City County
- v) Partnering with Kenya Wildlife Club (Kitui) in implementing a Clean-Up Exercise on 7th March, 2015 in Kitui town
- vi) World Environment Day National Commemoration held on 5th June, 2015 in Narok County



Planting of Trees

During 2014/2015 financial year, 5029 No. trees were planted in eight counties as follows:-

<i>S/No.</i>	<i>Region</i>	<i>No. of Trees Planted</i>
1.	Machakos	95
2.	Kitui	1,140
3.	Nakuru	500
4.	Tana River	60
5.	Nyeri	72
6.	Busia	1,202
7.	UasinGishu	1,160
8.	Trans Nzoia	800
Total		5,029

Capacity Building for local contractors

During the year seventy five (75) persons from 25 construction firms underwent Classroom Training in labor based technology at Kisii Training Centre in through the Improvement of Rural Roads and Infrastructure programme in Western Kenya funded by German Development Fund. The programme targets to train 250 small scale Contractors. Another batch of 20 contractors were trained in Low Volume Seal Technology through the Central Kenya Rural Roads improvement programme funded by French Development Bank (AFD)

In addition, the Authority spent Ksh 22 million to train 500 youths in Do Nou technology at Kisii Training Centre. Do Nou is a Japanese technology for maintaining rural roads using gravel and farm soil stashed in gunny bags.

Staff Development and Welfare

The Authority expanded the medical scheme to include all the staff and further obtained Group accident cover and WIBA for all the staff. The staff mortgage fund and the Sacco continued to provide staff access to loans for self development. In addition staff attended various courses including professional development courses during the year. Fire Marshalls training was done country wide to enhance staff awareness on safety measures in the workplace, and enhance awareness on disaster preparedness.



Eng. J.O. Ogango

Director General

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 30th June 2015, in accordance with the provisions of section of the 38 of Kenya Roads Act 2007 which disclose the state of affairs of the Authority.

Principal activities

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

Results

The results for the year are set out on page 47. The surplus for the year is Kshs 2,900 Million as compared to a Deficit Kshs1, 016 million in FY 2013/14.

Directors

The directors who held office during the year and to the date of this report are set out on page 8-10.

Auditor

The Auditor general is responsible for the statutory audit of the Authority's books of account in accordance with the provisions of Article 229 of the Constitution of Kenya, Kenya Roads Act 2007 and section 14 of the Public Audit Act, 2003

By order of the board



Eng. J.O. Ogango

Secretary to the Board

Statement of Directors Responsibilities

The Kenya Roads Act 2007 requires the Board of Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of its operating results for that year. It also requires the Board to ensure that the Authority maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Authority. The Board is also responsible for safeguarding the assets of the Authority and taking reasonable steps for prevention and detection of fraud and other irregularities.

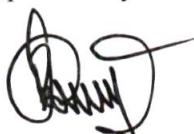
The Board accepts responsibility for the preparation and fair presentation of financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenya Roads Act 2007. The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the authority and of its operating results.

The Board further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Financial statements have been prepared on a going concern basis on the assumption that the Government of Kenya Shall continue to provide financial support in the foreseeable future to Kenya Rural Roads Authority, to enable it discharge its mandate as defined by the Kenya Roads Act 2007, and to meet its obligations as they fall due.

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

Approved by the board of directors on -----and signed on its behalf by:



Eng. Richard Chepkwony

Chairman



Eng. J.O. Ogango

Director General

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL REPORT OF THE AUDITOR-GENERAL ON KENYA RURAL ROADS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Rural Roads Authority set out on pages 47 to 80, which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, the statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

The management of Kenya Rural Roads Authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accountings 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI's). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

Kenya Rural Roads Authority – Annual Report and Financial Statements for the year ended 30 June 2015

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1.0 Nugatory Expenditure

The Authority incurred a total of Kshs.145,664,042.99 to pay interest on delayed payments which were occasioned by delayed exchequer releases thus incurring a nugatory expenditure that creates unnecessary budgetary burden on the Authority's programme.

2.0 Rehabilitation and Repair of Kasoiyo- Saos- Society (D350) Road

2.1 Project Information

Project Location:	Baringo County of Rift-Valley Region
Scope of works:	Rehabilitation and Repair of Kasoiyo – Saos – Society (D350) Road.
Project road Length:	70 Km
Contractor:	M/s.Bridgestone Construction Company Limited.(Working between Society and Tenges Km 28 + 000 to Km 70 + 000)
Assignee:	Guanxi Hydroelectric Constructio Bureau (Working between Kasoiyo- Tenges Km 0 +000 to Km 28 + 000)
Contract Sum:	Kshs.818,445,018.00(Bridgestone Construction Company Kshs.313,620,732.00, Guangxi Hydroelectric Construction Bureau Kshs.504,824,286.00)
Commencement Date:	10 October,2012
Contract Period:	42 Months

Original completion date	10 February 2016
Revised completion date	10 April, 2016.
Amount Certified to date by 5.07.15	Kshs.200,468,928.38
% of Time Elapsed:	76.19%
Overall Progress:	30.37%

A scrutiny of the project file revealed the following observations:

2.2 Slow Progress

The latest progress report for 31 July 2015 showed the overall progress achieved was 30.37% against elapsed time of 76.19%. The project is behind schedule and is unlikely to be completed by the contract completion date of 10 April 2016 which may lead to escalation of project costs.

2.3 Environment Impact Assessment

The project commenced without approved environment impact assessment which led to stoppage of works by Nema on 30 May 2014 for one and a half months. However, the situation was later corrected when the Authority was able to finalise the Environment Impact Assessment.

2.4 Assignment of Works

On 28 January 2015 works valued at Kshs.504,824,286.00 were assigned to Guangxi Hydroelectric Construction Bureau due to slow performance by the previous contractor. It was noted that the assignment of contract are guided by the general conditions of contract, clause 3.1. The assignment resulted in improved work delivery, though a lot of time had already been lost.

The Authority should ensure that non-performing contractors are not awarded new projects in future to reduce cases of having to re-assign works.

3.0 Construction of Konyu-Kairo, Nyamari- Kahuri-Iria-Ini- Mugaa-Ini, GichicheJcn- Kiganjo Tbc, Witima-Timbaya, Kariki-D430 Jcn (E549) &Gatugi-D430 Jcn (E552) Road

3.1 Project Details

Contract No:	0720/RWC 002
Contractor:	M/S Put Sarajevo General Engineering Co
Original Contract Sum:	Kshs.3,156,933,562.46
Appraised Contract Sum:	Kshs.3,625,997,084.55

Contract Award Date: 16 July 2009
Commencement Date: 2 October 2009
Contract Period: 30 Months
Original Completion Date: 2 April 2012
Revised Completion Date: 17 June 2013

3.2 The Subject road contract measuring 68.5KM was awarded to M/S PUT SARAJEVO GEN ENG Co. by the Ministry of Roads on 16 July 2009 at a contract sum of Kshs.3,156,933,562.46. This was later vested to Kenya Rural Roads Authority on 3 December 2009. Kenya Rural Roads Authority procured, during project implementation, Addenda which revised the project length to 72.5 KM and the contract sum to Kshs.3,625,997,084.55.

3.3 Assignment of Works

On 10 day of July 2012, part of the works, comprising 11.4 KM section of Konyu-Mucharage Road identified as Km 7+ 800 to Km 19 + 200, was assigned to M/s China Overseas Engineering Group Co. Ltd (Covec Ltd) for Kshs.605,082,355.20 as a result of slow progress by Put Sarajevo General Engineering. Although this was done pursuant to clause 3.1 of the general conditions of the contract, it was not clear how the first contractor was evaluated and awarded the contract.

3.4 Interest on Delayed Payments

The contractor has charged a total of Kshs.5,211,178.13 as interest on late payment as follows:-

Certificate No.	Interest Charges (Kshs)
41A	3,097,559.40
49A	<u>2,113,618.73</u>
Total	<u>5,211,178.13</u>

Although the Authority explained that delayed payments were occasioned by delays in exchequer release, payment of interest amounting to Kshs.5,211,178.13 is a nugatory expenditure that reduces the ability of the Authority to implement planned works.

The Exchequer releases should be timely to mitigate cost of interest in delayed payment by the Authority.

4.0 Construction of Muranga – Gitugi (D427) and Njumbi- Mioro (E546)

4.1 Contract Details

Construction of Muranga-Gitugi (D427) and NjumbiMioro (E546) Roads
Contractor Nyoro construction Ltd

Contract Sum	Kshs.2,170,325,200
Date of commencement	31 July 2012
Contract period	30 Months
Date of completion	02February 2015
Period of time elapsed	32 months
Percentage of contract period elapsed	106.24%
Percentage of Work done	16%
Advance Payment	Kshs.217,034,332.50
Amount certified to date	Kshs.607,732,606
Percentage of permanent works certified	28%
Date of above information	8 August 2015

4.2 Delayed Project Delivery

Overall progress as at 08 August 2015 was 16% against an elapsed contract period of 106.24%. This shows that the contractor had delayed the project delivery. There was evidence however that the contractor applied for extra time which was under evaluation by the employer who invoked liquidated damages recovery as provided for under section 47.1 of the contract.

4.3 Interest on Late Payments

The latest payment certificate No. 7 indicate that interest on delayed payments totaling Kshs.7,001,678.28 has been incurred which is a nugatory expenditure causing pressure on the full delivery of project.

5.0 Construction of Sotik- Cheborge – Roret – Kebenet - Sigowet Road (D226)

5.1 Project Information

The works are located along the following Roads: Sotik – Cheborge – Roret Kebenet – Sigowet (D226) Road and Litein – Cheborge (D227) Road.

Contract No	RWC 031
Length	43 Km
Length Revision 1	45.5 (Additional 2.5 Km)
Contractor	Spenco (K) Limited
Assigned Contractor	China Wu Yi Company Limited
Contract Sum	Kshs.3,149,152,168.90
Revised Contract Sum	Kshs.3,331,783,288.02
Amount Certified to Date	Kshs.1,250,070,523.3
(Including Advance Payment of	Kshs.196,410,489.78)

Percentage of work done to date: 49.8 %

Date of commencement: 1/07/2011
Date of Commencement of

Assigned Contractor:	28/05/2015
Contract Period:	30 months
Contract Period of Assigned Contractor:	16 months
Date of completion:	1/01/2014
Completion Date of Assigned Contractor:	28/09/2016
Time Elapsed:	47 months out of 30 months
Time Elapsed of Assigned Contractor:	2 months out of 16 months
% of time elapsed:	156.7%
% of Time Elapsed of Assigned Contractor:	12.5%
Km's complete:	8.7
Date of report:	31 July, 2015

5.2 Interest on Delayed Payments

Interest on delayed payments as at 31 July 2015, amounted to Kshs.29,930,244.05 which is a nugatory expenditure that reduces amount of budget available to carry out actual works.

5.3 Delayed Project Delivery

As at 31 July 2015 only 8.7Km of 45.5 Km or 19.12% of the road had been completed against an elapsed time of 47 months out of 30 months or 156.7% . This shows that the contractor seriously delayed project completion. Although it was explained that the contractor was experiencing internal financial constraints that impacted on their performance, it was not clear whether the main contract would still deliver their portion given their insolvent situation.

5.4 Assignment of works

The Contractor assigned works valued at Kshs.2,220,926,590.46 (66.64%) to China Wu Yi Company Limited pursuant to clause 3.1 of the conditions of contract to hasten progress. However, it was not clear how the Assignee was identified.

5.5 Delayed Project Delivery by Spencon Kenya Ltd

By newspaper notice appearing in the daily nation of 10 April 2015, Spencon was due to be wound up. It was not clear what the implications of the winding up of the company would be on the contract. However, the Authority explained that the matter was resolved by the company before assignment of part of the works pursuant to clause 3.1 of the condition of contract.

5.6 Expiry of Advance Payment Guarantee

The contractor was paid Kshs.314,915,216.89 as advance payment vide certificate No. 1 dated 16 June 2011 on the strength of advance payment guarantee. This guarantee expired on January 2014. As at the time of assignment of the contract (14 May 2015) the employer had recovered Kshs.118,504,727.11 from contractor leaving a balance of Kshs.196,410,489.78. Although it was explained that the outstanding

advance payment would be recovered as contained in the Assignment Agreement between the main contractor and the Assignee, no recoveries had been made by the time of this audit. The main contractor was eventually provided an advance payment guarantee on 28 October 2015 amounting to Kshs.196,410,498.

6.0 Construction of KaptamaKapsokwony - Sirisia (275/265) Road Contract No. Rwc 023

6.1 Project Background

The Road project is situated in Kimilili, Bungoma West (both formerly in larger Bungoma) and Mt. Elgon Sub-Counties of Bungoma County. The project is approximately 67km long. The road is divided into 4 distinct portions with a total length of 67km as follows:-

1) Kamukuywa- Kaptama (D285)	14.0km
2) Kaptama- Kapsokwony- Namwela (D275)	40.32km
3) Kapsokwony- Kimilili (D265)	8.37km
4) Namwela- Chwele (C42)	5.1km

Summary of Contract Details

Project title	Kaptama-Kapsokwony-Sirisia Road Project
Contractor	KSC INTERNATIONAL LTD
Contract Sum	Kshs.2,706,711,478
Date of commencement	22 nd June 2007
Contract period	34.72 Months
Date of completion	13 May 2010
Extension granted	5 Months
Period of time elapsed	96 Months
Percentage of contract period elapsed	276.5
Percentage of Work done	93%
Amount certified to date	Kshs.2,622,131,272

6.2 Delayed Project Delivery

The contract commenced on 22 June 2007 for a contract period of 34.72 months. The contract was to end by 13 May 2010 but by 30 June 2015 the contractor had not completed the works under the project. A design review was however, carried out that resulted in scaling down the project length in lieu of the available contract budget. The contractor was still unable to complete the project due to financial distress.

6.3 Financial Distress of the Contractor

The contractor, KSL International Ltd has been put under receivership. This information was contained in the Daily Nation on Monday 23 February 2015 page 37. The contractor's yard including the site offices at Kamkuywa, has been placed under a Receiver Manager and all site operations brought to halt.

The Contractor has been unable to settle rent arrears owed to the Authority amounting to Kshs.3,028,125.00 for Mwatunge Camp in TaitaTaveta which was used in a previous contract.

6.4 Requests for Mutual Winding up of the Contract

The Receiver Manager vide Letter ref HG/JKM/RBH/JGM/62 dated 9 July 2015 requested for mutually winding up the contract citing balance of funds to the contract sum is insufficient to complete the outstanding works based on design specifications. Apart from letter ref KeRRA/05/1/VOL.1/RWC023/2536 dated 16 July 2015 from General Manager (Design and Construction) to Resident Engineer requesting the Resident Engineer to comment on the mutually winding up of the contract and also undertake a project appraisal and submit a report with recommendations before 27th July 2015 for further action, there is need for comprehensive value-for-money analysis by the Authority in what was actually done vis-à-vis the total expenditure.

7.0 Construction to Bitumen Standard of Naromoru - Munyu - Karisheni Road Contract No Rwc 040.

7.1 Project Background

The project involved construction of the following Roads;

Karisheni- Kakuret- Narumoru (D448)	21.2km
Lusoi- Munyu- Kakuret (E171 2a)	7.3km
Ibauini- Mwicwiri- Njoguini (RAR 29)	10.1km
Gitinga- Kamburuaini- Sarafina (RAR 27)	7.3km
Total km to be covered was	45.9km

Summary of contract details

Road Length	45.9km
Contractor	Kirinyaga Construction (K) Ltd
Contract Sum	Kshs.2,466,944,945
Date of commencement	09/03/12
Contract period	23.97 Months
Date of completion	09/30/14
Period of time elapsed	32 months
Percentage of contract period elapsed	133.5
Percentage of Work done	19%
Advance Payment	Kshs.246,881,544
Amount certified to date	Kshs.627,975,095
Percentage of permanent works certified	25%

7.2 Delayed Project Delivery

The contract period elapsed on 30 September 2014 and there has been no approved extension of time. The latest progress report indicated that only 19% progress had

been achieved so far. It was not explained why the contract has not been terminated despite the contractor failure to carry out their obligation under the contract.

7.3 Assignment of Works

On 21 April the contractor entered into agreement with East African Development Engineering Trading Co. Ltd to assign part of the works valued at Kshs.2,064,537,960.73 pursuant to clause 3.1 of the conditions of contract after approval from Director General through letter ref. KeRRA/D&C/3679 dated 9th March 2015. The following sections of the Road were assigned to M/s East African Development:-

1) Road D448	km 6+000 to km 21+200 (Karisheni)	15.2km
2) Road E171A	Lusoi- Munyu- Kakuret	7.3km
3) Road RAR27	Giting'a- Kamburuaini- Sarafina	7.3km
4) Road RAR29	Ibauini- Mwicwiri- Njoguini	<u>10.1km</u>
Total		<u>39.9km.</u>

Although following the assignments, reasonable progress was achieved, there is undue projected delay in the project completion.

8.0 Rehabilitation and Repair Of EldoretZiwaKachiboraEldoret-Kabenes Road

8.1 Project background

Contractor	KimililiHauliers
Assignment of works	Raflo services
Contract Sum	1,435,212,465
Variation order NO.1	1,650,494,336
Variation order NO.2	974,301,651.34
Assignment of works	451,911,350
Date of commencement	1 September 2011
Project Period	30 Months
Completion Date	1 march 2014
Revised completion date	1 March 2016
Percentage of time elapsed	85.2%
Percentage of work done	92%
Amount certified	816,513,847.63
Percentage of contract sum certified	83.81%

8.2 Delayed Project Delivery

The latest progress report for 30 June 2015 shows that amount certified was Kshs.816,513,847.63 against an initial contract sum of Kshs.1,435,212,465. This represents a progress of about 57% of the initial contract sum achieved despite the lapse of contract period. The contractor therefore delayed in project delivery hence the need for the Authority to invoke clause 47.1 of conditions of contract on liquidated damages recovery against the contractor. It has been explained that the Contract

was eventually scaled down and part re-retendered as an amicable arrangement between the contracting partners.

8.3 Scaling down of Works

Evidence available indicates that the works were repackaged as follows:

- (i) Eldoret - Kabenès 24KM- Kshs.974,301,651.34
- (ii) Kabenès-Kachibora 31KM- Kshs.1,313,914,382
- (iii) Moi's Bridge – Kachibora 20 KM - Kshs.536,046,915

The first section was to be completed under the current contract. This was repackaged as addendum No. 2 which was approved by CTC on 12 September 2014. The second portion was subjected to open tender and awarded to M/s China International Cooperation on 19 June 2015 at a contract sum of Kshs.1,313,914,382.5. The third section is to be implemented through the low volume seal programme later. Repackaging of the initial scope of works into 3 sections above may result into increase of the expenditure. It was however noted that the first two sections had their pavement structures reviewed to incorporate a Dense Bitumen Macadam (DBM) base layer instead of the earlier specified cement stabilized gravel layer due to the observed increase in axle load arising from logging trucks.

9.0 Kibunja-Molo-Olenguruone Road (D316)

The works are located in Molo, Nakuru County and are approximately 51 km long.

9.1 Background

Main contractor	KimililiHauliers
Assignee	Raflo services ltd
Original contract sum	Kshs.742,290,293
Revised contract sum	Kshs.844,347,348.31
Assigned contract price	Kshs.113,137,134.74(13.4%)
Date of commencement	6 Agust 2010
Contract Period	18 months
Completion Date	6 February 2012
Amount of works certified	Kshs.463,363,558.50
Amount paid to contractors	Kshs.463,363,558.50
Time elapsed	52 Months
Physical progress	67.73%
Reporting Date	December 2014

9.2 Failed Project Delivery

The project was to be completed on 6 February 2012. However, going by the latest progress report for December 2014, only 67.73% physical progress has been achieved. This is about 3 years after expiry of the contract period. There was no progress report from December 2014 to date which means no works have been done since. There was no evidence of approval for extension of time but the employer has

not invoked clause 47.1 of conditions of contract which provides for recovery of liquidated damages from the contractor after lapse of contract period if no extension of time has been granted.

9.3 Assignment of works

The contractor agreed to sub-contract works amounting to Kshs.113,137,134,730 to another contractor, Raflo Services to speed up the progress in accordance with clause 3.1 of Conditions of Contract. However, this arrangement could not also deliver the project.

9.4 Liquidated Damages

The contract agreement provides for recovery of liquidated damages from the contractor if works are not completed within the stipulated time, but no evidence was seen on whether there was any recovery.

9.5 Termination of the contract

On 5 March 2015 the Acting Director General wrote to the contractor a notice of termination of contract. On 23 March 2015 contractor was notified of termination of the contract and the contractor was required to demobilize from the site. The employer re-tendered the works.

10.0 Construction of Sigalagala-Musoli-Sabatia – Butere Roads (D260/E390)

10.1 Project Information

The project is in Kakamega County and the road length is approximately 34.25km. The contract was awarded to M/s Associated on 28 March 2011 at a contract price of Kshs.1,809,465,663.30. Work commenced on 6 June 2011 and was to be completed by 6 June 2013. The Engineer representative is Norken International Ltd.

10.2 Delayed Project Delivery

This project was to be completed by 6 June 2013 but this was revised to 9 July 2013 through an extension of time. The latest progress report dated 30 June 2015 show that only 34.99% overall progress has been achieved i.e two years after expiry of contract period. This was noted to have been caused by the contractor undergoing internal financial distress.

10.3 Assignment of Part of the Works

In December 2014, the contractor entered into an agreement with another contractor, East African Development Engineering and Trading co. Ltd to assign part of the works in line with clause 3.1 of the Conditions of Contract. Out of the total road length of 34.25 KM, the assignee was to construct 20 KM at a contract sum of Kshs.1,113,658,597.98. The main contractor will thus only handle 14.25 Km. The

assignee was given 18 Months to complete the works. This by effect means the contract period has been extended by default without any claim of time on the side of the contractor.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Kenya Rural Roads Authority as at 30 June 2015, 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 Act, 2007.



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

Nairobi

30 June 2016

Statement of Financial Performance

For the year ended 30 June 2015

	Note	2014-2015 Shs'000	2013-2014 Shs'000
Revenue			
Revenue from Non Exchange Transactions			
Road Maintenance Levy Fund	6	9,841,398	9,267,053
Government Grants	7	16,228,534	14,572,841
Donor Grants	8	1,156,938	683,022
Total Revenue from Non Exchange Transactions		<u>27,226,870</u>	<u>24,522,915</u>
Revenue from Exchange Transactions			
Finance Income	9	138,340	67,082
Other income	10	62,534	82,232
Rental Revenue	11	981	1,248
Total Revenue from Exchange Transactions		<u>201,855</u>	<u>150,562</u>
Total Revenue		<u>27,428,726</u>	<u>24,673,478</u>
Expenses			
Road Works costs	12	22,668,689	23,855,771
Directors' Costs	13	14,300	19,285
Employment Costs	14	1,486,970	1,430,607
Depreciation and amortization expense	15	51,788	101,383
Repairs and maintenance	16	39,865	42,739
Other Operating Costs	17	267,254	240,298
Total Expenditure		<u>24,528,866</u>	<u>25,690,083</u>
Operating Surplus /deficit for the year		<u>2,899,859</u>	<u>(1,016,606)</u>

The significant accounting policies on pages and the notes on pages 52 to 80 form an integral part of these financial statements.

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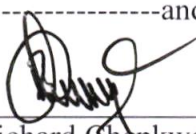
Statement of Financial Position

As at 30 June 2015


	Note	2014-2015 Shs'000	2013-2014 Shs'000 (Restated)
ASSETS			
Current Assets			
Cash and cash equivalents	18	7,948,274	7,693,508
Receivables from exchange transactions	19	3,848,093	3,661,313
Receivables from non exchange transactions	19	3,313,941	5,369,212
Inventories	20	4,996	4,150
		<u>15,115,304</u>	<u>16,728,183</u>
Non-Current Assets			
Property Plant and Equipment	21	179,763	212,265
		<u>179,763</u>	<u>212,265</u>
Total Assets		<u>15,295,067</u>	<u>16,940,448</u>
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	22	4,160,303	8,754,182
Employee benefit obligation	23	60,057	11,418
		<u>4,220,360</u>	<u>8,765,600</u>
Net Assets		<u>11,074,708</u>	<u>8,174,848</u>
REPRESENTED BY:			
Capital grants	2(q)	382	7,230
Staff Mortgage Fund	2(q)	193,996	175,996
Accumulated Surplus	24	10,880,330	7,991,622
Total Net Assets and Liabilities		<u>11,074,708</u>	<u>8,174,848</u>

The significant accounting policies on pages and the notes on pages 52 to 80 form an integral part of these financial statements.

The financial statements on pages 47 to 80 were approved for issue by the board of directors on -----and were signed on their behalf by:



Eng. Richard Chepkwony
Chairman



Eng. J.O. Ogango
Director General

Statement of Changes in Net Assets

For the Year Ended 30 June 2015

	Note	Accumulated Surplus Shs '000	Capital Fund Shs '000	Staff Mortgage Fund Shs '000	Total Shs '000
Year ended 30th June 2015					
At 1st July 2014					
As previously stated		7,917,887	80,966	175,996	8,174,849
Prior Year adjustment	25	73,736	(73,736)	-	-
As restated		7,991,623	7,230	175,996	8,174,849
Transfer to Staff mortgage Fund		(18,000)	-	18,000	-
Depreciation transfer	25	6,848	(6,848)	-	-
Surplus for the year		2,899,859	-	-	2,899,859
At 30th June 2015		10,880,330	382	193,996	11,074,708
Year ended 30th June 2014					
At 1st July 2013					
As previously stated		8,934,492	80,966	175,996	9,191,454
Accumulated depreciation	25	65,456	(65,456)	-	-
Depreciation for the year	25	8,280	(8,280)	-	-
As restated		9,008,228	7,230	175,996	9,191,454
Deficit for the year		(1,016,606)	-	-	(1,016,606)
At 30th June 2014 (Restated)		7,991,622	7,230	175,996	8,174,848

The significant accounting policies on pages and the notes on pages 52 to 80 form an integral part of these financial statements. Report of the Auditor General - page 45-46

Statement of Cash Flows

For the Year Ended 30 June 2015

		2014-2015 Shs'000	(Restated) 2013-2014 Shs'000
	Note	Shs	Shs
Cash flows from operating activities			
Surplus for the year		2,899,859	(1,016,606)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	21	51,788	101,383
Interest Income		(138,340)	(67,082)
Changes in operating assets and liabilities			
Receivables from exchange transactions		(186,781)	(131,473)
Receivables from non exchange transactions		2,055,271	(2,873,867)
Inventories		(845)	(70)
Payables from exchange transactions		(4,593,879)	6,036,974
Employee benefit obligation		48,639	5,219
		<u>135,712</u>	<u>2,054,478</u>
Net cash from operating activities			
Cash flows from investing activities			
Interest Income		138,340	67,082
Purchases of Property Plant and equipment	21	(19,286)	(10,038)
		<u>119,054</u>	<u>57,044</u>
Net cash used in investing activities			
Net increase (decrease) in cash and cash equivalents		254,766	2,111,523
Cash and cash equivalents at start of year		<u>7,693,508</u>	<u>5,581,985</u>
Cash and cash equivalents at end of year	18	<u>7,948,274</u>	<u>7,693,508</u>

The significant accounting policies and the notes on pages 52 to 80 form an integral part of these financial statements.

Report of the Auditor General - page 45-46

Statement of Comparison of Budget And Actual Amount

		Original Budget 2014-2015 Shs'000	Adjustments 2014-2015 Shs'000	Final Budget 2014-2015 Shs'000	Actual on Comparable basis 2014-2015 Shs'000	Performamnce Difference 2014-2015 Shs'000	% Varriance 2014-2015 Shs'000
Revenue	Note						
Road Maintenance Levy Fund		9,686,525		9,686,525	9,841,398	(154,873)	(2%)
Development partners Grant		17,500,000	4,019,130	21,519,130	16,228,534	5,290,596	25%
Donor Grants		2,824,000		2,824,000	1,156,938	1,667,062	59%
Finance Income		60,000		60,000	138,340	(78,340)	(131%)
Other income		60,000		60,000	62,534	(2,534)	(4%)
Rental Revenue		729		729	981	(252)	(35%)
Total Revenue		30,131,254	4,019,130	34,150,383	27,428,726	6,721,658	20%
						-	
Expenses							
Road Works costs		30,000,000		30,000,000	22,668,689	7,331,311	24%
Directors' Costs		15,000		15,000	14,300	700	5%
Employment Costs		1,500,000		1,500,000	1,486,970	13,030	1%
Depreciation and arnotization expense		-		-	51,788	(51,788)	-
Repairs and maintenance		50,000		50,000	39,865	10,135	20%
Other Operating Costs		300,000		300,000	267,254	32,746	11%
Total Expenditure	7	31,865,000	-	31,865,000	24,528,866	7,336,134	23%
Surplus for the year		(1,733,746)	4,019,130	2,285,383	2,899,859	(614,476)	

Notes to the Financial Statements

1. Statement of compliance and basis of preparation

Section 192 of the Public Finance Management Act 2012 provided for the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for the state organs operating as Commercial Business Entities and the International Public Sector Reporting Standards (IPSAS) for non-commercial entities, the entity has adopted the pronouncements by the International Public Sector Accounting Standards Board (IPSASB), in preparation of its current year financial statements.

The Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) issued by International Public Sector Accounting Standards Board (IPSASB), the Public Financial Management Act, 2012, Public Audit Act, 2003 and Kenya Roads Act 2007.

IPSAS 17 provides a transition period of five years for Entities implementing accrual accounting for the first time and allows the entity not to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.

Due to difficulties in compiling comprehensive information on the existence and valuation of road infrastructure assets owned by the authority, the authority has elected not to recognize road infrastructure asset in the current year.

2. Basis of Preparation

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

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

a) Presentation of Financial Statements

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

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

The disclosure on risks are presented in the financial risk management objectives and policies contained in note 6.

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 2014, Kenya Rural Roads Authority 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-‘Presentation of Financial Statements’ which states that the scope of application is for ‘all public sector entities other than Government Business Enterprises’.

b) 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 Authority is not required to publicly avail the approved operations budget; however, the Authority has elected to disclose its budget in the statement of comparison of budget and actual amounts.

c) Taxation

The Authority is a state corporation operating as regulatory/ non commercial entity and therefore not subject to tax in accordance with the taxation laws.

d) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency, which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are reported at the statement of financial position reporting date by applying the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis through the statement of financial performance in the year in which they arise.

e) Revenue recognition

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

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

i) Road Maintenance Levy Fund

Receipts from the Road Maintenance Levy Fund comprise of 32% of collections from the Road Maintenance Levy Fund administered by the Kenya Roads Board in accordance with the Kenya Roads Board act 1999.

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

ii) Agricultural Cess

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

iii) Transfers from Government and other entities

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

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

iv) Interest Income

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

v) Rental Income

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

f) Financial Instruments

(i) Financial assets

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

Receivables

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

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

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

The carrying value less discounts and any impairment provision of impairment is assumed to approximate their fair values. For financial instruments such as short term receivables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value.

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

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

(ii) Financial Liabilities

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

Payables

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

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

g) Provisions

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

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

Contingent Liabilities

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

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements.

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

h) Operating leases

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

i) Provision for liabilities and charges

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

j) Property, plant and equipment

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

hardware is capitalised as part of the computer equipment. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

	Rate - %
Buildings	2.5%
Computers	33.3%
Furniture and Fittings	12.5%
Technical Equipment	12.5%
Motor Vehicles	25.0%

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

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

I) Specialised Public Service Assets-Infrastructure Assets

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

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

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

measure of the capacity of an asset to provide monetary benefits to those that hold or own that asset.

IPSAS 17 provides a transition period of five years for Entities implementing accrual accounting for the first time and allows the entity not to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.

Due to difficulties in compiling comprehensive information on the existence and valuation of road infrastructure assets owned by the Authority, the Authority has elected to not to recognize road infrastructure asset in the current year.

m) Construction contracts

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

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

The Authority uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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

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

n) Impairment of Non-Financial Assets

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

indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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

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

o) Inventories

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

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

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

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

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

p) Cash and Cash Equivalents

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

q) Nature and purpose of reserves

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

i) Staff Mortgage Fund

The Authority established independently managed staff Mortgage Scheme Funds for members of staff. The scheme is based on a minimum cash balance at the Kenya Commercial Bank account commensurate with the mortgage amount. This cash balance, built up for the scheme as a revolving fund, is limited to a maximum of Ksh 250 million.

During the year the Board authorised transfer of Ksh 18 million from the accumulated surplus to the staff mortgage fund (2013-2014: Nil)

ii) Capital Fund

At inception, the Authority received a grant of Ksh 80.9 Million from the development partners in form of Motor Vehicles and Office equipment; the amortized balance as at 30th June 2015 was Ksh. 0.382 Million.

iii) Accumulated surpluses

Accumulated surpluses of Kshs 10,880 Million (2013-2014- 7,992 Million) represent excess operating revenue over expenditure which has accumulated over the years. These funds are available for utilisation in the Authority's operations in the subsequent years. (Refer to note 24)

r) Changes in accounting policies and estimates

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

s) Employee Benefits

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

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

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

The total expense recognized in the income statement of Shs121.8 Million (2013-2014: Shs116.7 Million) represents contributions payable to the plan by the Authority at rates specified in the rules of the plan. The expense has been included within the staff pension costs under staff costs.

t) Comparatives

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

3. Critical Accounting Estimates, Judgements and Assumptions

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

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

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

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

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

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

(b) Critical Accounting Estimates and Assumptions

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

(i) Contingent Liabilities

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

(ii) Provision for Doubtful Debts

The Authority reviews its receivables to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due. Where necessary, an estimation of

the amounts irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the Board of Directors.

(iii) Other Provisions

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

(iv) Impairment Losses

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

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

4. Segment reporting

The core business of the Kenya Rural Roads Authority continues to be management of rural roads together with other mandates as stipulated in the Kenya Roads Act 2007.

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

5. Financial risk management objectives and policies

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

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

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

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

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

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

The financial management objectives and policies are as outlined below:

a) Liquidity Risk

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

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

The Authority's has adopted an overall balance sheet approach which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, cash

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flows and interest rate considerations. The Authority's liquidity and funding management process includes:

- Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding, maintaining balance sheet liquidity ratios,
- Maintaining/soliciting for a diverse range of funding sources with adequate back up facilities,

The Authority has an established corporate governance structure and process of managing risks regarding guarantees and contingent liabilities.

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

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

	Less Than 1 Month	Between 1-3 months	Between 3-12 Months	Over One Year
Due to Contractors	-	-	2,151,358	-
Other Trade payables	-	82,437	-	-
Staff Creditors	795	-	-	-
Tender and Performance security Bonds	-	633	-	-
Contract Retention	-	-	-	1,837,863
Other Payables	-	87,216	-	-
	<u>795</u>	<u>170,287</u>	<u>2,151,358</u>	<u>1,837,863</u>

Year Ended 30 June 2014

	Less Than 1 Month	Between 1-3 months	Between 3-12 Months	Over One Year
Due to Contractors	-	-	7,269,875	-
Other Trade payables	-	22,695	-	-
Staff Creditors	1,781	-	-	-
Tender and Performance security Bonds	-	553	-	-
Contract Retention	-	-	-	1,347,589
Other Payables	-	111,690	-	-
	<u>1,781</u>	<u>134,937</u>	<u>7,269,875</u>	<u>1,347,589</u>

b) Market Risk

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

(i) Currency Risk

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

(ii) Price Risk

Kenya Roads Board collects Kshs. 9 per litre of diesel and petrol imported into the country, 32% of which is disbursed to the Authority. The Authority is exposed to the extent that the levy on diesel and petrol is reduced or eliminated due to changes in the international fuel prices, inflation or other macro indicators.

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

(iii) Interest Rate Risk

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

c) Credit Risk

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

Year Ended 30 June 2015

	Fully Performing	Past Due But Not impaired	Past due and Impaired	Total
Advances to Staff	3,945			
Contractors advances	3,848,093	-	-	3,848,093
Other Receivables	3,273,844	-	-	3,273,844
Deposits and Prepayments	36,152			36,152
Cash at Bank	7,948,274	-	-	7,948,274
	<u>15,110,308</u>	<u>-</u>	<u>-</u>	<u>15,106,363</u>

Year Ended 30 June 2014

	Fully Performing	Past Due But Not impaired	Past due and Impaired	Total
Advances to Staff				
Contractors advances	7,467	-	-	7,467
Other Receivables	5,361,537	-	-	5,361,537
Deposits and Prepayments	208			208
Cash at Bank	7,693,508	-	-	7,693,508
	<u>13,062,720</u>	<u>-</u>	<u>-</u>	<u>13,062,720</u>

The ageing analysis of past due but not impaired trade receivables is:

	2014-2015 Shs	2013-2014 Shs
0-3 Months	-	-
3-6 Months	-	-
	<u>-</u>	<u>-</u>

c) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behaviour. The Authority seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility is

supported by the development of overall standards for the management of operational risk in the following areas:

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

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

d) Compliance and Regulatory Risk

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

e) Legal Risk

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

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

6. Road Maintenance Levy

	2014-2015	2013-2014
	Shs'000	Shs'000
10% Constituency Links Roads	1,869,363	2,484,191
10% Special allocation	1,422,993	1,358,608
22% Constituency Roads Fund	4,031,000	5,009,384
Dvelopment Fund	1,000,000	-
Coffee Cess	124,961	14,870
RMLF Operations	1,393,081	400,000
Total Road Maintenance Levy	<u>9,841,398</u>	<u>9,267,053</u>

7. Other Government Grants

	2014-2015	2013-2014
	Shs'000	Shs'000
GOK Development Funds	16,228,534	14,541,841
GOK Recurrent Funds	-	31,000
Total Government Grants	<u>16,228,534</u>	<u>14,572,841</u>

8. Development Partners Grants

L'Agence Française de Développement(AFD)	1,124,639	480,533
German Development Bank(KFW)	32,299	202,489
Total Development Partners'Grants	<u>1,156,938</u>	<u>683,022</u>

9. Finance Income

Interest from fixed deposits	138,340	67,082
Total Finance income	<u>138,340</u>	<u>67,082</u>

10. Other Income

Receipts from sale of tenders	62,534	82,232
Total other income	<u>62,534</u>	<u>82,232</u>

11. Rental Revenue

Receipts from operating lease rental	981	1,248
Total Rental revenue	<u>981</u>	<u>1,248</u>

12. Road works expenses

RMLF 10%-Constituency Link Roads	2,301,498	1,912,263
RMLF 22%-Constituency Roads Fund	4,936,477	6,183,705
RMLF 10%-Special Allocation	1,081,175	1,388,020
Donor Funded Projects	1,305,063	644,824
GoK Development Funds	12,875,117	13,680,571
Coffee Cess	169,358	46,387
Total Road Works Expenses	<u>22,668,689</u>	<u>23,855,771</u>

13. Directors' Costs

	2014-2015	2013-2014
	Shs'000	Shs'000
Executive Directors		
Emoluments	3,887	7,842
	<u>3,887</u>	<u>7,842</u>
Non Executive Directors		
Emoluments	4,195	6,696
Field activities	1,928	1,624
Training	4,290	3,124
	<u>10,413</u>	<u>11,443</u>
Total Directors Costs	<u><u>14,300</u></u>	<u><u>19,285</u></u>

14. Employment Costs

Staff Costs

Salaries and Wages	1,164,410	1,116,724
Pension and Gratuity costs	121,886	116,713
Medical and Insurance	65,671	92,598
Training and Development	30,077	21,288
Travelling and accomodation	88,923	69,314
Other Staff welfare costs	16,003	13,970
Total Staff Costs	<u><u>1,486,970</u></u>	<u><u>1,430,607</u></u>

15. Depreciation and amortization

Property Plant and equipment	51,788	101,383
Total Depreciation Expense	<u><u>51,788</u></u>	<u><u>101,383</u></u>

16. Repairs and maintenance

Office building	3,883	5,075
Furniture and equipment	10,230	9,501
Motor vehicles	25,751	28,162
Total Repairs and Maintenance	<u><u>39,865</u></u>	<u><u>42,739</u></u>

17. Other Operating expenses

	2014-2015	2013-2014
	Shs'000	Shs'000
Public relations and Corporate affairs	4,538	4,003
Audit Fees	2,900	2,900
Advertisement and publicity	6,348	7,203
Rent and Rates	71,256	56,467
Electricity and Water	5,912	4,765
Cleaning and sanitation	4,621	6,888
Fuel and other vehicle running expenses	40,226	39,306
Security	31,623	30,406
Consultancies	2,632	5,406
Legal Fees	3,085	3,938
Printing and Stationery	19,957	27,800
CRC and tender evaluation Expenses	36,715	22,735
Telephone, Internet and Postage	22,180	20,886
Bank Charges	2,277	1,979
Office expenses	12,985	5,613
Total Other Operating expenses	267,254	240,298

18. Cash and cash equivalents

These represent cash held at various banks, as follows:

Cash in hand and Bank	6,754,281	6,155,422
Staff mortgage Fund	193,994	175,995
Fixed term deposits	1,000,000	1,362,091
Total Cash and Cash equivalents	7,948,274	7,693,508

The cash in hand and at bank is held with the following approved commercial banks in Kenya.

Kenya Commercial Bank limited	7,597,674	7,437,686
Equity Bank Kenya Limited	55,910	76,879
Cooperative Bank Kenya Limited	189,573	174,270
NIC Bank Kenya Limited	104,149	3,747
Cash in Hand	969	926
Total cash in hand and bank	7,948,274	7,693,508

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

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in

hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months

	2014-2015 Shs'000	2013-2014 Shs'000
19. Receivables		
Receivables from Exchange transactions		
Contractors advances	3,848,093	3,661,313
Total Receivables from Exchange transactions	<u>3,848,093</u>	<u>3,661,313</u>
Receivables from Non Exchange transactions		
Advances to Staff	3,945	7,467
Deposits and Prepayments	36,152	208
Other Receivables	3,273,844	5,361,537
Total Receivables from Non Exchange transactions	<u>3,313,941</u>	<u>5,369,212</u>
Total receivables	<u>7,162,034</u>	<u>9,030,525</u>

Receivables constitute short term liquid assets which are recoverable within one year. Other receivables represent development grants due from the National Government (Kshs 1.8 billion, 2013-2014: Ksh 5.2 billion) and RMLF funds from Kenya Roads Board for road works and operations (Ksh 1.473 Billion, 2013-2014:160 million)

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Authority does not hold any collateral as security.

The aged analysis of receivables is as follows:

	0-3 Months Shs'000	3-12 Months Shs'000	Over 12 Months Shs'000	Total Shs'000
Contractors advances	-	3,848,093	-	3,848,093
Advances to Staff	3,945	-	-	3,945
Deposits and Prepayments	-	36,152	-	36,152
Other Receivables	3,273,844	-	-	3,273,844
Total	<u>3,277,789</u>	<u>3,884,245</u>	<u>-</u>	<u>7,162,034</u>

20. Inventories

Consumable stores	4,996	4,150
Total Inventories	<u>4,996</u>	<u>4,150</u>

21. Property Plant and equipment

Year ended 30 June 2015	Building	Furniture and Fittings	Motor Vehicles	Office Equipment	Computers and Software	Plant and Machinery	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Cost							
At 1st July 2014	80,216	114,304	301,160	19,554	51,471	51,422	618,126
Additions	7,452	2,135	-	4,616	4,689	395	19,286
At 30th June 2015	<u>87,667</u>	<u>116,439</u>	<u>301,160</u>	<u>24,169</u>	<u>56,160</u>	<u>51,817</u>	<u>637,412</u>
Depreciation							
At 1st July 2014	5,072	52,582	275,330	8,124	39,456	25,296	405,861
Charge for the year	2,192	14,555	19,035	3,021	6,508	6,477	51,788
At 30th June 2015	<u>7,264</u>	<u>67,137</u>	<u>294,365</u>	<u>11,146</u>	<u>45,964</u>	<u>31,773</u>	<u>457,649</u>
Net Book Value							
At 30th June 2015	<u>80,403</u>	<u>49,301</u>	<u>6,795</u>	<u>13,024</u>	<u>10,195</u>	<u>20,044</u>	<u>179,763</u>

The gross carrying amount of fully depreciated property, plant and equipment amounted to Kshs 21,108,731

Property Plant and equipment

	Building	Furniture and Fittings	Motor Vehicles	Office Equipment	Computers and Software	Plant and Machinery	Total
Year ended 30 June 2014	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Cost							
At 1st July 2013	67,664	111,455	301,160	19,077	46,163	51,423	608,088
Additions	400	2,849	0	477	5,308	(1)	10,038
Transfer from work in progress	12,152	-	-	-	-	-	-
At 30th June 2014	<u>80,216</u>	<u>114,304</u>	<u>301,160</u>	<u>19,554</u>	<u>51,471</u>	<u>51,422</u>	<u>618,126</u>
Depreciation							
At 1st July 2013	3,067	38,295	211,294	5,660	27,294	18,868	304,478
Charge for the year	2,005	14,288	64,036	2,465	12,162	6,428	101,383
At 30th June 2014	<u>5,072</u>	<u>52,582</u>	<u>275,330</u>	<u>8,124</u>	<u>39,456</u>	<u>25,296</u>	<u>405,861</u>
Net Book Value							
At 30th June 2014	<u>75,143</u>	<u>61,721</u>	<u>25,830</u>	<u>11,429</u>	<u>12,015</u>	<u>26,126</u>	<u>212,265</u>

22. Payables

	2014-2015	2013-2014
	Shs'000	Shs'000
Current		
Due to Contractors	2,151,358	7,269,875
Other Trade payables	82,437	22,695
Staff Creditors	795	1,781
Tender and Performance security Bonds	633	553
Contract Retention	1,837,863	1,347,589
Other Payables	87,216	111,690
Total Current	<u>4,160,303</u>	<u>8,754,182</u>

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

23. Employee Benefit obligations

	Leave Benefits	Gratuity	Pension costs	Total
	Ksh'000	Ksh'000	Ksh'000	Ksh'000
As at 1st July 2014	-	11,418	-	11,418
Additional Provisions	-	738	47,901	48,639
Provision utilised	-	-	-	-
As at 30 June 2015	<u>-</u>	<u>12,156</u>	<u>47,901</u>	<u>60,057</u>

24. Analysis of Accumulated Surplus

	Gok development Funds Shs'000	RMLF-22% Constituency Roads Fund Shs'000	RMLF-10% Critical Link Roads Shs'000	Donor Funded Projects Shs'000	AIA Shs'000	Total Shs'000
Year ended 30th June 2015						
At 1st July 2014	4,104,108	1,787,472	1,895,253	204,788	-	7,991,622
Income	16,228,534	4,031,000	5,810,398	1,156,938	201,855	27,428,726
Expenditure	(12,875,117)	(4,936,477)	(5,290,208)	(1,305,063)	(122,000)	(24,528,866)
Transfer to Capital Fund	6,848					6,848
Transfer to Staff Mortgage Fund	-	-	-	-	(18,000)	(18,000)
Fund balance as at 30th June 2015	<u>7,464,373</u>	<u>881,995</u>	<u>2,415,443</u>	<u>56,663</u>	<u>61,855</u>	<u>10,880,330</u>
Year ended 30th June 2014						
At 1st July 2013	3,138,103	2,961,794	2,543,517	166,590	124,488	8,934,492
Income	14,572,841	5,009,384	4,257,669	683,022	150,562	24,673,478
Expenditure	(13,680,571)	(6,183,705)	(4,905,933)	(644,824)	(275,050)	(25,690,083)
Prior year Adjustment	73,736	-	-	-	-	73,736
Fund balance as at 30th June 2014	<u>4,104,108</u>	<u>1,787,472</u>	<u>1,895,253</u>	<u>204,788</u>	<u>-</u>	<u>7,991,622</u>

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25. Prior Year adjustment

This relates to accumulated depreciation for property plant and equipment purchased under the capital reserves as indicated below.

	Motor Vehicles	Computers and Software	Furniture and Fittings	Total	Accumulated depreciation
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost					
At 1st July 2014	77,374	2,064	1,528	80,966	
At 30th June 2015	77,374	2,064	1,528	80,966	-
Depreciation					
F/Y 2009-2010	11,254	688	191	12,133	12,133
F/Y 2010-2011	12,686	688	191	13,565	25,699
F/Y 2011-2012	19,344	688	191	20,223	45,921
F/Y 2012-2013	19,344	-	191	19,535	65,456
F/Y 2013-2014	8,089	-	191	8,280	73,736
	70,717	2,064	955	73,736	73,736

26. Related Parties Balances and Transactions

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the Director General and senior managers.

(a) Related party transactions

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

	2014-2015	2013-2014
	Shs'000	Shs'000
(i) Receipt and Transfers		
The Government of Kenya	16,228,534	14,572,841
Kenya Roads Board	9,841,398	9,267,053
	26,069,932	23,839,893

	2014-2015 Shs'000	2013-2014 Shs'000
(ii) Directors Emoluments		
Emoluments - Executive directors	3,887	7,842
Emoluments - Non Executive directors	4,195	6,696
Training and filed activities	6,218	4,747
	<u>14,300</u>	<u>19,285</u>

(iii) Key management personnel compensation

Short term employee benefits	285,410	56,937
Post employment benefits	5,530	10,386
	<u>290,940</u>	<u>67,323</u>

(b) Outstanding balances arising from non exchange transactions

The following were outstanding balances with related parties as at 30th June 2015

Receivable from related parties	<u>3,273,844</u>	<u>5,361,537</u>
Payable to related parties	<u>12,156</u>	<u>11,418</u>

Receivables from related parties can be analysed as follows:

The Government of Kenya	1,800,000	5,200,841
Kenya Roads Board	1,473,844	160,696
Key management personnel	-	-
	<u>3,273,844</u>	<u>5,361,537</u>

Payables to related parties can be analysed as follows:

Key management personnel	<u>12,156</u>	<u>11,418</u>
	<u>12,156</u>	<u>11,418</u>

27. Commitments and Contingent liabilities

(i) Legal matters

The Authority is involved in various legal proceedings with aggregate estimated claims of Kshs 971,814,731. Due to the uncertainty of the outcome of these cases, it is not practically possible to estimate the resulting liabilities and the effect they are likely to have on the results of the Authority's operations, financial position or liquidity. Therefore no provision has been made in the financial statements.

(ii) Guarantees

The Authority guaranteed staff mortgage loans with Kenya Commercial Bank through a cash backed guarantee commensurate with the mortgage amount. The balance of staff mortgage loans as at 30th June 2015 was Ksh132 million.

28. Commitments: operating lease rentals

Non-cancellable operating lease rentals are payable as follows:

	2014-2015	2013-2014
	Shs'000	Shs'000
Within one year	52,789	59,563
Later than one year but within five years	263,947	297,815
	<u>316,736</u>	<u>357,378</u>

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

29. 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.

30. Capital commitments

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

31. Post balance sheet events

On December 11, 2015, the High court in Nairobi issued conservatory orders restraining the Authority and other Road Agencies from implementing or awarding contracts for construction, rehabilitation or maintenance of the roads currently under their jurisdiction

Progress on Follow up of auditor recommendations

The Authority received an unqualified audit report for the financial year 2013/2014 and therefore there were no unresolved matters arising out of the last financial year's audit that required to be reported in the current year.



Eng. Richard Chekwony

Chairman



Eng. J.O. Ogango

Director General

