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REPORT

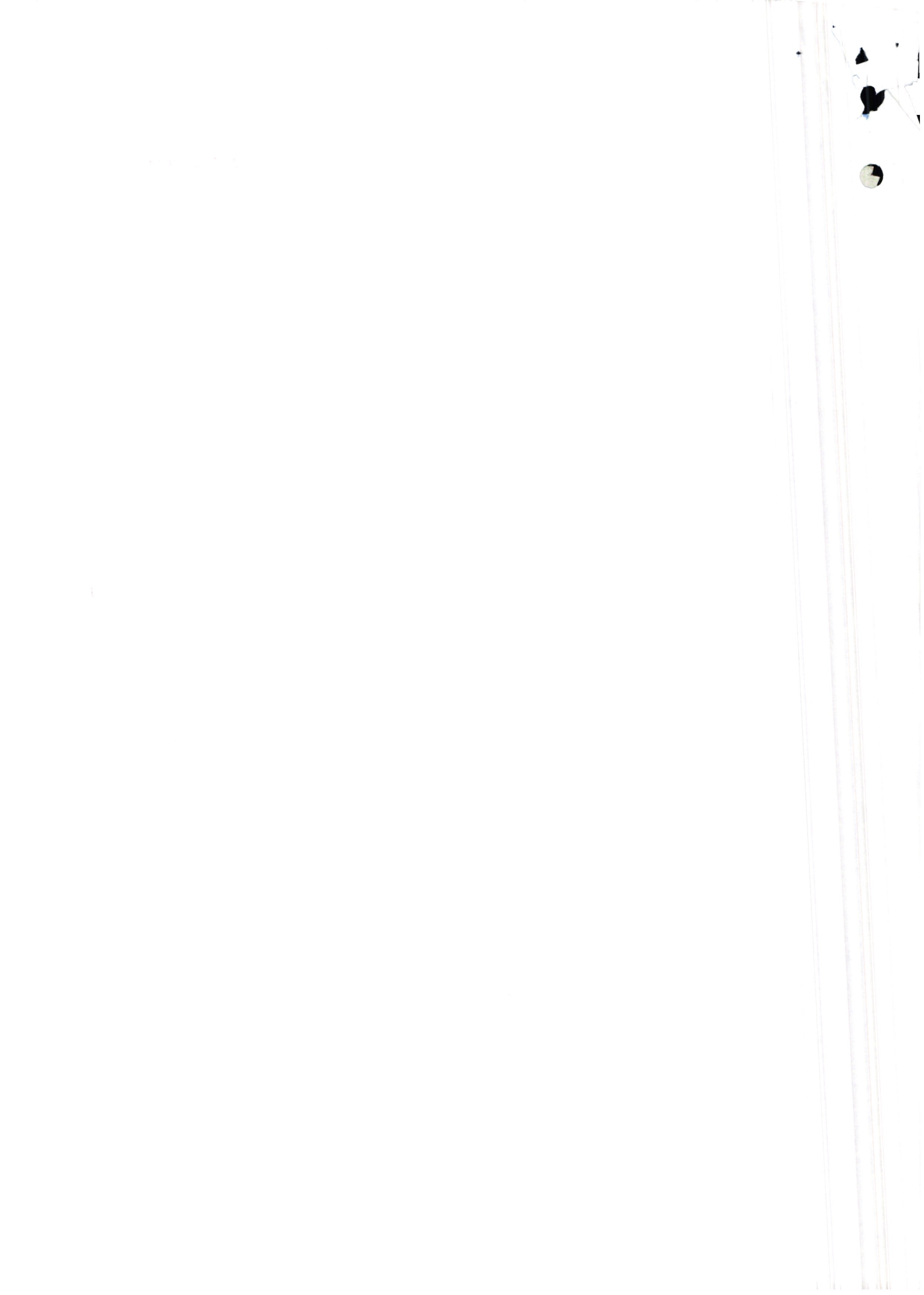
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA RURAL ROADS AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2016**



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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA RURAL ROADS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Rural Roads Authority set out on pages 64 to 94, which comprise the statement of financial position as at 30 June 2016, 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 35 the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. 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 judgement, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk

Report of the Auditor-General on the Financial Statements of Kenya Rural Roads Authority for the year ended 30 June 2016

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

As reported in the previous year, the Authority incurred a total of Kshs.145,664,043 on interest paid on delayed payments. Review of the matter has revealed that a further Kshs.56,424,198 was incurred during the year under audit to pay interest on delayed payments raising the total nugatory expenditure to Kshs.202,088,241.

Although the management has explained that this was occasioned by delayed exchequer releases from the National Treasury, no evidence has been seen on action taken by management to prevent recurrence of this unfavourable situation which has constrained implementation of the Authority's programme by spending budgetary allocations on nugatory expenditure.

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

The project was awarded to a contractor at a contract sum of Kshs.818,445,018 and commenced on 10th October 2012 with expected date of completion as 10 February 2016 revised to 10 April 2016.

Examination of the project file revealed the following:

2.1 Assignment of Works

On 28th January 2015 works valued at Kshs.504,824,286 were assigned to Guangxi Hydroelectric Construction Bureau an indication that the main contractor performance was poor.

2.2 Slow Progress

The latest progress report for 5 August, 2016 showed the overall progress achieved was 31% against elapsed time of 110% of the contract period. The project is behind schedule and this may lead to escalation of project costs.

3.0 Construction of Konyu-Kairo, Nyamari- Kahuri-Iria-Ini- Mugaa-Ini, Gichiche JCN-Kiganjo TBC, Witima-imbaya, Kariki-D430 Jcn (E549) &Gatugi- D430 JCN (E552) Road

The contract covering 68.5KM was awarded to M/S PUT SARAJEVO GEN ENG Company by the Ministry of Roads on 16 July 2009 at a contract sum of Kshs.3,156,933,562. This was later vested to Kenya Rural Roads Authority on 3rd December 2009. Kenya Rural Roads Authority procured, during project implementation, Addenda which revised the project length to 72.5 kilometers and the contract sum to Kshs.3,625,997,085. The works were substantially completed on 2 March 2015 and placed under defects and liability period which was to end on 1 March, 2017.

3.1 Assignment of Works

On 10 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 due to poor performance by the original contractor.

3.2 Interest on Delayed Payments

The contractor has charged a total of Kshs.5,211,178 as interest on delayed payments which is a nugatory expenditure and should not have been a charge to public funds.

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

The Project was awarded to a local contractor at contract sum of Kshs.2,120,325,200 with date of commencement as 31 July 2012 and expected date of completion as 2 February 2015.

4.1 Delayed Project Delivery

Review of the project in the year under audit revealed that overall progress as at 31 July 2016 was at 36% against an elapsed contract period of 160%. This indicates the project is far behind schedule which delay could lead to escalation of costs.

4.2 Interest on Late Payments

The latest payment certificate (No. 15) at the time of audit indicated that interest on delayed payments totaling Kshs.7,001,678 had been incurred, which is a nugatory expenditure.

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

The Project was awarded to a contractor at a contract sum of Kshs.3,149,152,169 revised to Kshs.3,331,783,288 and commenced on 15 July 2011 with expected date of completion as 1 January 2014.

5.1 Assignment of Works

Evidence available indicates that the contractor assigned works valued at Kshs.2,220,926,590.46 (66.64%) to China Wu Yi Company Limited.

5.2 Interest on Late Payments

Review of the latest contractor's payment certificates revealed that Kshs.29,930,244 had been paid to the contractor as interest on delayed payments which payment amounted to nugatory expenditure.

5.3 Delay in Project Implementation

The contract period of 30 months expired in January 2014 but as per the latest progress report dated 30 July 2016 the progress of work was at 96.4% against an elapsed time of 61 months i.e.203% of the contract period. Though the management has indicated that the contractor has submitted two interim extensions of time applications, there was no evidence to show that extensions of time has been granted but liquidated damages have not been recovered from payments made to the contractor in line with the provisions of the contract agreement.

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

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

6.1 Delayed Project Delivery

The contract commenced on 22 June 2007 for a contract period of 35 months. The contract was to end by 13 May 2010 but by 31 July 2015 the contractor had only attained weighted average physical progress of 94%. There was no evidence of approval for extension of time from the Tender Committee. The contractor has

therefore failed to deliver the contract in line with the terms of the contract but the management has not taken any legal action against the contractor.

6.2 Financial Distress of the Contractor

The contractor, KSL International Ltd has been put under receivership as indicated in the Daily Nation on Monday 23 February 2015 page 37. The contractor's yard including the site offices at Kamkuywa, have 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 for Mwatunge Camp in TaitaTaveta which was used in a previous contract.

6.3 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 mutual winding up of 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 mutual winding up of the contract and also undertake a project appraisal and submit a report with recommendations before 27 July 2015 for further action but no evidence was seen on what action had been taken as at the time of audit.

In the circumstances, it has not been possible to confirm whether the public obtained value for money for the expenditure of Kshs.2,622,131,272 already incurred.

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

The Project involved construction of the following roads:

Karisheni-Kakuret-Naromoru (D448)	21.2 KM
Lusoi-Munyu-Kakuret (E171 A)	7.3 km
Ibauini-Mwicwiri-Njoguini (RAR 29)	10.1 km
Gitinga-Kamburuaini-Sarafina (RAR 27)	7.3 km
Total	45.9 km

The project was awarded to a local contractor, at a contract sum of Kshs.2,468,815,445 and commenced on 1 October 2012 with expected date of completion as 30 September 2014.

7.1 Assignment of Works

On 21 April the contractor entered into agreement with East African Development Engineering Trading Co. Ltd to assign to the latter part of the works valued at

Kshs.2,064,537,961 after approval from Director General through letter ref. KeRRA/D&C/3679 dated 9 March 2015. A total of 39.9 KMs were assigned to M/s East African Development as follows:

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>

7.2 Delayed Project Delivery

The main contractor, Kirinyaga Construction Ltd, whose scope was reduced to 6km after assignment of works, had only realized progress of 68% on works as at 30 June 2016 and by which time 45 months (187% of contract period) had elapsed while the assigned contractor's progress was at 16% with elapsed contract time of 14 months (58%). The overall progress for the two contractors as at 30 June 2016 was 24%. The project is therefore behind schedule.

8.0 Rehabilitation and Repair Of Eldoret-Ziwa-Kachibora-Eldoret-Kabenes Road

The Project was awarded to a contractor at a contract sum of Kshs.1,435,212,465 and commenced on 1 September 2011 with expected date of completion as 1 March 2014 later revised to 1 March 2016.

8.1 Scaling down of Works

The initial contract was repackaged into three components as follows:

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

The first section was repackaged as addendum No. 2 which was approved by the CTC on 12 September 2014 and is to be completed under the current contract.. 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. The third section is estimated to cost Kshs.536,046,915 and will be implemented through an annuity programme.

This repackaging of the works brings up the contract sum to Kshs.2,575,110,585.

8.2 Slow Progress

The revised contract period lapsed on 1 March 2016 but the latest progress report dated 30 June 2016 showed that the contractor has realized progress of 96%. The project is behind schedule which could lead to cost overruns.

9.0 Construction of Kibunja-Molo-Olenguruone Road (D316)

The project was awarded to a contractor at a contract sum of Ksh.742,290,293 revised to Kssh.844,344,347,348 and commenced on 6 August 2010 with expected date for completion as 6 February 2016 to cover 51Km.

9.1 Assignment of works

The contractor agreed to sub-contract works valued at Kshs.113,137,134,730 to another contractor, Raflo Services to speed up the progress but the arrangement has still not delivered the project.

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 had 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 in absence of extension of the contract period by the procuring entity.

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

The project is in Kakamega County and the road length is approximately 34.25 km. The contract was awarded to M/s Associated on 28 March 2011 at a contract price of Kshs.1,809,465,663. Works commenced on 6 June 2011 and was to be completed by 6 June 2013.

10.1 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.1,113,658,598. The main contractor was left to handle 14.25 kilometers only. The assignee was given 18 months to complete the works.

10.2 Advance payment

The main contractor was paid an advance of Kshs.180,946,566 and so far Kshs.22,808,548 has been recovered leaving an outstanding amount of Kshs.158,138,018.69.

10.3 Expiry of consultant's contract

The contract for the Engineers representative, Norken International Ltd expired on 1 February 2014 and there was no evidence of extension of contract time.

10.4 Performance/Advance Payment Guarantee

The advance payment and performance guarantee for the main contractor expired on 02 July 2016 but there was no evidence of renewal.

10.5 Delayed Project Completion

The project was to be completed by 6 June 2013 but this was revised to 9 July, 2013 through an extension of the contract period. The latest progress report dated 31 July 2016 shows that only 56% combined progress had been realized by both the main contractor and the assignee, an indication that the project was behind schedule which could lead to escalation of costs.

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 Kenya Rural Roads Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards and comply with Kenya Roads Act, 2007.



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

Nairobi

07 June 2017

Statement of Financial Performance

For the year ended 30 June 2016


	Note	2015-2016 Shs'000	2014-2015 Shs'000 (Restated)
REVENUE			
Revenue from Non Exchange Transactions			
Road Maintenance Levy Fund	6	11,289,659	9,841,398
Government Grants	7	4,113,688	7,046,605
Development partners' Grants	8	1,563,736	1,156,938
Total Revenue from Non Exchange Transactions		<u>16,967,083</u>	<u>18,044,941</u>
Revenue from Exchange Transactions			
Finance Income	9	183,874	138,340
Other income	10	33,798	62,534
Rental Revenue	11	1,389	981
Total Revenue from Exchange Transactions		<u>219,061</u>	<u>201,855</u>
Total Revenue		<u><u>17,186,144</u></u>	<u><u>18,246,796</u></u>
EXPENDITURE			
Road Works costs	12	15,818,555	11,183,556
Directors' Costs	13	15,579	14,300
Employment Costs	14	1,575,680	1,486,970
Depreciation and amortization expense	15	45,621	51,788
Repairs and maintenance	16	45,932	39,865
Other Operating Costs	17	307,202	267,254
Total Expenditure		<u><u>17,808,570</u></u>	<u><u>13,043,733</u></u>
Operating Deficit /Surplus for the year		<u><u>(622,426)</u></u>	<u><u>5,203,063</u></u>


The significant accounting policies on pages and the notes on pages 69 to 94 form an integral part of these financial statements.

Statement of Financial Position as at 30 June 2016

	Note	2015-2016 Shs'000	2014-2015 Shs'000 (Restated)
ASSETS			
Current Assets			
Cash and cash equivalents	18	14,934,930	7,948,274
Receivables from exchange transactions	19	6,514,406	3,848,093
Receivables from non exchange transactions	19	3,462,758	3,313,941
Inventories	20	3,407	4,996
		<u>24,915,500</u>	<u>15,115,304</u>
Non-Current Assets			
Property Plant and Equipment	21	163,549	179,763
Road Infrastructure Assets	22	39,229,092	39,035,081
Capital Work In Progress	23	30,195,144	22,976,051
		<u>69,587,785</u>	<u>62,190,895</u>
Total Assests		<u>94,503,285</u>	<u>77,306,199</u>
REPRESENTED BY:			
LIABILITIES			
Current liabilities			
Payables from exchange transactions	24	2,462,849	2,322,439
Employee benefit obligation	25	58,056	60,057
		<u>2,520,904</u>	<u>2,382,496</u>
Non Current Liabilities			
Payables from exchange transactions	24	2,647,603	1,837,863
		<u>2,647,603</u>	<u>1,837,863</u>
Total Liabilities		<u>5,168,508</u>	<u>4,220,359</u>
NET ASSETS			
Capital grants	3q	-	382
GOK Development Fund	3q	88,064,425	71,193,062
Staff Mortgage Fund	3q	193,996	193,996
Accumulated(Deficit)/ Surplus	3q	1,076,356	1,698,400
		<u>89,334,777</u>	<u>73,085,840</u>
Total Net Assets		<u>89,334,777</u>	<u>73,085,840</u>
Total Net Assets and Liabilities		<u>94,503,285</u>	<u>77,306,199</u>

The significant accounting policies and the notes on pages 69 to 94 form an integral part of these financial statements. The financial statements on pages 64 to 94 were approved for issue by the board of directors on 29th Sept 2016 and were signed on their behalf by:


Eng. Richard Chepkwony
Chairman


Eng. John O. Ogango
Director General

Statement of Changes in Net Assets For the Year Ended 30 June 2016

	Note	Accumulated Surplus Shs'000	GOK Development Fund Shs'000	Capital Fund Shs'000	Staff Mortgage Fund Shs'000	Total Shs'000
Year ended 30th June 2016						
At 1st July 2015						
As previously stated		10,880,330	-	382	193,996	11,074,708
Prior Year adjustment	27	(9,181,930)	71,193,062	-	-	62,011,132
As restated		1,698,400	71,193,062	382	193,996	73,085,840
Funds received during the year		-	16,871,364	-	-	-
Depreciation transfer		382	-	(382)	-	-
Surplus for the year		(622,426)	-	-	-	(622,426)
At 30th June 2016		1,076,356	88,064,425	-	193,996	72,463,414
Year ended 30th June 2015						
At 1st July 2014						
As previously stated		7,917,887	-	80,966	175,996	8,174,849
Transfer from Retained surplus		(62,011,132)	62,011,132	-	-	-
Transfer to Infrastructure Assets		50,525,999	-	-	-	50,525,999
Prior Year adjustment	27	73,736	-	(73,736)	-	-
As restated		(3,493,510)	62,011,132	7,230	175,996	58,700,847
Transfer to Staff mortgage Fund		(18,000)	-	-	18,000	-
Funds received during the year		-	9,181,930	-	-	9,181,930
Depreciation transfer		6,848	-	(6,848)	-	-
Surplus for the year		5,203,063	-	-	-	5,203,063
At 30th June 2015		1,698,400	71,193,062	382	193,996	73,085,839

The significant accounting policies on pages and the notes on pages 69 to 94 form an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended 30 June 2016

		2015-2016 Shs'000	(Restated) 2014-2015 Shs'000
	Note	Shs	Shs
Cash flows from operating activities			
Surplus for the year		(622,426)	5,203,063
<i>Adjustments for:</i>			
<i>Prior Year adjustment</i>			
Depreciation of property, plant and equipment	21	45,621	51,788
Interest Income		(183,874)	(138,340)
Changes in operating assets and liabilities			
Receivables from exchange transactions		(2,806,910)	(186,781)
Receivables from non exchange transactions		(148,817)	2,055,271
Inventories		1,589	(845)
Payables from exchange transactions		1,090,749	(4,593,879)
Employee benefit obligation		(2,001)	48,639
<i>Net cash from operating activities</i>		<u>(2,626,070)</u>	<u>2,438,915</u>
Cash flows from investing activities			
Interest Income		183,874	138,340
Purchases of Property Plant and equipment	21	(29,408)	(19,286)
Addition in Road infrastructure assets		(7,413,104)	-
<i>Net cash used in investing activities</i>		<u>(7,258,637)</u>	<u>119,054</u>
Cash flows from Financing activities			
<i>Capital Grant received</i>		16,871,364	9,181,930
		<u>16,871,364</u>	<u>9,181,930</u>
Net increase (decrease) in cash and cash equivalents		6,986,657	11,739,899
Cash and cash equivalents at start of year		7,948,274	7,693,508
Prior Year adjustment		-	(11,485,133)
Cash and cash equivalents at end of year	18	<u>14,934,931</u>	<u>7,948,274</u>

The significant accounting policies and the notes on pages 67 to 92 form an integral part of these financial statements.

Statement of Comparison of Budget And Actual Amount

	Original Budget 2015-2016 Shs'000	Adjustments 2015-2016 Shs'000	Final Budget 2015-2016 Shs'000	Actual on Comparable basis 2015-2016 Shs'000	Performamnce Difference 2015-2016 Shs'000	% Variance 2015-2016 Shs'000
Revenue						
Road Maintenance Levy Fund	11,289,659		11,289,659	11,289,659	-	0%
GOK Development Fund	18,292,058	3,100,000	21,392,058	20,985,051	407,006	2%
Dev. Partners Grant	2,320,000		2,320,000	1,563,736	756,264	33%
Finance Income	185,000		185,000	183,874	1,126	1%
Other income	50,000		50,000	33,798	16,202	32%
Rental Revenue	1,000		1,000	1,389	(389)	(39%)
Total Revenue	<u>32,137,717</u>	<u>3,100,000</u>	<u>35,237,717</u>	<u>34,057,508</u>	<u>1,180,209</u>	<u>3%</u>
Expenses						
Road Works costs	30,322,399		30,322,399	23,231,659	7,090,739	23%
Directors' Costs	15,000		15,000	15,579	(579)	(4%)
Employment Costs	1,424,010		1,424,010	1,575,680	(151,670)	(11%)
Depreciation and armotization expense	40,000		40,000	45,621	(5,621)	(14%)
Repairs and maintenance	62,500		62,500	45,932	16,568	27%
Other Operating Costs	277,808		277,808	307,202	(29,394)	(11%)
Total Expenditure	<u>32,141,717</u>	<u>-</u>	<u>32,141,717</u>	<u>25,221,674</u>	<u>6,920,043</u>	<u>22%</u>
Surplus for the year	<u>(4,000)</u>	<u>3,100,000</u>	<u>3,096,000</u>	<u>8,835,834</u>	<u>(5,739,834)</u>	

NB: Road works costs includes Infrastructure assets funded by the development fund.
Adjustments on the GOK development Funds relates to additional allocation for the Low Volume Seal Roads 10,000 programme

Notes to the Financial Statements

1. Standards and Interpretations Affecting the Reported results or financial position

a) Application of new and revised International Public Sector Accounting Standards

i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2016*

Several new and revised standards and interpretations were effective during the year. The directors of the Authority have evaluated the impact of the new standards and interpretations and none of them had an impact on the Board's financial statements.

ii) *Expected impact of issued relevant new and amended standards and interpretations but not yet effective as at 30 June 2016*

The directors of the Authority have evaluated the impact of the new standards not yet effective for the year and none of them had an impact on the Board's financial statements.

iii) *Early adoption of standards*

The Authority did not early-adopt any new or amended standards in 2016.

2. Statement of compliance

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

3. 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 5.

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

Starting 1st July 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. The budget is prepared on accrual basis.

c) Taxation

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

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 recognized 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, 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.

vi) Other income

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

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 recognized as receivables.

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

(ii) Financial Liabilities

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

Payables

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

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

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 recognized as assets and are subsequently amortized over the lease period.

i) Provision for liabilities and charges

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

j) Property, plant and equipment

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

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plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

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

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

1) Specialised Public Service Assets-Infrastructure Assets

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

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

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

m) Construction contracts

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

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

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

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

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

n) Impairment of Non-Financial Assets

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

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

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

o) Inventories

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

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

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

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

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

p) Cash and Cash Equivalents

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

q) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements.

The net assets are made of up of designated funds and accumulated reserve which are explained as follows:

i) Staff Mortgage Fund

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

There was no transfer from the accumulated surplus to the staff mortgage fund during the year (2014-2015: 18 Million)

ii) Capital Fund

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

iii) Accumulated surpluses

Accumulated surpluses of Kshs .1,641 Million (2013-2014-Kshs 1,698 Million) represent excess operating revenue over expenditure which has accumulated over the

years. These funds are available for utilization in the Authority's operations in the subsequent years.

iv) Development Fund

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

r) Changes in accounting policies and estimates

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

s) Employee Benefits

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

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

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

The total expense recognized in the income statement of Shs 102.17 Million (2014-2015: Shs122 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

4. 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.

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

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

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

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

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

The financial management objectives and policies are as outlined below:

a) Liquidity Risk

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

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

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

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

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

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

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

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Year Ended 30 June 2016

	Less Than 1 Month	Between 1-3 months	Between 3-12 Months	Over One Year...
Due to Contractors	-	-	1,652,211	-
Other Trade payables	-	137,286	-	-
Staff Creditors	-	-	14,774	-
Tender and Performance security Bonds	-	553	-	-
Contract Retention	-	-	-	2,522,976
Other Payables	-	137,899	-	-
	<u>-</u>	<u>275,738</u>	<u>1,666,984</u>	<u>2,522,976</u>

Year Ended 30 June 2015

	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>

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. 12 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.

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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 2016

	Fully Performing	Past Due But Not impaired	Past due and Impaired	Total
	Sh 000'	Sh 000'	Sh 000'	Sh 000'
Advances to Staff	2,903			
Contractors advances	6,518,087	-	-	6,518,087
Other Receivables	3,332,438	-	-	3,332,438
Deposits and Prepayments	42,592			42,592
Cash at Bank	14,878,647	-	-	14,878,647
	<u>24,774,668</u>	<u>-</u>	<u>-</u>	<u>24,771,765</u>
Gross Financial Assets				<u>24,771,765</u>

Year Ended 30 June 2015

	Fully Performing	Past Due But Not impaired	Past due and Impaired	Total
	Sh 000'	Sh 000'	Sh 000'	Sh 000'
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>
Gross Financial Assets				<u>15,106,363</u>

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

	2015-2016	2014-2015
	Shs	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 behavior.

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

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

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

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

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

d) Compliance and Regulatory Risk

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

e) Legal Risk

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

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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

	2015-2016	2014-2015
	Shs'000	Shs'000
10% Constituency Links Roads	2,378,015	1,869,363
10% Special allocation	1,952,645	1,422,993
22% Constituency Roads Fund	5,231,492	4,031,000
Development Fund	-	1,000,000
Coffee Cess	148,188	124,961
RMLF Operations	1,579,318	1,393,081
Total Road Maintenance Levy	<u>11,289,659</u>	<u>9,841,398</u>

7. Other Government Grants

Development Projects	16,871,364	9,181,930
Maintenance Projects	4,113,688	7,046,605
Total Government Grants	<u>20,985,051</u>	<u>16,228,534</u>
Transfer to Development Fund	(16,871,364)	(9,181,930)
	<u>4,113,688</u>	<u>7,046,605</u>

8. Development Partners Grants

European Union	403,426	-
L'Agence Française de Développement(AFD)	1,050,589	1,124,639
German Development Bank(KFW)	109,721	32,299
Total Development Partners'Grants	<u>1,563,736</u>	<u>1,156,938</u>

9. Finance Income

Interest from fixed deposits	183,874	138,340
Total Finance income	<u>183,874</u>	<u>138,340</u>

10. Other Income

Receipts from sale of tenders	33,168	62,534
Other Levies	630	-
Total other income	<u>33,798</u>	<u>62,534</u>

11. Rental Revenue

Receipts from operating lease rental	1,389	981
Total Rental revenue	<u>1,389</u>	<u>981</u>

	2015-2016 Shs'000	2014-2015 Shs'000
12. Road works expenses		
RMLF 10%-Constituency Link Roads	1,760,376	2,301,498
RMLF 22%-Constituency Roads Fund	3,588,833	4,936,477
RMLF 10%-Special Allocation	1,172,371	1,081,175
Donor Funded Projects	1,131,818	1,305,063
GoK Development Funds	8,099,157	1,389,984
Coffee Cess	66,000	169,358
Total Road Works Expenses	<u><u>15,818,555</u></u>	<u><u>11,183,556</u></u>
13. Directors' Costs		
Executive Directors		
Emoluments	<u>3,012</u>	<u>3,887</u>
	<u>3,012</u>	<u>3,887</u>
Non Executive Directors		
Emoluments	7,040	4,195
Training and field activities	<u>5,527</u>	<u>6,218</u>
	<u>12,567</u>	<u>10,413</u>
Total Directors Costs	<u><u>15,579</u></u>	<u><u>14,300</u></u>
14. Employment Costs		
Salaries and Wages	1,178,386	1,164,410
Pension and Gratuity costs	103,679	121,886
Medical and Insurance	94,870	65,671
Training and Development	37,887	30,077
Travelling and accomodation	131,500	88,923
Other Staff welfare costs	29,358	16,003
Total employment Costs	<u><u>1,575,680</u></u>	<u><u>1,486,970</u></u>
15. Depreciation		
Property Plant and equipment	<u>45,621</u>	<u>51,788</u>
Total Depreciation Expense	<u><u>45,621</u></u>	<u><u>51,788</u></u>
16. Repairs and maintenance		
Office building	7,640	3,883
Furniture and equipment	7,548	10,230
Motor vehicles	<u>30,744</u>	<u>25,751</u>
Total Repairs and Maintenance	<u><u>45,932</u></u>	<u><u>39,865</u></u>

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	2015-2016 Shs'000	2014-2015 Shs'000
17. Other Operating expenses		
Public relations and Corporate affairs	3,474	4,538
Audit Fees	3,000	2,900
Advertisement and publicity	5,619	6,348
Rent and Rates	57,246	71,256
Electricity and Water	5,837	5,912
Cleaning and sanitation	4,522	4,621
Fuel and other vehicle running expenses	51,888	40,226
Security	64,015	31,623
Consultancies	6,418	2,632
Legal Fees	3,937	3,085
Printing and Stationery	30,445	19,957
CRC and tender evaluation Expenses	35,649	36,715
Telephone, Internet and Postage	25,490	22,180
Bank Charges	3,520	2,277
Office expenses	6,141	12,985
Total Other Operating expenses	<u>307,202</u>	<u>267,254</u>

18. Cash and cash equivalents

These represent cash held at various banks, as follows:

Cash in hand and Bank	12,697,938	6,754,281
Staff mortgage Fund	193,993	193,994
Fixed term deposits	<u>2,043,000</u>	<u>1,000,000</u>
Total Cash and Cash equivalents	<u>14,934,930</u>	<u>7,948,274</u>

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

Kenya Commercial Bank limited	14,570,402	7,597,674
Equity Bank Kenya Limited	55,910	55,910
Cooperative Bank Kenya Limited	189,573	189,573
NIC Bank Kenya Limited	104,149	104,149
Cash in Hand	<u>14,897</u>	<u>969</u>
Total cash in hand and bank	<u>14,934,930</u>	<u>7,948,274</u>

The 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

	2015-2016 Shs'000	2014-2015 Shs'000
19. Receivables		
a) Receivables from Exchange transactions		
Contractors advances	<u>6,514,406</u>	<u>3,848,093</u>
b) Receivables from Non Exchange transactions		
Advances to Staff	6,584	3,945
Deposits and Prepayments	121,592	36,152
Other Receivables	3,334,581	3,273,844
Total Receivables from Non Exchange transactions	<u>3,462,758</u>	<u>3,313,941</u>
Total receivables	<u>9,977,164</u>	<u>7,162,034</u>

Receivables constitute short term liquid assets which are recoverable within one year. Other receivables represent development grants due from the National Government (Kshs 3.2 billion, 2014-2015: Ksh 1.8 billion). The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Authority does not hold any collateral as security. The aged analysis of receivables is as follows:

	0-3 Months Shs'000	3-12 Months Shs'000	Over 12 Months Shs'000	Total Shs'000
Contractors advances	-	6,514,406	-	6,514,406
Advances to Staff	6,584	-	-	6,584
Deposits and Prepayments	-	121,592	-	121,592
Other Receivables	3,334,581	-	-	3,334,581
Total	<u>3,341,166</u>	<u>6,635,998</u>	<u>-</u>	<u>9,977,164</u>

	2015-2016 Shs'000	2014-2015 Shs'000
20. Inventories		
Consumable stores	<u>3,407</u>	<u>4,996</u>

21. Property Plant and equipment

	Building	Furniture and Fittings	Motor Vehicles	Office Equipment	Computers and Software	Plant and Machinery	Total
Year ended 30 June 2016	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost							
At 1st July 2015	87,667	116,439	301,160	24,169	56,160	51,817	637,412
Additions	-	1,166	-	2,785	24,903	554	29,408
At 30th June 2016	<u>87,667</u>	<u>117,605</u>	<u>301,160</u>	<u>26,954</u>	<u>81,062</u>	<u>52,371</u>	<u>666,820</u>
Depreciation							
At 1st July 2015	7,264	67,137	294,365	11,146	45,964	31,773	457,649
Charge for the year	<u>2,192</u>	<u>14,701</u>	<u>6,795</u>	<u>3,369</u>	<u>12,018</u>	<u>6,546</u>	<u>45,621</u>
At 30th June 2016	<u>9,456</u>	<u>81,838</u>	<u>301,160</u>	<u>14,515</u>	<u>57,983</u>	<u>38,319</u>	<u>503,271</u>
Net Book Value							
At 30th June 2016	<u>78,212</u>	<u>35,767</u>	<u>(0)</u>	<u>12,439</u>	<u>23,080</u>	<u>14,052</u>	<u>163,549</u>

The gross carrying amount of fully depreciated property, plant and equipment amounted to Kshs 320,733,019

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	<u>7,452</u>	<u>2,135</u>	<u>-</u>	<u>4,616</u>	<u>4,689</u>	<u>395</u>	<u>19,286</u>
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	<u>2,192</u>	<u>14,555</u>	<u>19,035</u>	<u>3,021</u>	<u>6,508</u>	<u>6,477</u>	<u>51,788</u>
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>

	2015-2016 Shs'000	2014-2015 Shs'000
22. Road Infrastructure Assets		
At 1st July	-	-
Prior year adjustment	39,035,081	-
Transfer from retained surplus	-	37,092,195
Transfer from work in progress	194,011	1,942,885
	<u>39,229,092</u>	<u>39,035,081</u>
23. Capital Work In Progress		
At 1st July	-	-
Prior year adjustment	22,976,051	-
Transfer from retained surplus	-	13,433,803
Additions	7,413,104	11,485,133
Transfer to Road Infrastructure Asset	(194,011)	(1,942,885)
	<u>30,195,144</u>	<u>22,976,051</u>
24. Payables		
Current:		
Due to Contractors	2,171,702	2,151,358
Other Trade payables	135,235	82,437
Staff Creditors	15,731	795
Tender and Performance security Bonds	553	633
Other Payables	139,627	87,215
Total current	<u>2,462,849</u>	<u>2,322,439</u>
Non Current:		
Contract Retention	2,647,603	1,837,863
Total Non Current	<u>2,647,603</u>	<u>1,837,863</u>
Total Payables	<u>5,110,452</u>	<u>4,160,302</u>

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

25. Employee Benefit obligations

	Leave Benefits Ksh'000	Gratuity Ksh'000	Pension costs Ksh'000	Total Ksh'000
As at 1st July 2015	-	12,156	47,901	60,057
Additional Provisions	-	(2,001)	-	(2,001)
Provision utilised	-	-	-	-
As at 30 June 2016	-	10,154	47,901	58,056

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.

	2015-2016 Shs'000	2014-2015 Shs'000
(i) Receipt and Transfers		
The Government of Kenya	20,985,051	16,228,534
Kenya Roads Board	11,289,659	9,841,398
	<u>32,274,711</u>	<u>26,069,932</u>
(ii) Directors Emoluments		
Emoluments -Executive directors	3,012	3,887
Emoluments - Non Executive directors	7,040	4,195
Training and filed activities	5,527	6,218
	<u>15,579</u>	<u>14,300</u>
(iii) Key management personnel compensation		
Short term employee benefits	221,910	285,410
Post employment benefits	-	5,530
	<u>221,910</u>	<u>290,940</u>

(b) Outstanding balances arising from non-exchange transactions

The following were outstanding balances with related parties as at 30th June 2016

*Kenya Rural Roads Authority
Annual Report and Financial statements
For the year ended 30th June 2016*

	2015-2016 Shs'000	2014-2015 Shs'000
Receivable from related parties	<u>3,284,369</u>	<u>3,273,844</u>
Payable to related parties	<u>10,154</u>	<u>12,156</u>
Receivables from related parties can be analysed as follows:		
The Government of Kenya	3,284,369	1,800,000
Kenya Roads Board	-	1,473,844
Key management personnel	<u>-</u>	<u>-</u>
	<u>3,284,369</u>	<u>3,273,844</u>
Payables to related parties can be analysed as follows:		
Key management personnel	<u>10,154</u>	<u>12,156</u>

27. Prior year adjustment

The Authority deals in construction of roads infrastructure which falls in the category of specialized public service assets (International Valuation Standards Committee) and constitutes part of property, plant and equipment within the meaning of IPSAS. Like other assets, all specialized public service assets provide either service potential or future economic benefit. Service potential is a measure of the capacity of an asset to provide services or benefits to those that use that asset.

Previously, the costs related to construction of roads were accounted for in the statement of financial performance. During the financial year 2015-2016, the Authority made a change to the accounting policy for noncurrent assets which included capitalization of road infrastructure assets in full compliance with IPSAS.

The standard requires voluntary change in accounting policy to be applied retrospectively and “comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied” Further the standard requires the entity to “adjust the opening balance of each affected component of net assets/equity for the earliest period presented”.

The prior year adjustment thus relates to reclassification of the road works costs from accumulated surplus to the Development fund while capitalising the same in compliance with the standard.

28. Commitments and Contingent liabilities

(i) Legal matters

The Authority is involved in various legal proceedings with aggregate estimated claims of Kshs 1,229,423,993. 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. As at 30th June 2016, the utilization of the fund stood 90% comprising of Ksh 119.2 Million mortgage loans and Ksh 56.3 Million at approval stage.

29. Commitments: operating lease rentals

Non-cancellable operating lease rentals are payable as follows:

	2015-2016 Shs'000	2014-2015 Shs'000
Within one year	52,789	52,789
Later than one year but within five years	<u>288,696</u>	<u>263,947</u>
	<u><u>341,486</u></u>	<u><u>316,736</u></u>

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

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

	2015-2016 Shs'000
Surplus as per statement of comparison of budget and actual amount	8,835,834
Add: Transfer of road work costs to Infrastructure assets	7,413,104
Less: Transfer to Development Fund	<u>(16,871,364)</u>
Deficit as per Statement of Financial Performance	<u>(622,426)</u>

31. 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.

32. Capital commitments

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

33. Post balance sheet events

On August 18 2016 the National Assembly passed The Roads Bill 2015. The purpose of this Bill is to give effect to the provisions of the Fourth Schedule to the Constitution in relation to the

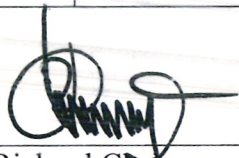
functions on roads and to review and rationalize the legal and institutional framework for the management of the road network in Kenya. The bill once assented to by the President is expected to have a significant impact on the mandate of the Authority and its operations. However, no provision has been made to the financial statements due to the non-adjusting nature of the matter.

34. Currency

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

Progress on Follow up of auditor recommendations

Reference No.	Auditors observation	Management Comments	Focal Point person
1.	Interest on delayed payments	Disbursement of funds from treasury has been improved in the current year	GM(F)
2.	Slow progress/ Delayed project delivery	Project management and monitoring has been improved	GM(D&C)/GM(M)
3.	Commencement of project before ESIA report	This was regularized and ESIA report obtained.	GM(D&C)/GM(M)
4.	Assignment of works	Assignment is done to salvage the contract and is done within the provisions of the contract.	GM(D&C)/GM(M), M(P)
5.	Expiry of Advance Guarantees	Measures have been put in place to monitor guarantees against the recovery of advances.	GM(D&C)/GM(M)
6.	Value for money audit not done(Kundan Signh)	Termination procedures in progress and will culminate in final accounts valuation for the project.	GM(D&C)/GM(M)
7.	Scaling down of works Repackaging of works	Scaling down and repackaging of works done to salvage the contract	GM(D&C)/GM(M)
8.	Liquidated damages	Extension of time granted by employer	GM(D&C)/GM(M)



Eng. Richard Chekwony

Chairman



Eng. J.O. Ogango

Director General



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

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KENYA RURAL ROADS AUTHORITY



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30 2016

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

Opening Up Rural Kenya

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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.

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.

b) 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

c) Fiduciary Oversight Arrangements

1. Ministry of Transport Infrastructure Housing and Urban Development
2. Kenya Roads Board

d) Independent auditor

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

e) Principal Place of Business

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

f) Principal bankers

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


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

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

(iv) 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 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, EGH 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>Alternate to the Cabinet Secretary – The National Treasury</p> <p>Mrs Margaret W. Muiru-OGW (Appointed on 14th October 2015)</p>	<p>Mrs Muiru was born in 1959. She holds a bachelor's degree in political science from the University of Nairobi and is finalizing an MBA in Governance and Ethics from MKU.</p> <p>She has attended various professional courses including Advanced Public Administration and Strategic Leadership Development.</p> <p>She has extensive experience in administration and corporate governance having served in different capacities in various government departments and ministries.</p>



Mr Festus King'ori

Alternate to the Cabinet Secretary –
The National Treasury
(Up to 13th October 2015)

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.



Eng. John Mosonik, CBS
Principal Secretary- Infrastructure,
Ministry of Transport and
Infrastructure

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.



Eng. P.C. Kilimo

Alternate to Principal Secretary-
Ministry of Transport and
Infrastructure
(Up to 30th June 2016)

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.



Ms Mwanamaka Amani Mabruki, CBS
Principal Secretary-Devolution,
Ministry of Devolution & Planning

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.



Amb. Philip Richard Owade, OGW
Alternate to Principal Secretary
Ministry of Devolution and Planning
(Up to 30th June 2016)

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. J.O. Ogango
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 and a First class Honours in 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 Manager (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
Institute of Surveyors of Kenya

Mrs. Caroline Nkirote Nyororo 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 practicing 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
(Up to 29th November 2015)

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.

Management Team



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



CPA Dan M. Chamwama
MBA, BCom, CPA(K)
Ag General Manager –Finance(From June 2016)



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



Dr. Peter K. Rutto
PhD, MBA, ACCA, BSc, BCom,
General Manager –Finance(Up to May 2016)



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



Eng. Charles W. Thamaini



Eng. Jackson K. Magondu

<p><i>P.Eng., BSc., MIEK</i> Ag General Manager-Planning and Roads 2000</p>	<p><i>P.Eng.,M(IBL) BSc., MIEK,A(CI Arb-UK)</i> Ag General Manager Special Projects</p>
 <p>Eng. Alfred O. Achoki <i>P.Eng., BSc., MIEK</i> Manager -Quality Assurance</p>	 <p>CPA Judith C. Chumo <i>Bcom,MBA,CPA(K)</i> Manager- Internal Audit</p>
 <p>Mr. Justin M. Rapando <i>LLM,LLB Msc,Dip(KSL),CPS(K),M(CI Arb)</i> Manager- Legal Affairs</p>	 <p>Ms Judith A. Yamo <i>BEd,HNDP(HRM),IHRM, MBA</i> Manager-Human Resource & Administration</p>
 <p>Mr. Kenneth W. Odhiambo <i>Bsc(Surveying and Photogrammetry),MISK</i> Manager- Survey</p>	 <p>Ms.Margaret W. Muthui <i>Msc(Proc. & Logistics),Bsc(Computer Science),MKISM,MCIPS</i> Manager- Procurement</p>



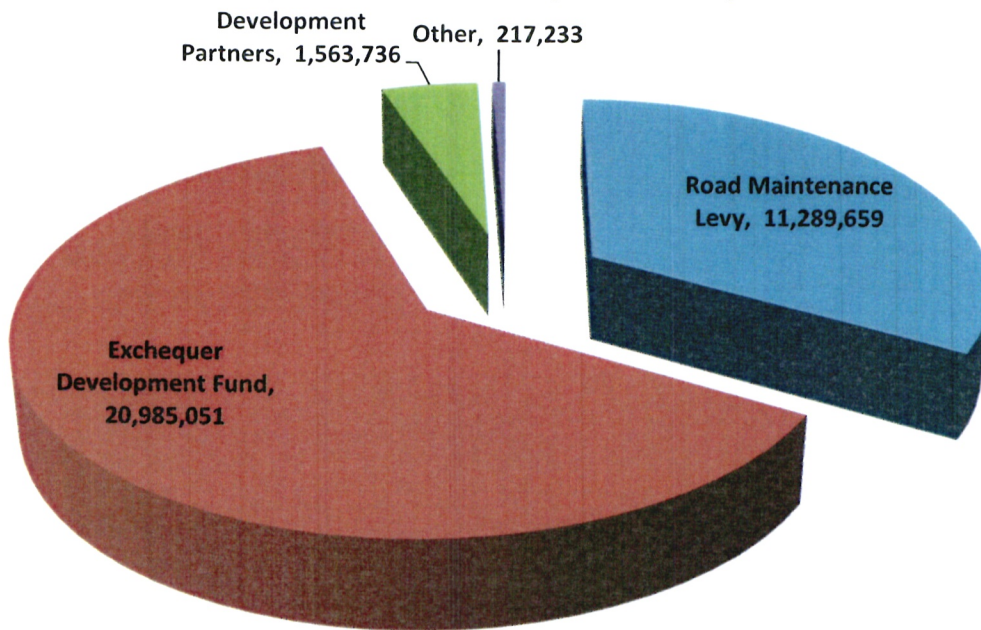
Mr. Samuel N. Kingori
BSc(Comp.Eng.), CCNA, MSCE
Ag. Manager- ICT



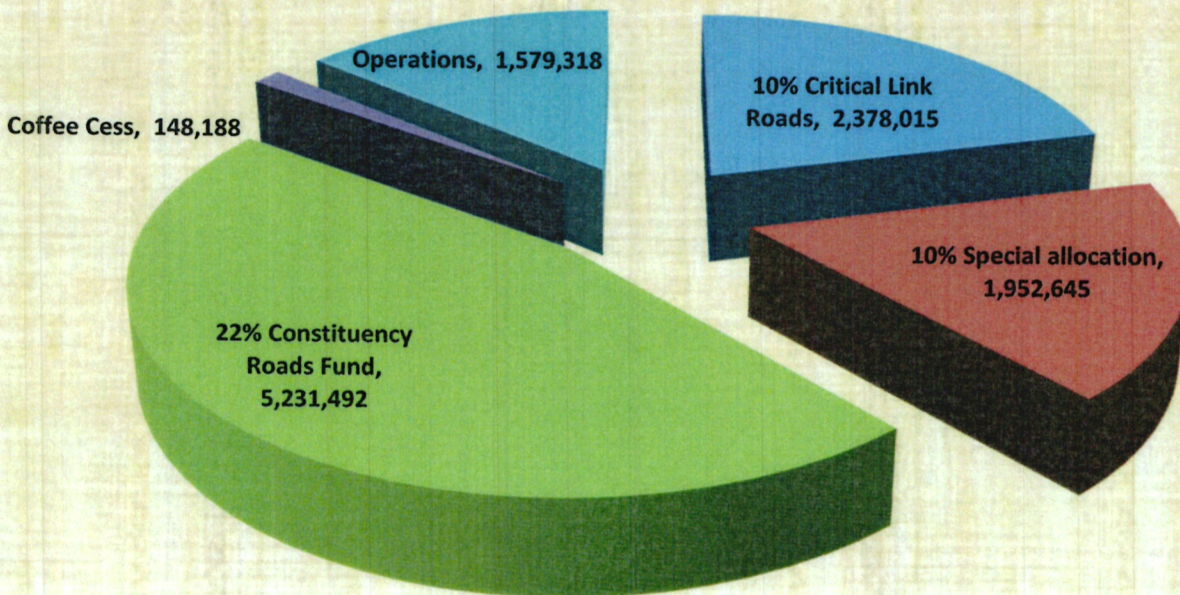
Ms Catherine C. Butaki
BA(Comm), PGD(Mass.Comm), PRSK
Manager- Public relations

Financial Highlights

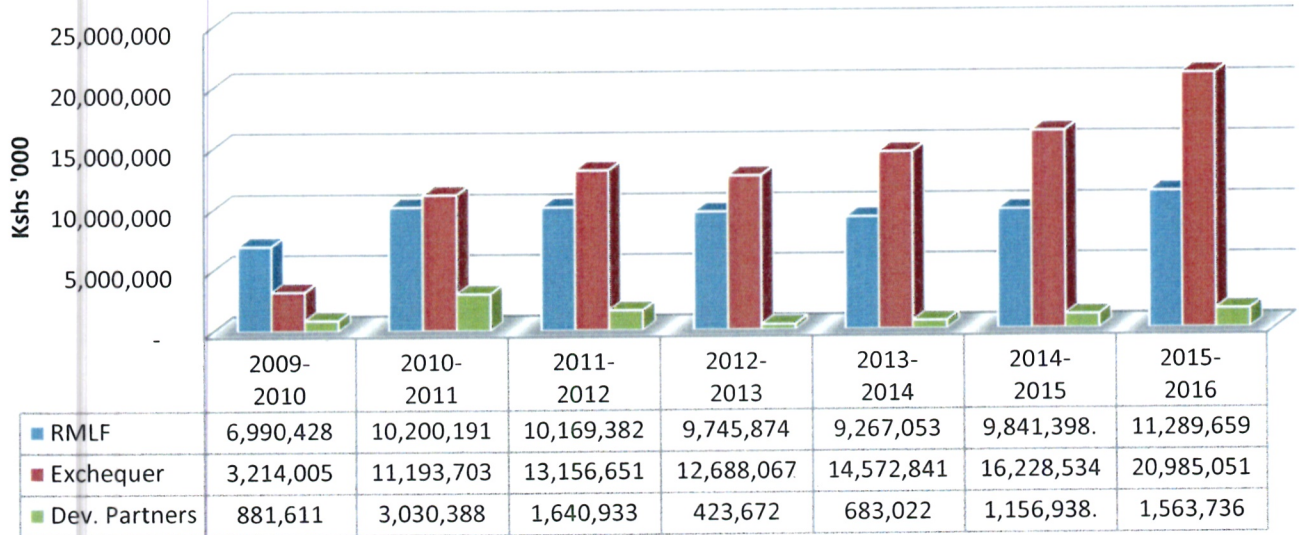
Current year Revenue (Ksh '000)



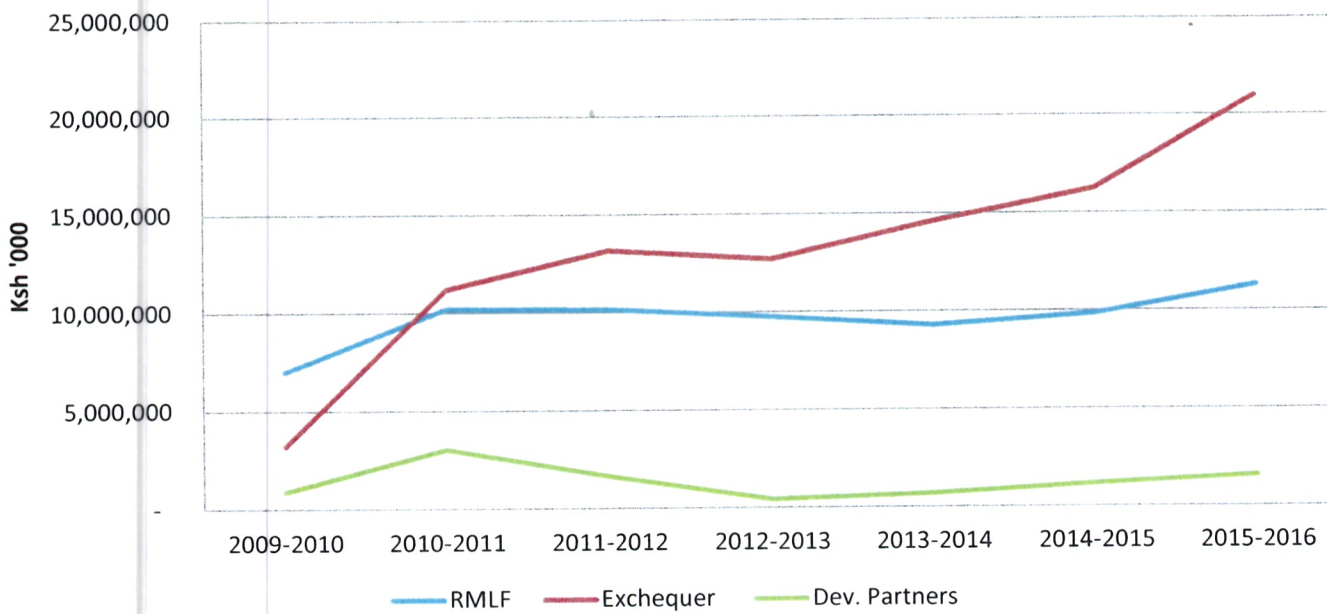
Road Maintenance Levy Fund (Ksh '000)

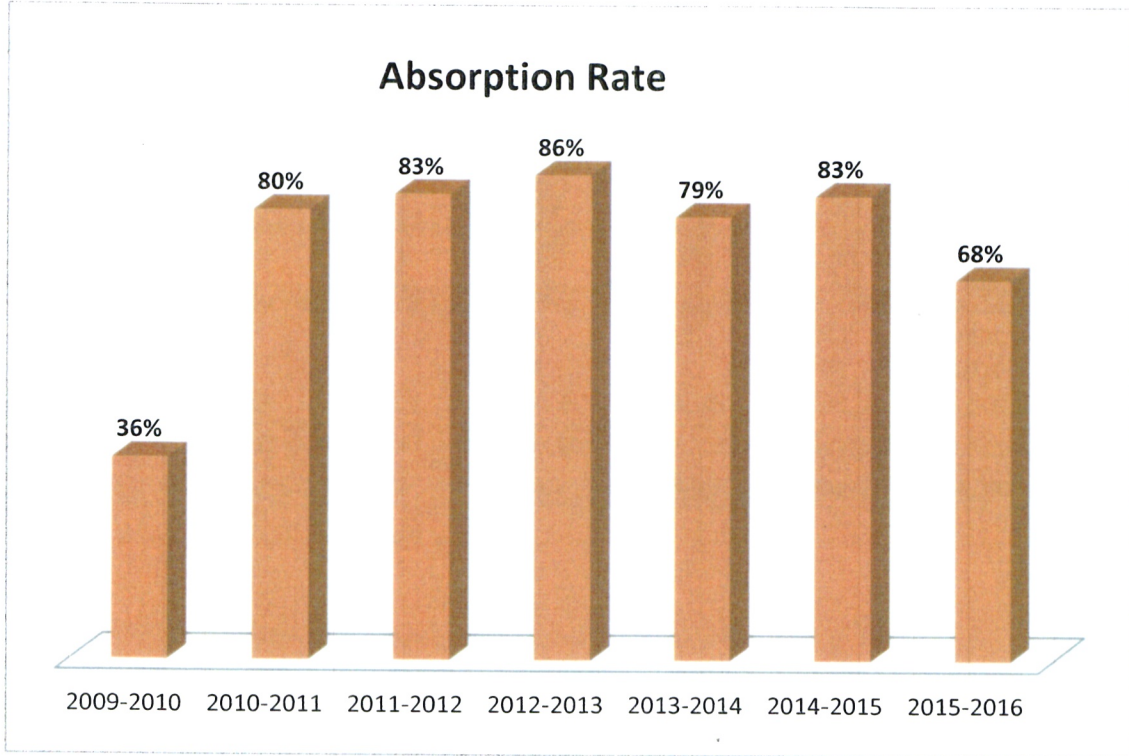


Funding History

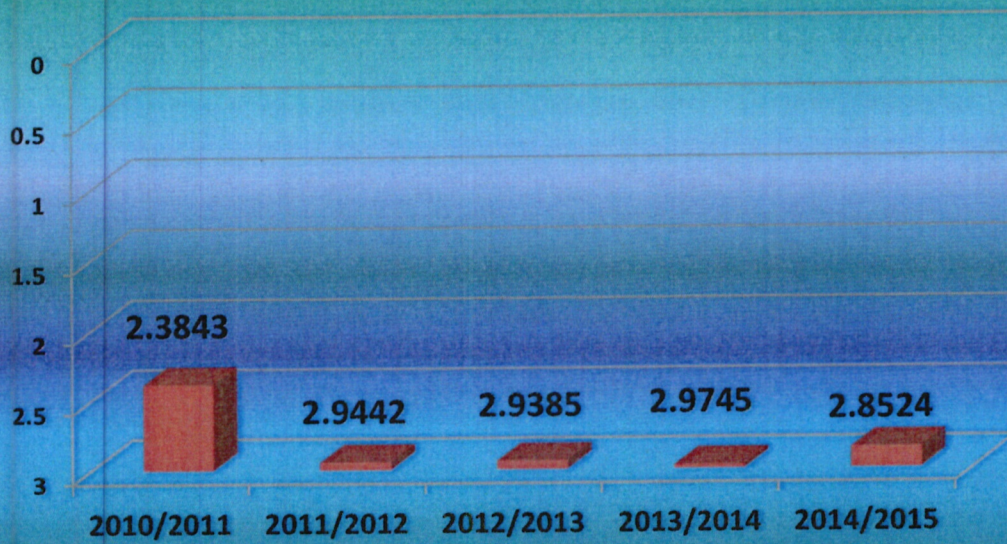


Funding Trend





Performance Contract Evaluation Composite Score



Chairman's Statement

Overview



I am pleased to present the Authority's Annual Report and Financial Statement for the Financial Year 2015/2016. The year in review was not short of challenges but a few silver linings could be observed with some light at the end of the tunnel appearing in some of the long outstanding matters.

In the spirit of promoting good governance, the Board signed the Mwongozo Code of Corporate Governance including the development and the adoption of the Board Charter. This will continue to guide and develop best practices on corporate governance in the Authority.

Following a court ruling of December 2015 in Nairobi High Court Petition Number 472 of 2014 filed by the Council of County which suspended the procurement and delayed implementation of works, the Authority entered into Agreements and Memoranda of Understanding (MoU) with County Governments for continued execution of works. Despite the external challenges, the Authority maintained a total of 58,282 lane km against a target of 100,324 lane kms. The under achievement was mainly attributed to the suspension of works. The Authority plans to complete the programmed maintenance works for the Financial Year 2015/2016 in the current financial year.

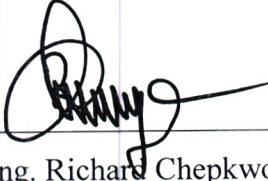
In addition, a total of 311 lane kms of new roads were constructed against a target of 326 lane kms with 109 lane kms reconstructed/rehabilitated against a target of 140 lane kms. A further 319 lane kms were designed against a target of 300 lane kms while 243.26 lane kms of Roads 2000 Programme were maintained against a target of 437 lane kms.

During the past year, there was a renewed focus on the road development mechanism through the R10000 LVSR to develop a targeted 8,000km of rural roads to compliment the Contractor Facilitated Road Development Mechanism (Annuity Program) which is now proposed to develop 157km. As the year drew to a close, the Authority had awarded contracts totaling to 1,563km and works commenced while procurement process for another 5,300km was ongoing under R10000 LVSR.

The Cabinet Secretary, Ministry of Transport, Infrastructure, Housing and Urban Development reclassified and gazetted roads into National and County roads vide Legal Notice No. 2 of 22nd January 2016. Further, the Kenya Roads Bill 2015, for the alignment of the Ministry's activities with the Constitutional dispensation was debated by the National Assembly (Third Reading) and passed to the Senate for consideration on 18th August 2016. It is expected that the Kenya Rural Roads Authority will be renamed as Kenya National Secondary Roads Authority with reduced road network.

The Authority continued to engage the special category (youth, women and persons with disabilities) on procurement through allocation of 30% of the value of the Authority's tenders. During the financial year, the special category was awarded contracts worth Kshs 1.8 Billion whose target was also affected by the suspension of work contracts.

We would like to thank the Management for their dedication to ensure smooth operations despite the external challenges. Never-the-less, the Authority is committed to continue strengthening its Quality Management Systems for continuous improvement.



Eng. Richard Chepkwony

Chairman

Report of the Director General

1.1.1 Overview



The Kenyan economy recorded a growth of 5.6% with the expansion attributed to significant growth in key sectors among them agriculture; construction; real estate; financial and insurance. The government continued its investment in the infrastructure to enhance trade, commerce and agricultural productivity. The commitment in opening up rural Kenya and farmlands could be seen through the Low Volume Seal (LVS) programme that is aimed at upgrading various roads throughout the country to bitumen standards. The programme targets 10,000 Kilometers of roads in the next five years.

1.1.2 The Mandate of the Authority

The mandate of the Authority is to construct, maintain and manage the rural road network within the Republic of Kenya in accordance with the Kenya Roads Act 2007. This comprises of the roads classified as D, E and others.

The Authority's road network is estimated to be about 136,375 Kms. This is classified as given in the table below with surface type as shown:-

Table 1: Rural Road Network

Road Class	Bitumen (Km)	Unpaved Roads (Gravel & Earth) (Km)	Others (Km)	Total (Km)
D - Secondary Roads	2,067.33	8,651.3	-	10,718.66
E - Primary Roads	1,000.24	25,723.6	0.25	26,724.09
Special Purpose Roads - SPR	106.11	10,390.7	9.24	10,506.04
Unclassified Roads - U	790.52	86,899.63	736	88,426.15
Total KeRRA Roads	3,964.2	131,665.23	745.49	136,374.94

Following the implementation of the Constitution of Kenya 2010, the Ministry embarked on aligning itself with the constitutional dispensation. In accordance with the Fourth Schedule, the National Government is responsible for the National Trunk Roads while the County Governments are responsible for the County Roads.

In the FY 2013/14 and pursuant to the above responsibility assignment, the Transition Authority (TA) through Kenya Gazette Supplement No. 116 of 9th August 2013 approved the

transfer of road functions as follows:- County roads including primary roads linking all sub county headquarters and minor roads linking markets and administrative centres excluding roads being managed by Kenya Urban Roads Authority, Kenya Rural Roads Authority, Kenya Wildlife Service and Kenya Forest Service (Legal Notice No. 137). However, the Legal Notice did not have a Schedule of the said roads that were devolved to the County governments.

Following the Gazette Notice of 22nd January 2016, the Transition Authority devolved 121,456.4Km of roads to the County Governments while assigning the National Government a road network of 39,975 Km.

Table 2: Total National Government Road Network after reclassification

S/No.	Road class	Length in KMs
1	A	7,566.30
2	B	10,535.90
3	C	19,503.70
4	UCA	104.70
5	UCB	2,228.60
6	UCC	35.70
Total length		39,974.9

The National Government will allocate to its agencies the road network.

1.1.3 Functions of the Authority

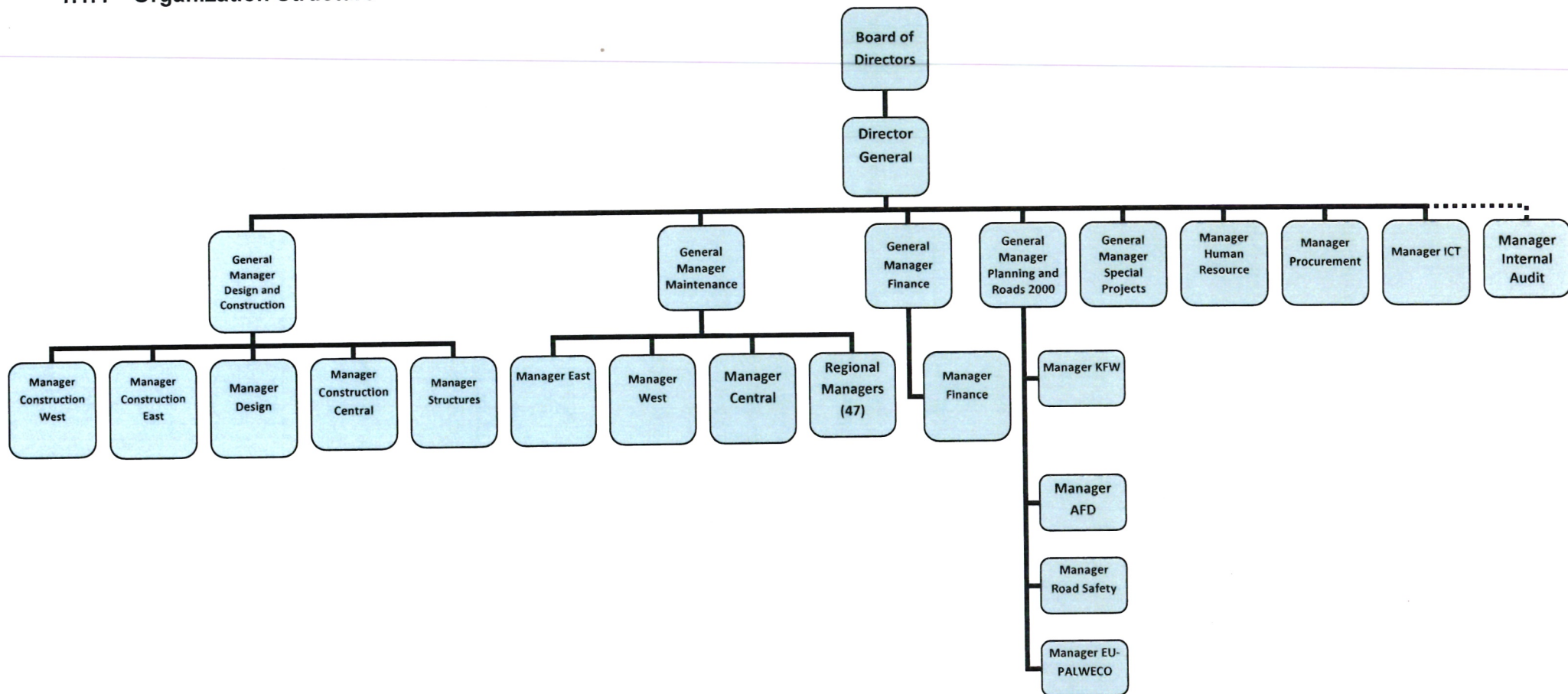
The Kenya Rural Roads Authority has the responsibility for the management, development, rehabilitation and maintenance of rural roads.

For the purpose of discharging the responsibility the following are functions and duties of the Authority as contained in the Kenya Roads Act 2007;

- a) Constructing, upgrading, rehabilitating and maintaining roads under its control;
- b) Controlling reserves for rural roads and access to roadside developments;
- c) Implementing road policies in relation to rural roads;
- d) Ensuring adherence by motorists to the rules and guidelines on axle load control prescribed under the Traffic Act (Cap. 403) or any regulations under this Act;
- e) Ensuring quality of road works is in accordance with such standards as may be defined by the Cabinet Secretary;
- f) In collaboration with the Ministry responsible for Transport and the Police Department, overseeing the management of traffic on rural roads and issues related to road safety;
- g) Collecting and collating all such data related to the use of rural roads as may be necessary for efficient forward planning under this Act;
- h) Monitoring and evaluating the use of rural roads;

- i) Planning the development and maintenance of rural roads;
- j) Liaising and co-coordinating with other authorities in planning and operations in respect of roads;
- k) Preparing the road work programmes for all rural roads;
- l) Advising the Cabinet Secretary on all issues relating to rural roads; and
- m) Performing such other functions related to the implementation of the Act as may be directed by the Cabinet Secretary.

1.1.4 Organization Structure



1.1.5 Strategic Plan

Key strategic objectives that are critical for successful implementation of the Strategic Plan are as follows:-

- a) Development of an alignment strategy with the Constitution of Kenya, 2010.
- b) Planning for Design, Construction, Maintenance and Management of the Rural Road network for sustainable socio-economic development.
- c) Design, Construction and Rehabilitation of Rural Roads to reduce transport cost and journey time for faster socio-economic development.
- d) Maintenance of entire Rural Road Network to support accessibility to all production, market and social centres for enhanced economic growth.
- e) Building and strengthening institutional capacity to execute the Authority's mandate.
- f) Provision of adequate financing for the execution of the Authority's programmes and projects.
- g) Ensuring all cross cutting issues are mainstreamed in the Authority's operations.

Some of the strategies that the Authority has achieved and continues to pursue in the implementation of the Strategic Plan include the following:-

- (i) Strengthening the existing road development, maintenance and management framework and accelerating the speed of programmes/project implementation.
- (ii) Supporting identified flagship projects being an enabler for economic transformation.
- (iii) Benchmarking infrastructure facilities with globally accepted standards.
- (iv) Targeting projects in otherwise neglected areas to increase connectivity and stimulate economic activities.
- (v) Enhancing Private Sector participation in provision of infrastructure facilities and services strategically complimented by Public Sector Interventions.

The Authority undertook a mid-term review of the Strategic Plan in the financial year 2015/2016 to assess its compliance and monitor the implementation of the strategic objectives. The draft Mid Term Reviewed Strategic Plan for the Authority is in place.

1.1.6 Progress of the Authority

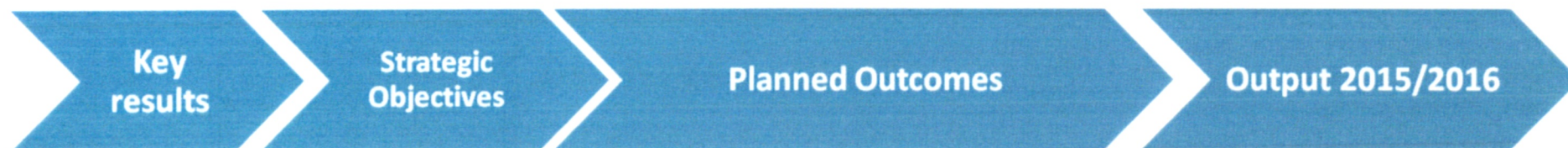
The Authority Strategic goals, Objectives and Planned outcomes and achieved output depicted from the key result areas as highlighted in table 3:-

Table 3: Strategic Goals, Objectives and Planned Outcomes



Goal 1: Design, Construct, Rehabilitate and Maintain entire rural road network to support accessibility to all production, market and social centers for enhanced economic growth.

Roads designed	To design 300 lane km of rural road network	Design roads to support accessibility to all production, market and social centers' for enhanced economic growth	319 lane Kms
Roads Re-Constructed, Rehabilitated	To maintain 140 lane km of rural road network	Well maintained rural roads	109 lane km
New roads constructed (lane Km)	To upgrade 326 Lane km of rural roads network to bitumen standards	Open up rural roads to reduce transport cost and journey time.	311 lane km
Roads maintained (Lane Km)	To maintain 100,324 Lane km of rural road network	Well maintained rural roads	58,282Lane km
Roads improved under Roads 2000 Program (Lane Km)	To maintain 437 lane Km using labor based methods	Use labor based method in maintaining rural roads	243 Lane Km
Bridges Constructed Program (Lane Km)	To construct 6 bridges	Design and construct bridges to support accessibility to all production, market and social centers' for enhanced economic growth	6 (Six)
Axle load monitoring	To monitor 8 No. rural roads for axle loading	Safeguarding rural roads investment	12 No. rural roads monitored for axle loading.
Traffic census	Traffic count report	Traffic census data for planning and design purposes	Report on traffic count for 1060 census points in place.



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	Continuous Professional Development for all professional staff and various training and capacity building courses undertaken	As part of Continuous professional development, all professional staff attended workshops and seminars as prescribed in their professional Institutes (261 officers were trained).
		Development of career progression Guidelines	Career progression guidelines were discussed and approved by the Board for implementation.
		Empowering Youth, Women and persons living with disability.	Sensitization workshops for youth, women and persons living with disability were carried out in the forty seven (47)
Staff Welfare	Ensure adequate and efficient Pension management outcome	Develop pension policy	Complete pension documentation A pre-retirement training programme was carried out for twenty six (26) members of staff
		Automate Pension Management system	Pension management system automation carried out

Key results

Strategic Objectives

Planned Outcomes

Output 2015/2016

Goal 3: Ensure all cross cutting issues are mainstreamed in KeRRA's operations

<p>Environmental sustainability</p>	<p>To address environmental sustainability concerns</p>	<p>Train staff on Environmental issues</p>	<p>Undertook and submitted to NEMA the FY 2014/15 Environmental Sustainability Audit Report on compliance with EMCA of 1999, and the Annual Work plan for 2015/16 Financial Year</p> <p>6 No. Environmental Audits were undertaken</p> <p>2No. ESIA Project Report was finalized</p> <p>Environmental Sustainability Sub-Committees were established in 45 Regions.</p> <p>Project Environmental Sustainability Units were established in Nine (9) major projects.</p> <p>6,000 No. trees were planted in various Regions (Counties) across the Country.</p> <p>3 No. ESIA Licenses were obtained from NEMA</p>
		<p>Undertake Environmental Social Impact Assessments</p>	
		<p>Implement Environmental Management plans</p>	



Goal 3: Ensure all cross cutting issues are mainstreamed in KeRRA's operations

HIV&AIDS	Deepening activities in prevention of HIV&AIDS and Disability Mainstreaming	Increase knowledge and provide strategic information	The Authority trained and sensitized 340 staff on Cross cutting Issues Compliance certificates in each thematic area issued by the lead institution
		Skills based education and training	
Prevention of Alcohol and Drug abuse	Implement work place policy on prevention of alcohol and drugs abuse	Capacity building on alcohol and drug abuse	4 Number open days conducted. Members of staff sensitized on Drug Abuse during the open days as an implementation activity Q4 report submitted to National Agency for the Campaign Against Drug Abuse. Members of staff sensitized on Drug Abuse during the open days as an implementation activity. The H R Department submitted the Authority's work plan on this indicator to National Agency for Campaign Against Drug Abuse (NACADA) in Q1
		Workplace policy	

Key results

Strategic Objectives

Planned Outcomes

Output 2015/2016

Goal 3: Ensure all cross cutting issues are mainstreamed in KeRRA's operations

<p>OSH- Occupational Safety & Health</p>	<p>Sustain continual development and implementation of the National Occupational Safety and Health systems and programs to reduce incidences of work related accidents and diseases.</p>	<p>Highlight the current challenges, gaps and future development of safety and health systems and programs in the country</p>	<p>The KeRRA Occupational Safety & Health Policy was developed in June 2016 and is awaiting approval.</p>
<p>Implementation of the Quality Management System</p>	<p>ISO certification and continuous improvement</p>	<p>Continuous staff training on ISO</p> <p>Undertake Internal Quality audits</p> <p>Conduct certification audits by certifying body</p>	<p>The Authority was certified in the Year 2015. In the Financial Year 2015/16 the Authority Carried out Internal Quality Audits and Management Review Meetings at the regional offices and head office. All corrective actions were undertaken and addressed by the department. The regional offices were audited by the Kenya Bureau of Standards and all the audit issues were addressed.</p>

Key results

Strategic Objectives

Planned Outcomes

Output 2015/2016

Goal 3: Ensure all cross cutting issues are mainstreamed in KeRRA's operations

<p>Development and Implementation of Enterprise Risk Management (ERM)</p>	<p>Build and strengthen the institutional capacity through the development of the Enterprise Risk Management Framework</p>	<p>Identification of inherent risks in KeRRA processes and procedures</p> <p>Develop Risks mitigation or preventive measures.</p>	<p>In the Financial Year the Authority developed the annual audit plan based on the approved risk management framework.</p> <p>The Authority continued to address various risk management issues through mitigation measures of having proper systems and structures in place.</p>
<p>Build and strengthen institutional capacity to execute the mandate of KeRRA</p>	<p>Strengthen the HR function of the Authority</p>	<p>Training and staff development</p> <p>Recruitment</p> <p>Staff Welfare and Gender Mainstreaming</p>	<p>216No. staff attended training courses and workshops As part of Continuous professional development, forty professional staff attended workshops and seminars as prescribed in their professional Institutes.</p> <p>99No. youths successfully undertook internships/ attachment in the Authority in accordance with the Guidelines from the then Ministry of Devolution and Planning</p> <p>Director General Recruited</p> <p>Medical & wellness camps conducted in Nairobi, Nyeri and Eldoret and Mombasa to sensitize staff on Drug and Substance abuse, Prevention of HIV& AIDS, Gender & Disability Mainstreaming Staff Mortgage Scheme enhanced in line with SRC recommendations Payment of annual subscription to health clubs. Group Life and Group personal accident cover for staff and directors.</p>

1.1.7 Road Maintenance Projects

a) Roads Maintenance Levy Funded Projects

Table 4: Roads Maintenance Levy Funded Projects

Funding source	Km planned	Funding (Kshs)	Km Achieved	Expenditure * (Kshs)
22% RMLF	43,827.34	5,231,492,154	11,625	3,588,935,076
10% RMLF	18,161	2,378,015,479	8,859	1,759,947,293
Cabinet Secretary Allocation	3,492.39	1,952,645,194	2,172	1,172,244,320
Coffee Cess	438.32	148,188,114	251	66,000,117
Total	65,919	9,710,340,941	22,907	6,587,126,806

b) Exchequer Funded Projects

	km Achieved	Expenditure (Kshs)
Development Vote	6234	7,676,500,752

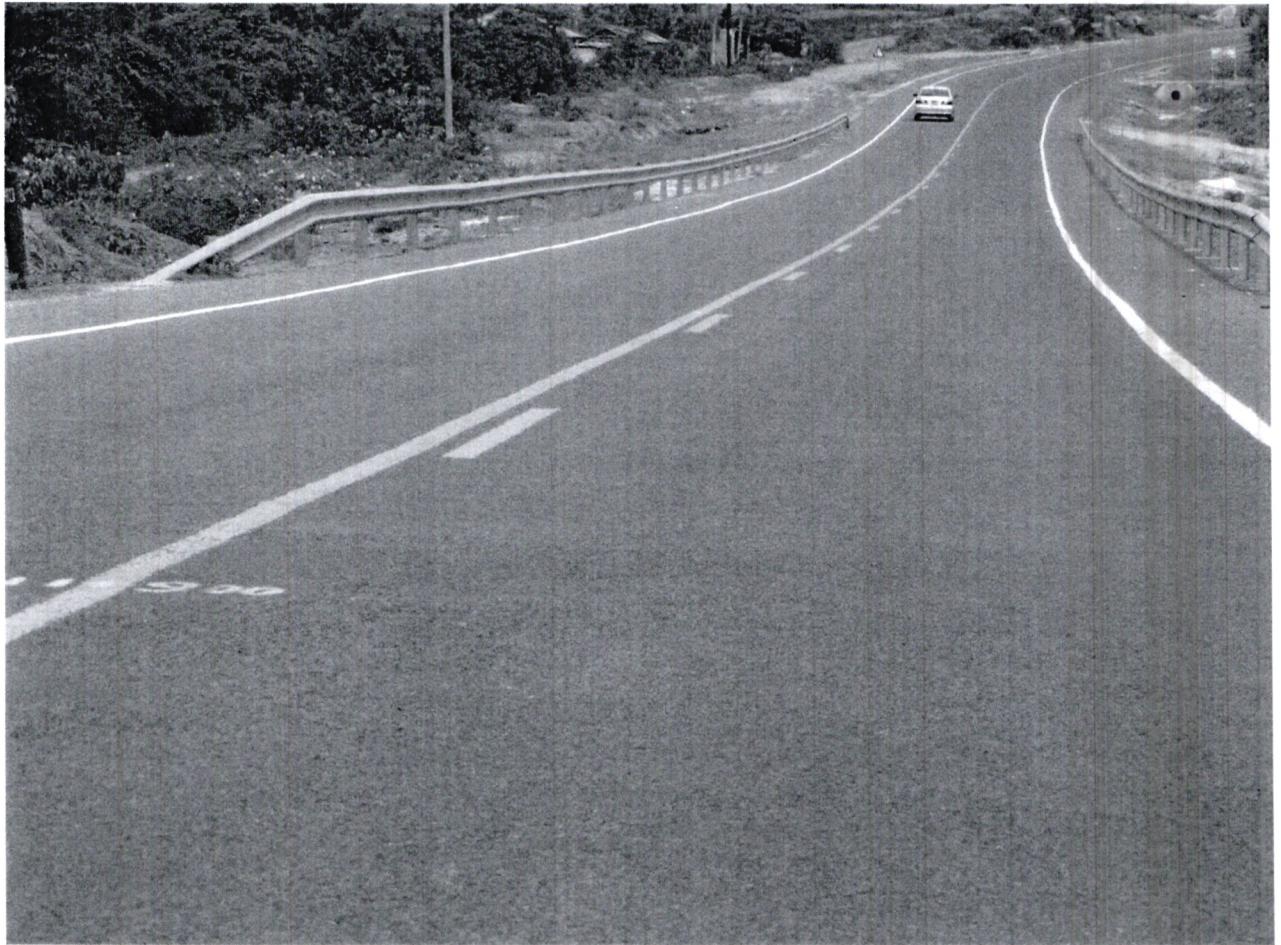


Sensitization measures under the on HIV mainstreaming measures.

1.1.8 Design and Construction Projects

The total Kilometres upgraded to bitumen during the year was 311 lane km against a target of 326 lane km. A total of six (6) drainage structures (bridges) were constructed, while 319 lane Km were designed to final engineering reports.

In addition, Lot 32 (Illasit - Njukini - Taveta road) & 33 (Ngong -Kiseria - Isinya and Kajiado – Imaroro) roads were in various stages of procurement under the Contractor Facilitated Finance – Design – Construct - Maintain Mechanism with repayment on annuity basis which was started in Financial Year 2013/2014 and works expected to commence during the Financial Year 2016/2017.



Bondo-Owimbi-Kipasi Road in Siaya County

1.1.9 The Roads2000 Programme

Road2000 concept is a strategy to create employment and wealth among local communities utilizing locally available resources, appropriate technologies and labour based methods where and when these are cost effective. A total of 437 lane Kms of roads had been targeted for improvement during the contract period through various financiers such as KfW, AfD, EU, PALWECO and GoK. As at 30th June 2016, the Authority had achieved 243.26lane kms .

The major challenges encountered included:-

- i) Slow progress by some contractors under the AfD and EU programmes
- ii) Suspension by the financier of the PALWECO Programme before commencement of Batch 2 Projects.
- iii) Delayed design reviews under the EU programme



ESIA Consultative Public Participation meeting for KfW/GOK Funded project in Siaya County

1.1.10 Reconstruction and Rehabilitation

The total length of roads reconstructed/rehabilitated in the financial year 2015/16 was 54.5 km (109 lane km) against the target of 70 km (140 lane km).

Table 5: Roads Reconstructed/rehabilitated during the year

<i>No</i>	<i>Road/Project Name</i>	<i>Target (Lane Km)</i>	<i>Cumulative Length Achieved as at 30th June, 2015 (Lane Km)</i>	<i>Cumulative Length Achieved as at 30th June, 2016 (Lane Km)</i>	<i>Length Achieved this Financial Year (Lane Km)</i>
1.	Gatundu – Karinga (Phase 2)	28	46.26	51.1	4.84
2.	A2 (Mathaithi) - Muniani	30	40.38	82.8	42.42
3.	Kibunja - Molo	2	0	0	0
4.	Kabenes - Kachibora	20	9.46	62	52.54
5.	Kasooyo – Saos - Tenges	60	18.87	28.07	9.2
TOTAL		140	114.97	223.97	109



Completed section of rehabilitated Kabenes-Kachibora Road Uasin Gishu

1.1.11 Low volume seal road projects

The Low Volume Seal Programme was introduced with the main objective of complimenting the construction of 10,000km of road within the Second Medium Term Plan of the Kenya Vision2030. This will support the primary growth sectors by upgrading low trafficked rural roads in a cost effective technique.

During the Financial Year, the programme was packaged as phase 1 under various batches; **Batch 1, 1A, 2A, 2B, 2C & 2D**. These batches consisted of a total of **4,047Kms** which were procured through National competitive bidding. This resulted in the award of a total of **1,563 kms** and works commencing.



Launching of Mogonga –Kenyena- Magenche – Daraja Road in Kisii County

1.2 Policies of the Authority

The main purpose of the policies is to guide the implementation of the strategic plan and general functioning of the Authority.

The operations of the Authority during the F/Y 2015/16 were guided by the Vision 2030, Constitution of Kenya, 2010, RSIP, Kenya Roads Act, 2007, National Budget 2015/16 and the signed performance contract financial year 2015/16.

The Authority has the following policies, service charters, manuals and procedures to guide its operations.

1.2.1 Internal Audit Charter

This serves as a guide to the Internal Audit Function of the Authority in the performance of its functions. It provides a basis for management and the Audit Committee to use in evaluating the functions of the Internal Audit function.

1.2.2 Information Communication Technology Policy

This policy deals with the Development, Investment and Application of the Information Technology within the Authority.

1.2.3 Board Charter

This defines the Board's roles and responsibilities as well as functions and structures in its strategic function.

1.2.4 Service Charter

This defines the Authority's obligations and duties to our clients. It also provides for the Authority's Goals, Values and Mission Statements.

1.2.5 Anti-Corruption Policy

This sets out the values and principles of the Authority and the practical steps to deal with instances of corruption within the Authority.

1.2.6 Human Resource Management Policies

These define the relationship between the Authority and its employees on a wide range of issues.

1.2.7 Financial Management Policies

They guide the management of the Authority's financial and non-financial resources. They consist of the Generally Accepted Accounting Principles in accordance with the International Accounting framework as well as government legislations and regulations. These are updated regularly to ensure they reflect the industry's best practice and comply with the relevant statutes.

1.2.8 Risk and Governance Policy

This policy is aimed at promoting good governance within the Authority and minimizes the exposure to risks in the transactions involving the Authority.

1.2.9 Procurement Policies and Procedure Manual

The main aim of the policy is to procure goods, works and services in the most economically favorable, 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.

The Authority, reviewed its policies in compliance with the Public Procurement and Asset Disposal Act, 2015.

1.2.10 Environmental Policy

It defines how the Authority addresses environmental sustainability concerns through undertaking Environmental Social Impact Assessments on its activities and the implementation of the corresponding Environmental Management Plans to mitigate against negative environmental impacts.

1.2.11 Mwongozo Code of Corporate Governance

Following the state corporations reforms to address the corporate governance challenges, the Government developed Mwongozo Code of Corporate Governance to guide and develop best practices on governance. During the Financial Year the Board of Directors signed the Mwongozo Code of Corporate Governance including the development and adoption of the Board Charter. Corporate governance audit is due in the current Financial Year.

1.3 Government policies impact on Road subsector

1.3.1 Contribution to Vision 2030

The Kenya Vision 2030 aspires for a country firmly interconnected through a network of roads, railways, ports, airports, water and sanitation facilities, and telecommunications. 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 doing business, 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 which aspires that "by 2030 it will become impossible to refer to any region of our country as 'remote' in terms of infrastructure".

The Authority supports identified flagship projects through the development, maintenance and management of rural roads as enablers for economic transformation.

The Authority continues to implement the Roads2000 Strategy which aims at utilizing labour for improvement and 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.

The Second Medium Term Plan (MTP 2013-2017) is to sustain and expand physical infrastructure to ensure that it can support a rapidly growing economy. According to the MTP II, inadequate physical infrastructure including transport infrastructure is one of the binding constraints in the economy. To this end, the target for the roads sub-sector is to construct and rehabilitate 5,500km of roads. Construction and rehabilitation will comprise of 3,825km of national trunk roads and 1,675km county roads. Periodic maintenance will be applied on 4,257km and 1,735km of national trunk and county roads respectively. Some 200,000km of roads are expected to receive routine maintenance during the MTP II period. The Government carried out Mid Term Review of the Second MTP and included R10000 LVSR Programme and the Contractor Facilitated Road Development Mechanisms.

As at June 2016 during the 2nd MTP period, the Authority has upgraded 439.33km and rehabilitated/reconstructed 240.51km. In addition, the projects which the Authority implemented include the R2000 Programme which is a vessel to create employment and wealth within the roads sub-sector. Several Development Partners supported the R2000 Strategy in the Country and some currently have ongoing R2000 programmes in the Country. These Development Partners include KfW, EU, PALWECO and AFD. Currently, AFD is implementing Phase II of its R2000 Programme in five counties in Central Kenya and Laikipia County. The EU programme has rolled out phase III which covers Embu, Tharaka Nithi, Meru, Machakos and Makueni Counties under 10th EDF.

The KfW programme for R2000 is implementing projects in Western Kenya. Finland is supporting Busia County in a programme known as PALWECO.

The Authority adopted the Low Volume Sealed Roads to implement the R10000 Programme for upgrading targeted 10,000km of roads in which 80% (8,000km) are proposed to be rural roads. The aim of the programme is to support primary growth sectors of the economy.



Use of cobblestones as an alternative road surfacing

1.3.2 Sustainable Development Goals

The United Nations Sustainable Development Summit for the adoption of the Agenda 2030 and the Sustainable Development Goals held in New York, in September 2015 developed seventeen (17) Universal Sustainable Development Goals in which institutions among them KeRRA should take cognizance of as they implement their strategic objectives. The SDGs include:-

- 1) Ending poverty in all its forms everywhere.
- 2) Ending hunger, achieving food security and improved nutrition and promoting sustainable agriculture.
- 3) Ensuring healthy lives and promoting well-being for all at all ages.
- 4) Ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all.
- 5) Achieving gender equality and empowerment all women and girls.

- 6) Ensuring availability and sustainable management of water and sanitation for all.
- 7) Ensuring access to affordable, reliable, sustainable and modern energy for all.
- 8) Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- 9) Building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation.
- 10) Reducing inequality within and among countries.
- 11) Making cities and human settlements inclusive, safe, resilient and sustainable.
- 12) Ensuring sustainable consumption and production patterns.
- 13) Taking urgent action to combat climate change and its impacts.
- 14) Conserving and sustainably using the oceans, seas and marine resources for sustainable development.
- 15) Protecting, restoring and promoting sustainable use of terrestrial ecosystems, sustainably managing forests, combating desertification, and halting and reversing land degradation and biodiversity loss.
- 16) Promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels.
- 17) Strengthening the means of implementation and revitalizing the global partnership for sustainable development.

The Authority shall identify the SDGs that are applicable to its operations.

1.3.3 Buy Kenya Build Kenya

The Government is prioritizing the consumption of locally manufactured goods to boost productivity leading to job creation and consequently better wages to employees and supporting Kenya's quest to have a robust, diversified, and competitive manufacturing sector. Public institutions are encouraged to source at least 40 per cent of their inputs locally of all public contracts.

The decision was taken on the back of increasing imports into the country even for goods that were readily available in the domestic market. This aims at protecting and boosting the local manufacturing sector bearing in mind the important role it is expected to play in job creation as well as in the implementation of the Vision 2030 development blueprint.

The Authority in line with the Government's policy has put in place measures to ensure fair competition between the local and foreign firms in sourcing for works and services by complying with government procurement policies on preference and reserving 30% of contracts for citizens. In addition, contractors are encouraged to source their materials; labor and sub contract the works locally.

1.3.4 Second Road Sector Investment Programme (2015-2019)

Section 34(1) of the Kenya Roads Act, 2007 requires the Road Authorities and the Kenya Roads Board (KRB) to prepare a road investment program for approval by the Cabinet Secretary responsible for finance.

The 1st Phase of RSIP (2010 – 2014) expired in June 2015 and hence KRB procured a Consultant in January 2016 to prepare the 2nd Phase of the Road Sector Investment Programme (2015-2019). The rural roads had inadvertently not been prioritized in the 1st Phase of the RSIP. This will be addressed in the 2nd Phase of the RSIP Preparation.

The preparation of the RSIP is to assist in management decisions for investment priorities that yields maximum returns through allocation of scarce resources that are consistent with the actual needs of the road network. It also aims at having a better appreciation of the effects of the various disbursements under the RSIP on long-term impact on the condition of the road network, the road users and the environment.



Launch of Tala Oldonyo Sabuk by H.E the President, Uhuru Kenyatta

2 Assessment of the Degree to which Performance Targets have been achieved

The Authority signed the Financial Year 2015/2016 Performance Contract with the Government of Kenya represented by the then Ministry of Transport and Infrastructure. The Key Performance Indicators outlined in the Performance Contract included the financial and stewardship, service delivery, non-financial, operational and

dynamic/qualitative. The setting of performance targets was done based on the Medium Term Expenditure Framework, the Kenya Vision 2030 and the Sector Performance Standards as guided by the 12th Cycle Performance Contracting Guidelines.

The Authority has submitted the 4th Quarter Financial Year 2015/2016 Performance Contract report to the parent Ministry of Transport, Infrastructure, Housing and Urban Development and the Performance Contracting Department. The Authority awaits the evaluation of the performance to be conducted by Ad-Hoc External Consultants in conjunction with the Performance Contracting Department any time as will be communicated by the Ministry of Public Service, Youth and Gender Affairs.

The Authority remains committed to meeting its performance targets and improving service delivery in delivering its mandate.

Below is Performance Contract Evaluations Comparative Analysis for the last five (5) years;

Table 6: Performance Contract Evaluation Composite Score

Financial Year	Performance Contract Evaluation Composite Score	Performance
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
2015/2016	*	

Key: *Awaiting evaluation by Ad-Hoc External Consultants

3 Assessment of Adequacy of Roads Funding

3.1 Adequacy of funding of rural roads network

Based on its strategic plan, the Authority had a constrained resource requirement of Ksh. 35 Billion in the year under review. However the total funds availed for construction and maintenance of the rural road network in the financial year was Kshs 33.8 Billion comprising of Roads Maintenance Levy Funds of Kshs 11.3 Billion, Exchequer Funds of Kshs 20.9 Billion, and Kshs 1.6 Billion from the Development partners.

4 Condition of the rural road network, optimal level of the network and extent of financing required

4.1 Condition of Rural Network

At Inception of the Authority, a total of 2,680Km of road network had been paved, while a total of 132,948Km was in gravel/earth standard. So far the Authority has upgraded a total of 1,399Km to bitumen standards equivalent to 233km annually, comprising of new roads constructed and Road 2000 Low Volume Seal Roads.

In addition, the Authority has been maintaining approximately 50,000Km Annually.



Protection Works on Gatundu- Karinga -Flyover Road in Kiambu County

4.2 Degree of Change

4.2.1 Improvement of roads to bitumen standards

During the year 2015/16 there has been improvement of the rural road network to bitumen standards from 3,964 in FY 2014/2015 to 4,079 Km in FY 2015/2016. This represents an increase of 105 KM and it is projected that another 1,000 Km will be improved to bitumen standards during 2016/17 Financial Year.

4.3 Assessment of Adequacy of Roads Funding

4.3.1 Upgrading to Bitumen Standards

During the Financial Year 2015/16 the Authority received KShs.11.8 Billion under the development budget against a budget requirement of Ksh.26 Billion under the conventional design and construction technique.

During the financial year, the Government through the Ministry of Transport, Infrastructure, Housing and Urban Development also came up with an alternative funding model known as the Annuity Financing Mechanism for roads development and maintenance which involves engagement of private entities to Finance, Design, Build Maintain and Transfer roads for a specified period (the “Concession Period”) based on agreed periodical payments by the Government (Annuities). The Authority has earmarked 157kms to be implemented through this technique. This will be implemented in two lots namely Lot 32 (Illasit - Njukini - Taveta road) and Lot 33 (Ngong -Kiseria - Isinya and Kajiado – Imaroro) which are at various stages of negotiations for commercial close and project agreement.

Under the Roads 10,000 programme for Low Volume Sealed roads, the Authority received Kshs. 5Billion under the development budget during the Financial Year 2015/16 which was initially intended for the Annuity Programme. This was against a budgetary requirement of KShs. 62 Billion. In the Financial Year 2016/17 the Authority has a proposed budget of Kshs. 77Billion for upgrading of the roads to bitumen standards.

4.3.2 Routine and Periodic Maintenance

During the Financial Year 2015/16 the Authority received KShs.11.2 Billion under the RMLF for routine and periodic maintenance.

The optimal budget for the routine and periodic maintenance of our roads stands at KSh40 billion, but the special fund created for this purpose (the Road Maintenance Levy Fund) nets just KSh25 billion annually, leaving a yawning deficit of KSh15 billion.

The Authority has been supplementing the inadequate maintenance funds from the RMLF through seeking Exchequer funding and development partner funding support in the maintenance of roads especially for the Roads 2000 Programme and reconstruction/rehabilitation of rural roads. The Authority received KShs.1.6 Billion from development partners under this programme.

4.4 Projected Optimum Level of Paved Network

Under the MTP II of the Vision 2030, the roads sub-sector has targeted to construct and rehabilitate 5,500km of roads. Construction and rehabilitation will comprise of 3,825km of national trunk roads and 1,675km county roads. In her manifesto, the current Government pledged to upgrade 10,000 km of roads to paved standard over 5 years from 2013-2017, where 80% (8,000km) of the targeted 10,000km are supposed to be rural roads. To achieve the quantum leap, the Authority embarked on the R10,000 Low Volume Sealed Roads for the low trafficked roads.

The Authority plans to construct and upgrade 8,197km of new roads during the current Strategic plan 2013-2018 (6,800km under the R10,000 programme; 950km under ongoing conventional construction method; 300km under the R2000 LVS; and 157km under Annuity programme). The Authority targets a projected optimum level of approximately 13,400km of paved road network by 2018 since inception.



The Director General briefing stakeholders on the proposed route of Mauche – Bombo – Olenguruone – Kiptagich – Silibwet Road

4.5 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 road agencies in fulfilling their mandate.

In the strategic plan 2013-2018 the Authority projected funding requirement of Ksh. 35 billion for the financial year 2015-2016. However, in the financial year, the government introduced the Roads 10,000 programme with funding requirement of Ksh 5 Billion raising the requirement to Ksh 41 billion.

During the year, the Authority received a total of 11.28 billion from the RMLF vote, Ksh 20.98 Billion from the exchequer and 1.56 Billion from the development partners. This falls short of the Authority's funding requirements for construction and maintenance of roads.

4.6 A Review of Technical Adequacy and Proved Cost Efficiency of Road Management Operations

The Authority continues to undertake works under the conventional design and construction technique, Roads 2000 programme, routine and periodic maintenance. This

is achieved through the use of standardized contract tender documents and specifications, utilizing the in-house capacity while outsourcing the services of consultants to boost the internal capacity and capacity building through continuous training of staff and contractors. With the use of Road Management System (RMS) this has made it possible to compare and therefore control unit costs.

As a cost reduction measure to road development, the Authority adopted the R10,000 Low Volume Seal technology. This was mainly for the low trafficked rural roads. The construction and maintenance component (for a specified period of time) are in one contract package hence cost efficiency. Further, the Authority continues to implement other alternative project delivery mechanism like the Design, Build and Maintain Contracts and Performance Based Road Maintenance Contracting.

The Authority has a documented Quality Management System in place for effective operations which has led to efficient and effective service delivery. Further the Authority continues to adhere to the laid down conditions of contract for effective project management.

The Authority continues to undertake quality control measures through technical audits and continuous monitoring and evaluation of projects.

4.7 Co-ordination between the Authority and Regional Entities

4.7.1 Coordination at the National Level

At the policy level, coordination between Authorities has been very well carried by the line ministry through regular executive committee meetings chaired by the Cabinet Secretary. This includes establishment of a Project Implementation Unit (PIU) and a Project Budget Committee comprising of representatives from all the Authorities.

4.7.2 Coordination with other Regional entities and stakeholders

The Authority has continued to engage with the County Governments, Kenya Sugar Board and other stakeholders on prioritization of the roads to be maintained through the Constituency Roads Committees. The reclassification of roads into National Trunk and County Roads enhanced further the coordination with the counties as it brought clear demarcation on each party's mandate.

During the Financial Year, the Authority entered into agreements (approval letters) and Memoranda of Understanding (MoU) with several County Governments for continued implementation of road works following a court ruling that suspended procurement and implementation of works in the Counties.

KRB commenced the preparation of the second phase of the Road Sector Investment Programme (RSIP) 2015- 2019 which is due at the end of this calendar year in conjunction with Road Agencies.

The Authority continuously submitted quarterly and annual reports as is required to the respective statutory bodies.



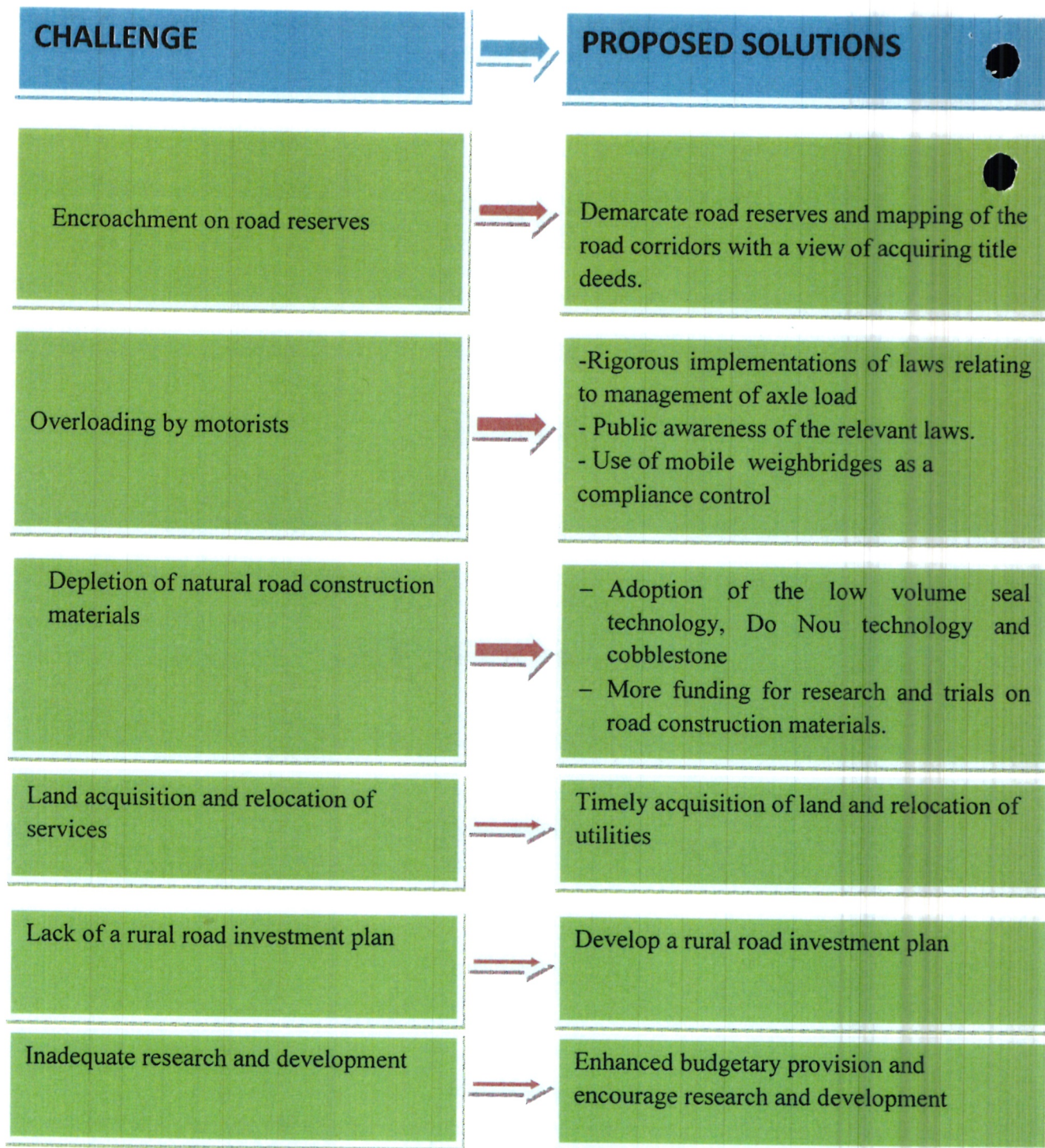
H.E the Governor Kinuthia Mbugua visiting the KeRRA stand during the Nakuru ASK show

4.8 Challenges in Development of Rural Road Infrastructure & Proposed Solutions

Table 7:
Solutions

Challenges in Development of Rural Road Infrastructure & Proposed

CHALLENGE	PROPOSED SOLUTIONS
<p>Ruling of court ruling No. 472 on 11th December, 2015 leading to low absorption of funds</p>	<p>The Government reclassified roads into national and county roads - The Authority entered into MoUs and agreements with County Governments to ensure implementation of works and smooth transition</p>
<p>Inadequate maintenance funding for projects under the Authority's purview leading to huge maintenance backlog eventually resulting to "orphaned roads".</p>	<p>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 road sector is currently putting in measures to create conducive environment for increased private sector participation in the management of roads. This is to ease the resource strain on the national government.</p>
<p>Inadequate supervision personnel i.e. the road engineers and other technical staff.</p>	<ul style="list-style-type: none"> - Additional resources should be availed to enable the Authority recruit to fill the gaps - engage Project Management Consultants to enhance capacity -proper succession management



5 Degree of realization of the objectives of the Kenya Roads Act 2007 and levels of compliance

5.1 Degree of realization of the objectives of the Kenya Roads Act 2007

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. The 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. This is as stipulated under section 7 of the Kenya Roads Act, 2007. The discharge of these functions has been facilitated by the exercise of the powers bestowed to the Authority under the Act.

It is considered that the objectives of the Kenya Roads Act, 2007 have largely been met in that there is now a functional Kenya Rural Roads Authority who owns and is technically responsible in law for construction, maintenance and management of rural roads with established and sustainable funding.

5.2 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. This is as illustrated below:-

Table 8: Level of Compliances with the provisions of the Roads Act 2007

ITEM NO.	PROVISION OF THE ROADS ACT 2007	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	The Authority manages its financial issues as per the provisions of the Act. This includes:- (a) Recognizing and utilizing the funds

ITEM NO.	PROVISION OF THE ROADS ACT 2007	LEVEL OF COMPLIANCE
		<p>allocated to it.</p> <ul style="list-style-type: none"> (b) Investing funds as per the legal guidelines. (c) Participation in preparation of Roads Sector Investment Programme (d) Preparation of Annual Road work plans (e) Preparation of Budgets for all financial years and abiding by them. (f) Submission of Annual work plans to the Kenya Roads Board. (g) Keeping of proper books of accounts and preparation of Annual Financial statements (h) Ensuring Audit of the financial statements by the Auditor-General. (i) 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> <ul style="list-style-type: none"> (a) Protection of employees from liability for bonafide acts done in the course of duty (b) Performance agreement obligations (c) Submission of Annual Report to the Cabinet Secretary. (d) Cabinet Secretarys power of direction (e) Making of regulations (f) Classification of roads (g) Inventory of roads (h) Structures and works over and above roads (i) Compliance with the provisions of the Roads Act 2007 (j) Confidentiality of information (k) Offences under the Act (l) Making of returns

This report as compiled and submitted under section 44 of the Roads Act further attests to due compliance with the provisions of the Roads Act 2007.

5.3 Alignment of the Authority to the Constitution

Given the provision of Schedule 4 of the Constitution of Kenya, 2010 the process of alignment of the Authority's functions to the Constitution is ongoing. The Kenya Roads

Bill 2015 was prepared under the leadership of the Ministry of Transport, Infrastructure, Housing & Urban Development and the Bill went through the Third reading was passed through the National Assembly and has been forwarded to the Senate for consideration.

This alignment process addresses challenges relating to road classification and assignment of functions between National and County Governments.

5.4 Conclusion

The operations in the year under review were hampered by the court ruling of December, 2015 which suspended the Authority's operations in a number of counties. However through collaborative efforts with the County Governments, the Authority developed agreements and Memorandum of Understanding to fast-track the implementation of works.

The process of aligning the road agencies to the constitution was accelerated during the year. As a result, the country's road network was reclassified into National roads and County roads as envisaged in the constitution. Subsequently, the Transition Authority transferred a considerable number of roads to the counties in accordance with schedule IV of the Constitution leaving the Authority with an estimated network of 19,500 Kilometers.

The absorption of the received funds reduced drastically with the Authority managing to absorb only 68% of the total funds available down from 83% reported in the financial year 2014/2015. While the absorption of funds highly depends on the release of funds by the government, this year's performance was mainly affected by the court ruling that resulted in suspension of works. Part of the works resumed towards the end of the financial year following Memoranda of Understanding between the Authority and the respective County Governments.

The Government's commitment towards investment in infrastructure saw increased funding both in the RMLF and exchequer funds bringing the total funding to Ksh 33.8billion up from 26 billion received in the financial year 2015/2016.

During the Financial Year under review, the Authority received Kshs 5 Billion for mobilization of Roads 10,000 Low Volume Seal roads programme. In the current Financial Year 2016/17, a budget provision of Kshs 30 Billion against budgetary requirement of Kshs 62 billion has been provided for the programme in the budget.

The Authority endeavors to continuously improve its operations in tandem with the established Quality Management Systems under ISO 9001:2008. Acknowledgement

I would like to thank the Kenya Government, development partners for funding the Authority which enabled us to achieve the results we have recorded. Further gratitude goes to the board members for their support in ensuring that the Authority continues to discharge its mandate effectively despite the numerous challenges experienced in the course of the year.

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



Eng. John.O. Ogango

Director General

Corporate Governance Statement

Overview

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

Organization structure of the Authority

The Kenya Rural Roads Authority is governed by a Board of Directors as per Kenya Roads Act 2007. The day to day management of the Authority is carried out by the Director General who is also secretary to the board. The Authority carries its mandate through the following 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 Organization 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 2015-2016

	Eng. Richard K. Chepkwony	Mr. Festus Wachira Kingori	Eng. P.C Kilimo	Amb. Phillip R.O. Owade	Ms. Caroline Nyororo	Mr. Charles K. Birech	Eng. John K. Mosonik	Margaret Muiru
14-Jul-15	✓	✓	✓	✓	✓	✓		
5-Aug-15	✓	✓	✓	✓	✓	✓		
27-Aug-15	✓	✓	✓	✓	✓	✓		
17-Sep-15	✓	✓	✓	✓	✓	✓		
24-Sep-15	✓	✓	✓	✓	✓	✓		
7-Oct-15	✓	✓	✓	✓	✓	✓		
13-Oct-15	✓	✓	✓	✓	✓	✓		
22-Oct-15	✓	✓	✓	✓	✓	✓		
10-Nov-15	✓		✓	✓	✓	✓		
24-Nov-15	✓		✓	✓	✓	✓		
10-Dec-15	✓		x	✓	✓	✓		
16-Dec-15	✓		✓	✓	✓			
12-Jan-16	✓		✓	✓	✓		✓	✓
29-Jan-16	✓		✓	✓	✓			✓
22-Feb-16	✓		✓	x	✓			✓
9-Mar-16	✓		✓	✓	✓			✓
14-Apr-16	✓		✓	✓	✓			✓
30-May-16	✓		✓	✓	✓			✓
31-May-16	✓		✓	✓	✓			✓
23-Jun-16	✓		✓	✓	✓			✓

Board Committees

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

Audit, Risk & Governance Committee

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

Finance Committee

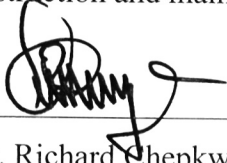
The committee assists the Board in its oversight role of the Authority relating to Authority's finance matters. This is as per the committees Terms of Reference

Board Human Resource Committee

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

Board Technical Committee

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



Eng. Richard Chepkwony

Chairman

Sustainability Report

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

Environment sustainability

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

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

Table 9: Construction Activity and Environmental Impact matrix

Water Quality

The primary sources of water contamination in road works include soil sediments and wastes-human, solid or hazardous materials which includes petroleum hydrocarbons such as petrol, diesel, solvents and bitumen. These are mitigated through soil erosion prevention and sound waste

management. The Authority achieves these through strict adherence to the environmental guidelines during construction. This includes installation of correct sizes of culverts and performance of routine and periodic maintenance. In addition monitoring through annual environmental audits is done.

Air Quality

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

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

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

Noise and Ground vibration

Noise and ground vibration generated by road construction are usually brief in duration. These are typically characterized as local given that they tend to decay rapidly as distance from the sources increases. While they may be temporal and spatial in nature, mitigating noise and ground vibrations is necessary because of their deleterious health and economic effects on nearby receptors. Excessive noise emissions and ground vibrations are regulated by NEMA through the Environmental and Coordination (Noise and Excessive Vibration Pollution Control) regulations 2009. These regulations require mandatory Environmental Impact Assessment (EIA) on all construction projects. The

Authority ensures that EIA reports are done and approved before commencement of works on all projects. The contractors are also required as part of the TOR to prepare and submit a Noise and ground vibration control plan(NGVCP) that declares the contractors intentions and methods for reducing and controlling noise and ground vibration.

Land Use

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

Community Health

Road infrastructure development brings with it a lot of benefits to the community but with costs. It is therefore necessary to mitigate the costs for the purposes of enhancing the benefits. One of the pronounced costs to the community associated with road construction is proliferation and transmission of HIV/AIDS. People concentrated in the contractor camp can carry and introduce the virus into nearby community, which may not be prepared to deal with an influx of road workers many from outside and with money to spend.

A typical contractor camp houses construction workers majority of which are recruited from outside the community. These workers, usually young and sexually active are frequently responsible for spreading STDs and HIV/AIDS among camp followers and within nearby villages or towns. Several measures are required to reduce the threat of HIV/AIDS that is related to road construction both inside and outside the camps. The Authority sets aside funds in each project for HIV/AIDS awareness programs to be carried out by the contractor during project implementation period. In addition other measures aimed at protecting the community against vector borne diseases and other

diseases caused by fugitive dust and noise and ground vibration pollution are put in place. The community is continuously involved in ongoing monitoring of the measures implemented to protect the health, safety and welfare of the community members and the workforce.

Community Welfare

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

Cultural and Natural Heritage

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

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

Other Environmental initiatives

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

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

Stakeholder engagement

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

Employee Welfare

To Authority continued to provide economic empowerment to the staff by availing loans through the KeRRA Sacco. Entitlements under the staff mortgage scheme were increased considerably as the Authority implemented the SRC recommendations. The fund which currently stands at Ksh.193 Million recorded a 90% uptake at the end of the year.

Staff training and Development

The training committee approved training for various cadres during the year. In addition several workshops on cross cutting matters were held during the year. A total of 99 Youths were offered and took up internships/ Attachments comprising of 19 Interns and 80 Attachees.

Ethics and Integrity

43 No. Integrity Officers were trained by EACC. All are certified as Integrity Assurance Officers representing HQ and respective Regional Offices.

Building capacity for Small Scale Contractors

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

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

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

As part of capacity building, the programme targets to train 250 small scale Contractors in Labor Based Technology. So far seventy five (75) persons from 25 construction firms have undergone Classroom Training in labor based technology at Kisii Training Centre. Suitable

trial contracts have been drawn for them to undertake before they get certified as qualified contractors. Another set of Eight (8) contractors underwent Classroom training at KTC together with nine (9) private sector supervisors who were recruited in 2014. Each of the Eight (8) firms provides one director and two supervisors for training.

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

Training under Central Kenya Rural roads improvement and maintenance project

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

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

Sensitisation workshops for special interest groups and other trainings

In addition to the above trainings, the procurement department held various workshops throughout the country targeting the special interest groups, i.e. women, youth and people living with disabilities. The workshops were aimed at sensitising these groups on available opportunities and how they can take advantage of the same. Further three number training workshops were held to build capacity in road maintenance (Performance Based Maintenance Contracts) within 32 counties held in Embu, Nakuru and Kisumu

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 30th June 2016, 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 62. The deficit for the year of Kshs 622 million (F/Y 2014/15: surplus Kshs 5,203 million) has been added to the accumulated surplus and is available for the Authority's operations in accordance with the Kenya Roads Act 2007.

Directors

The directors who held office during the year and to the date of this report are set out on page 4-7.

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 35 of the Public Audit Act, 2015

By order of the board



Eng. John O. Ogango
Secretary to the Board

Statement of Directors Responsibilities

The Public Financial Management Act 2012 and Kenya Roads Act 2007 require 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.

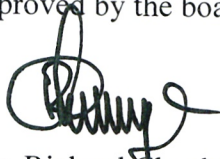
The Board accepts responsibility for the preparation and fair presentation of financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Public Financial Management Act 2012 and 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 29/9/16 and signed on its behalf by:



Eng. Richard Chepkwony
Chairman



Eng. J.O. Ogango
Director General