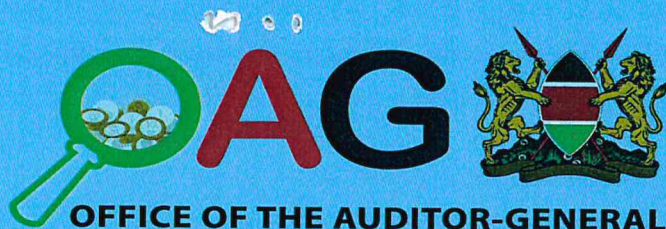



REPUBLIC OF KENYA



*Enhancing Accountability*

 THE NATIONAL ASSEMBLY PAPERS L.AID	
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**THE AUDITOR-GENERAL**

**ON**

**KENYA RURAL ROADS AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE, 2020**









## **KENYA RURAL ROADS AUTHORITY**



### **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30 2020**

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

***Easy Access to Resources and Services***



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## **ABBREVIATIONS**

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

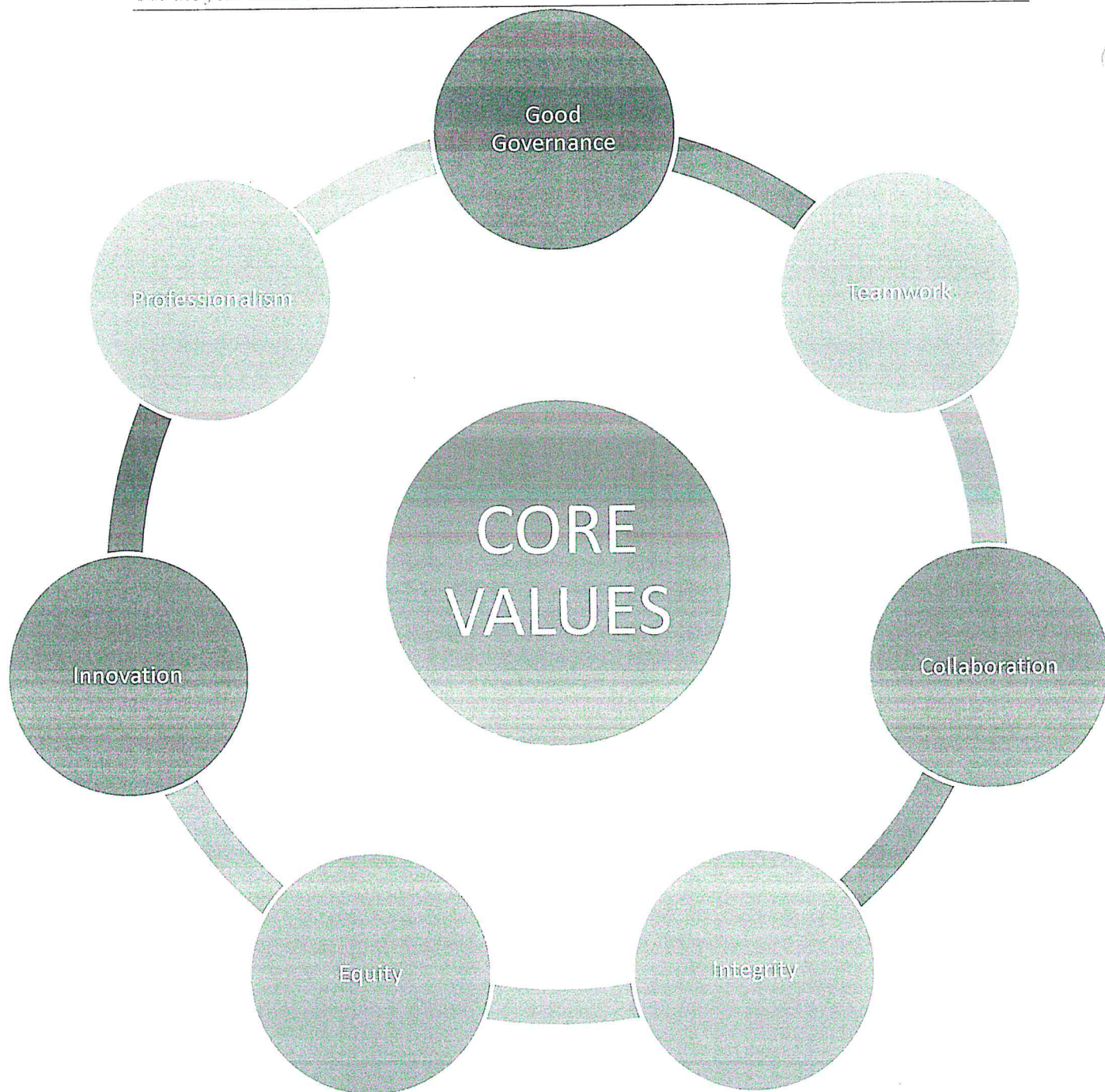


## OUR VISION

**Easy Access to Resources and Services**

## OUR MISSION

**To Develop, Manage and Maintain the  
National Secondary Trunk Road Network**





## KEY AUTHORITY'S INFORMATION AND MANAGEMENT

### (a) Background Information

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

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

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

### (b) Principal Activities

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

### (c) Key Management

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

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

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

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

### (e) Fiduciary Oversight Arrangements

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

3. Public Investments Committee
4. Audit and Finance Board Committees

**(f) Authority Headquarters**

Barabara Plaza Block B, Airport South road, Opp KCAA building.

**(g) Authority Contacts**

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

**(h) Principal Bankers**

- 1. KCB Bank Limited,**  
Moi Avenue Branch,  
P.O. Box 48400-00100,  
Nairobi GPO
- 2. NCBA Bank Limited,**  
Upper Hill Branch,  
P.O. Box 44599-00100,  
Nairobi GPO
- 3. Equity Bank Limited,**  
Equity Centre,  
Hospital Road, Upper Hill.  
P.O. Box 75104-00200,  
Nairobi
- 4. Cooperative Bank Limited**  
Co-operative House,  
Haile Selassie Avenue,  
P.O. Box 48231-00100,  
Nairobi GPO

**(i) Independent Auditors**

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

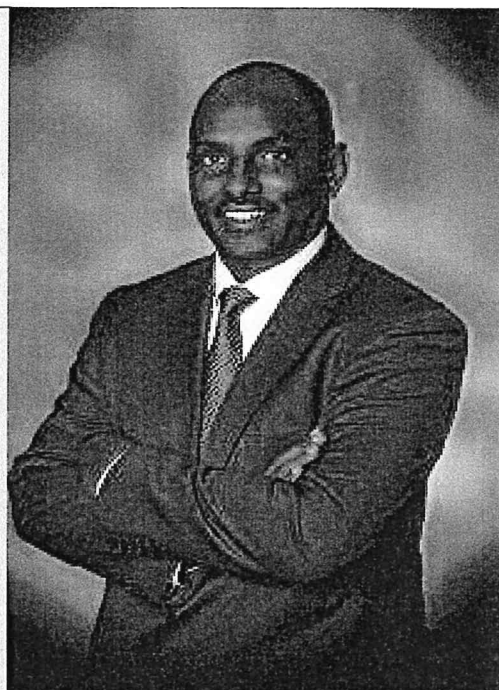
**(j) Principal Legal Adviser**

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



## BOARD OF DIRECTORS

The Board members are drawn from representatives of 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:



**Hon. Amb. Ukur Yatani Kanacho**  
Cabinet Secretary – National Treasury  
From 24<sup>th</sup> July 2019

**Hon. Amb. Ukur Yatani Kanacho** was born in 1967 and holds a Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005 and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

He has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning, he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006 and 2007 while Member of Parliament for North Horr Constituency, he also served as the Assistant Minister for Science and Technology. At the height of his career (March 2013-August 2017), he served as the pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests.

He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and Chair of African Group of Ambassadors among others. Between 1992 and 2015, he served in different positions in Kenya's Public Administration including as District Commissioner where he sharpened his management and administrative skills.



**Mr. Henry K. Rotich, CBS**  
Cabinet Secretary – National Treasury  
Up to 24<sup>th</sup> July 2019

**Mr. Henry K. Rotich** was born in 1969 and holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA Degrees in Economics from the (University of Nairobi)

Mr. Rotich is the immediate former Cabinet Secretary for the National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 12 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an Economist between 2001 and 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. Adan Hussein**  
Alternate to Cabinet Secretary – National  
Treasury

**Mr. Adan Hussein** was born in 1977. He holds a Master of Arts in Development Studies (Organizational Development), St. Pauls University, Kenya, 2010-2012 and Bachelor of Arts (Economics), University of Nairobi, 1997-2001.

Mr. Hussein is a strategic leadership, public administration, corporate governance, economic policy and program development expert with extensive M&E and financial management experience.

He has a successful track record in partnership building and resource mobilization arena. He has spearheaded socio-economic development planning and implementation, investment promotion and facilitation and programme formulation and co-ordination. He has worked in public administration as Senior Administrator/District Officer in different parts of the country.



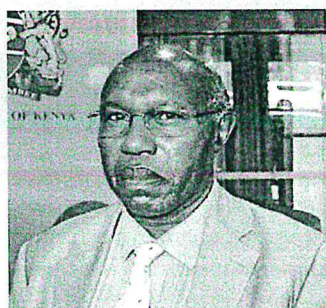


**Mrs. Margaret Muiru, OGW**  
Alternate to the Cabinet Secretary – National  
Treasury  
Up to July 2019

**Mrs. Margaret Muiru** was born in 1959. She holds a Bachelor of Arts Degree in Political Science from the University of Nairobi and an MBA in Government and Ethics from Mount Kenya University. She has attended various professional courses including Advanced Public Administration and Strategic Leadership Development.

She has extensive experience in administration and corporate governance having served in different capacities in various government departments and ministries.

She was the alternate to the Cabinet Secretary, the National Treasury up to July 2019



**Prof. Paul Maringa Mwangi, CBS**  
Principal Secretary – Ministry of Transport,  
Infrastructure, Housing, Urban Development  
& Public Works  
From September 2019

**Prof. Paul Maringa Mwangi** was born in 1959 and holds a Doctor of Philosophy – Environmental Planning, Jomo Kenyatta University of Agriculture and Technology, 1999-2005, Master of Arts in Planning – Urban & Regional Planning, University of Nairobi, 1989-1991 and Bachelor of Architecture Degree, University of Nairobi, 1979-1986.

He is the Principal Secretary – State Department for Infrastructure in the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works and was previously Principal Secretary – State Department for Public Works in the same Ministry having been appointed in December 2015.

Prof. Maringa is a Founder Associate Professor of Architecture and Planning of the FAED, Senior Expert, Planning & Project Management and Technical Expert & Master Trainer in Building Construction & Infrastructural Planning & Development.



**Mr. Julius Korir, EBS**  
Principal Secretary - Ministry of Transport,  
Infrastructure, Housing, Urban Development  
& Public Works  
Up to September 2019

**Mr. Julius Korir** is a holder of an MBA in International Business and a BSc. in Agricultural Economics.

He is the immediate former Principal Secretary – State Department for Infrastructure in the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works and was previously Principal Secretary – State Department for Industry and Enterprise Development in the Ministry of Industry, Investment and Trade having been appointed in December 2015. He also served as the Industrialization Secretary, Ministry of Industrialization and Enterprise Development from May 2014.

Mr. Korir has 15 years experience in national trade and industry development and 10 years experience in senior management and leadership positions in various institutions in the trade and industry sectors. While at the Kenya Investment Authority (KENINVEST), he held the position of Acting Managing Director from August 2011 to August 2012. Mr. Korir also served at the Export Promotion Council for 15 years rising to become the General Manager in charge of Trade Information and Business Advisory Services in 2008.



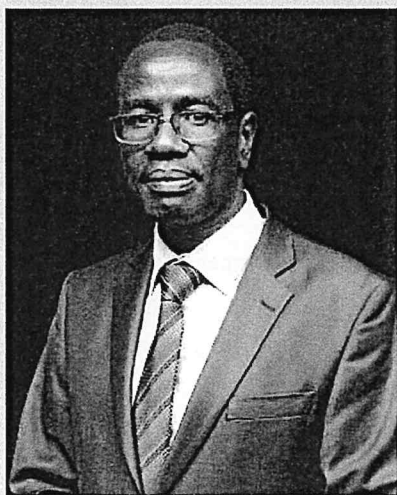


**Eng. Francis Gitau**  
Alternate to Principal Secretary – Ministry of  
Transport, Infrastructure, Urban Development  
& Public Works  
Up to July 2019

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

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

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



**Eng. Stephen Kogi**  
Alternate to Principal Secretary – Ministry of  
Transport, Infrastructure, Urban Development  
& Public Works

**Eng. Stephen K. Kogi** was born in 1964 and is the alternate to the Principal Secretary, Infrastructure Department in the Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works from June 2020. He is currently the Chief Engineer in charge of infrastructure quality standards and research in the Ministry.

He has extensive experience in professional and public administration including in strategic leadership and corporate governance gained from his training and responsibilities in different programmes and mandates in government and as a graduate of Civil Engineering from the University of Nairobi and with a Master's Degree in Business Administration from Jomo Kenyatta University of Agriculture and Technology.

He has previously coordinated the improvement of roads under various development partners and the development of policies including the design of guidelines in support of the Government agenda for the improvement of over 10,000Km of road network under the Low Volume Seal Roads Programme.

He has been involved in various local and international forums and is the current President of the African Road and Transport Research Forum with a membership of the Sub-Saharan African countries.





**Mr. Charles T. Sunkuli, CBS**  
Principal Secretary – State Department for  
Devolution, Ministry of Devolution and  
ASAL.

**Mr. Charles T. Sunkuli** has previously served as the Principal Secretary, Ministry of Environment and Forestry, a position he held from December 2015 to February 2018.

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

He has a wealth of experience in public service spanning over 18 years. Mr. Sunkuli is an experienced management strategist with a solid background in administration, planning, management and leadership.

He holds two Executive Masters Degrees in Business Administration (EMBA) from Eastern and Southern Africa Management Institute (ESAMI) and Maastricht School of Management (MSM) Netherlands and a Bachelor of Education Degree (B.Ed. Arts) from Moi University. He has also undertaken various specialized trainings including Procurement Standards and Socio-Economic Development, Governance and Godly leadership in the United States of America (USA) among many others.

Mr. Sunkuli has held other positions nationally and globally including being the Designated National Focal Point of the Green Environmental Facility (GEF) of the United Nations Environment Program, Board Member of the Strategic Approach to International Chemical Management (SAICM), National Focal Point of the Lake Victoria Basin Commission (LVBC) and Life Member of the International Red Cross Society among many other community-based leadership positions.

He pioneered a robust weather information access program by the Kenya Meteorological Department, information which is now available online. As the National Focal Point of GEF, he successfully negotiated for funding of Key National Programmes through the Global Environment Facility (GEF).



**Mr. Bernard Suyianka**  
Alternate to Principal Secretary – State  
Department for Devolution, Ministry of  
Devolution and ASAL.

**Mr Bernard Suyianka** was born in 1962 and is a holder of a B.COM from Jabalpur University, India and a Foundation Diploma in Purchasing and Supplies from Kenya College of Communication & Technology.

He is currently Head of Supplies Chain Management System at the Ministry of Devolution, State Department of Special Programs.

He has a wealth of experience in supply chain management having worked in the public sector for over 22 years in various government ministries and departments including the State House.



**Ms. Margaret Osilli**  
Alternate to Principal Secretary – Devolution,  
Ministry of Devolution and Planning  
Up to July 2019

**Ms. Margaret Osilli** was born in 1974 and is the Assistant Director Devolution. She is an accounting professional with management skills and expertise in financial management.

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





**Eng (Prof.) Oyuko Mbeche**  
Tertiary Institutions

**Prof. Oyuko. O. Mbeche** was born in 1946 and is a Civil Engineer specializing in the field of Transportation and Planning.

Prof. Mbeche is a Member of the American Society of Civil Engineers, American Society of Engineering Education and Kenya National Academy of Sciences. He is a Nobel Peace Prize recipient bestowed on him by the International Panel on Climate Change (IPCC) in December 2007. He is a Professor of Civil Engineering at the University of Nairobi and has supervised various undergraduate and postgraduate projects.

**He is the Chair of the Audit Committee**

He has also written many research papers on matters touching on land use, planning, transport economics and urban planning. In his work experience, he has worked as a project coordinator, team leader, and project civil/structural engineer in various government organizations.



**Ms. Nelly Mbugua**  
Institute of Surveyors

**Ms. Nelly Mbugua** was born in 1968 and holds a Bachelor of Arts in Land Economics from the University of Nairobi, a Post-Graduate Diploma with the Institution of Surveyors of Kenya and is currently pursuing her post-graduate studies. Ms. Mbugua has worked for top real estate companies in Kenya among them: Lloyd Masika Ltd. and Kenya Valuers & Estate Agents Ltd. where she has held senior management positions. She has trained in Corporate Governance.

**She is the Chair of Board Finance Committee**

Ms. Mbugua has vast experience in the real estate industry consultancy with local and international registration and licensing by the Valuers Registration Board (VRB) and the Royal Institution of Chartered Surveyors (RICS). Ms. Mbugua is a full member of the Institution of Surveyors of Kenya (ISK) and has served the Institution as VEMS Chapter Chairperson and a member of the Governing Council. Ms. Mbugua is a registered estate agent and is the immediate past Chairperson of the Estate Agents Registration Board (EARB). As the Chairperson of EARB, Ms. Mbugua worked tirelessly to improve professionalism and raise the profile of the estate agency profession in Kenya. She is a Trustee of the Bible Society of Kenya (BSK) and a past Chairperson of the Board of BSK.

Ms. Mbugua is a seasoned valuer, specialising in business and hospitality industry and oil and gas exploration valuation, as well as sales, letting and property management.

Ms. Mbugua is a director at Citiscape Valuers & Estate Agents Limited.



**Dr. Lawrence Esho,**  
Kenya Institute of Planners

**Dr. Lawrence Esho** was born in 1970 and is a holder of Doctor of Engineering (Dr-Ing), Architecture/Spatial Planning from Catholic University of Leuven (Kul) (Belgium), 2008, Master of Architecture (M.Arch) Human Settlement from Catholic University of Leuven (Belgium), 2003, Masters of Arts (MA) Planning from the University of Nairobi (Kenya), 1997 and Bachelor of Arts (Ba) Sociology from Kenyatta University (Kenya), 1995.

**He is the Chair of the Human Resource and Administration Committee**

He is trained in sociology, planning and human settlements. He has worked as a planner and an academic. He is Chairman, Department of Urban and Regional Planning at the Technical University of Kenya.

Mr. Esho has researched various aspects of housing, transport and planning in the region and continues to collaborate in research with a number of institutions, including KU Leuven, HIS the Netherlands.





**Eng. Shadrack Kiprutto Yego**  
Institution of Engineers of Kenya

**Eng. Shadrack Kiprutto Yego** was born in 1980 and is a holder of BSc. (Civil Eng.) Degree and is currently undertaking an MSc. in Civil Engineering both from the University of Nairobi.

**He is the Chair of Technical Committee**

He is currently the Technical Manager at SOBOCON Associates Ltd. Consulting Engineers and Project Managers charged with the responsibility of design and construction supervision of urban infrastructure (KISIP Kitui, Eldoret, Mombasa and Malindi), Vihiga County and capacity building of Public Works Department for Elgeyo Marakwet County.

He has worked as a consultant at Kenya Pooled Water Fund charged with the responsibility of reviewing of feasibility studies, detailed designs, and tender documentation for water and sanitation projects for eight (8) Water Service Providers (WSP) – Nairobi, Kisumu, Eldoret, Nanyuki, Thika, Nyeri, Embu and Meru.



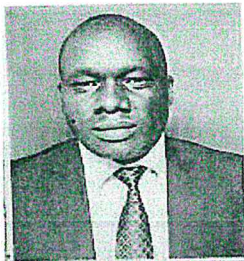
**Mrs Rose Githua**  
Kenya Institute of Planners  
Up to July 2019

**Ms. Rose Wanjiru Githua** was born in 1947. She is a Registered Physical Planner and an Environmental Impact Assessment (EIA) Lead Expert.

She is a Corporate Member of the Architectural Association of Kenya (Town Planning Chapter) and a Lead Environmental Impact Assessment and Audit Expert. She is also a Member of the Environmental Institute of Kenya (EIK).

She has worked as a Consultant in physical (spatial) planning/EIA Lead Expert (R.G Plantech Consortium) and as a Senior Assistant Director of Physical Planning, a Senior Physical Planner/Provisional Physical Planner and a Physical Planner in the Ministry of Planning.

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



**Eng. Luka K. Kimeli**  
Ag. Director General  
Up to 6<sup>th</sup> July 2020

**Eng. Luka K. Kimeli** was born in 1973 and is the former Acting Director General and Secretary of the Board.

He holds a First Class Honors BSc. (Civil Eng.) Degree from the University of Nairobi. Eng. Kimeli is a seasoned engineer with extensive experience in the areas of planning, policy formulation, and construction management. He has held several senior positions in the public service. Eng. Kimeli was seconded to the Kenya Rural Roads Authority initially as a Regional Manager and later became the General Manager (Maintenance).

He is a Registered Professional Engineer with the Engineers Board of Kenya and a Corporate Member of the Institution of Engineers of Kenya (MIEK). He is trained in corporate governance and Strategic Leadership Development Programme.



**Eng. Philemon Kandie**  
Ag. Director General  
From 6<sup>th</sup> July 2020

**Eng. Philemon Kandie** was born in 1971 and is a Registered Professional Engineer with the Engineers Board of Kenya and a Corporate Member of the Institution of Engineers of Kenya (MIEK).

Eng. Kandie holds Master of Science in Road Management & Engineering from the University of Birmingham in the United Kingdom, BSc. (Hons) in Civil Engineering from Jomo Kenyatta University of Agriculture & Technology and Diploma in Transport Planning, Development & Management from Galilee Management Institute (Israel).

He has been extensively trained in management infrastructure embracing road asset management and has valuable experience in policy formulation, planning, design,

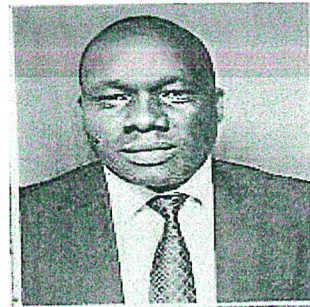


	<p>construction and management of projects and programs gained from his working experience in the public service for over 24 years.</p> <p>He worked in the Ministry of Roads and the Kenya National Highways Authority as Regional Manager in various stations before he was promoted to Regional Network Coordinator in the headquarters.</p> <p>Eng. Kandie holds leadership portfolios in and out of the Authority and is a member of various committees amongst them Road Sector Investment Plan, Review of Road Classification, Performance Based Contracts and Roads 2000 Strategy Implementation.</p>
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## MANAGEMENT TEAM



**Eng. Philemon Kandie**  
*P.Eng., BscHons, MIEK, MSc*  
**Ag Director General**  
From 6<sup>th</sup> July 2020



**Eng. Luka K. Kimeli**  
*P.Eng., BscHons, MIEK*  
**Ag Director General**  
Up to 6<sup>th</sup> July 2020



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



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



**Eng. Jackson K. Magundu**  
*P.Eng., M(IBL), BSc., MIEK, A(CIARB-UK)*  
**Director – Development**



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



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



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



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

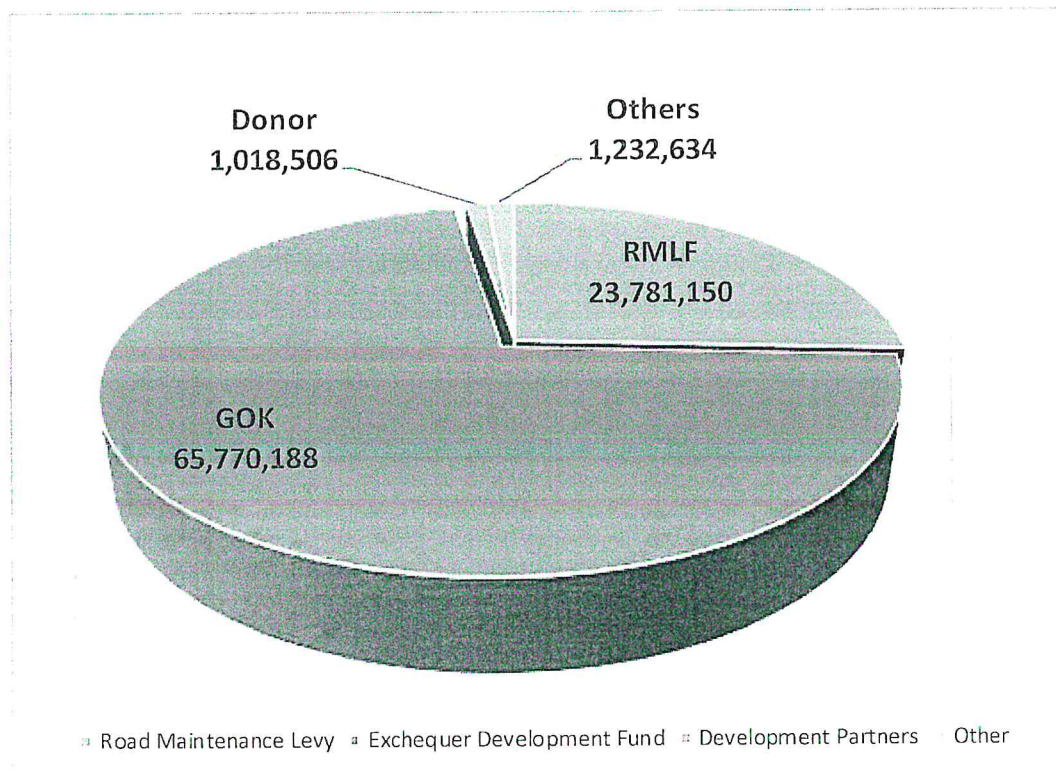


**Ms. Margaret W. Muthui**  
*Msc(Proc. & Logistics), Bsc(Computer Science),  
MKISM, MCIPS*  
**Deputy Director – Supply Chain Management**

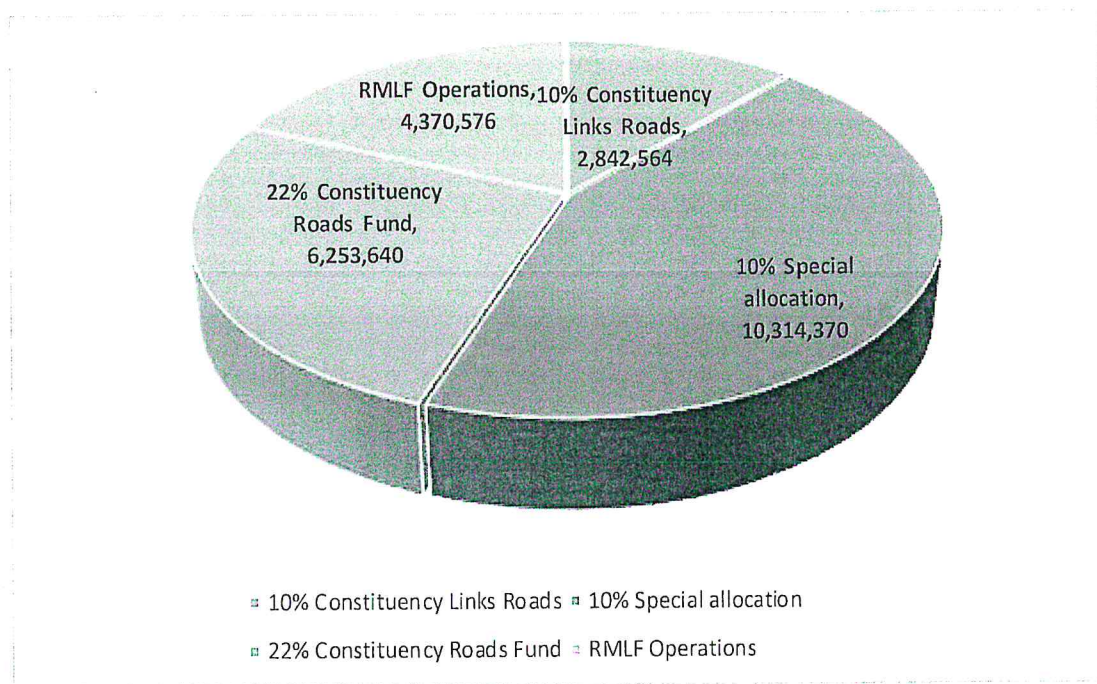


## FINANCIAL HIGHLIGHTS (Ksh '000)

### Revenues 2019-2020 (Ksh '000)

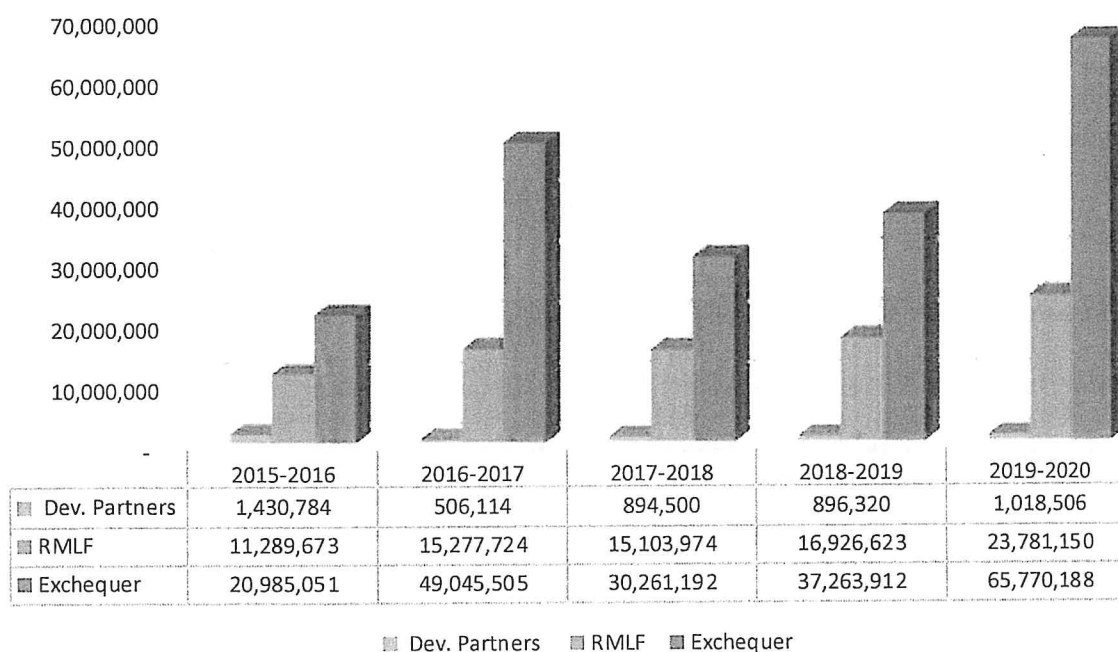


**Total Revenue: 91,802,478**

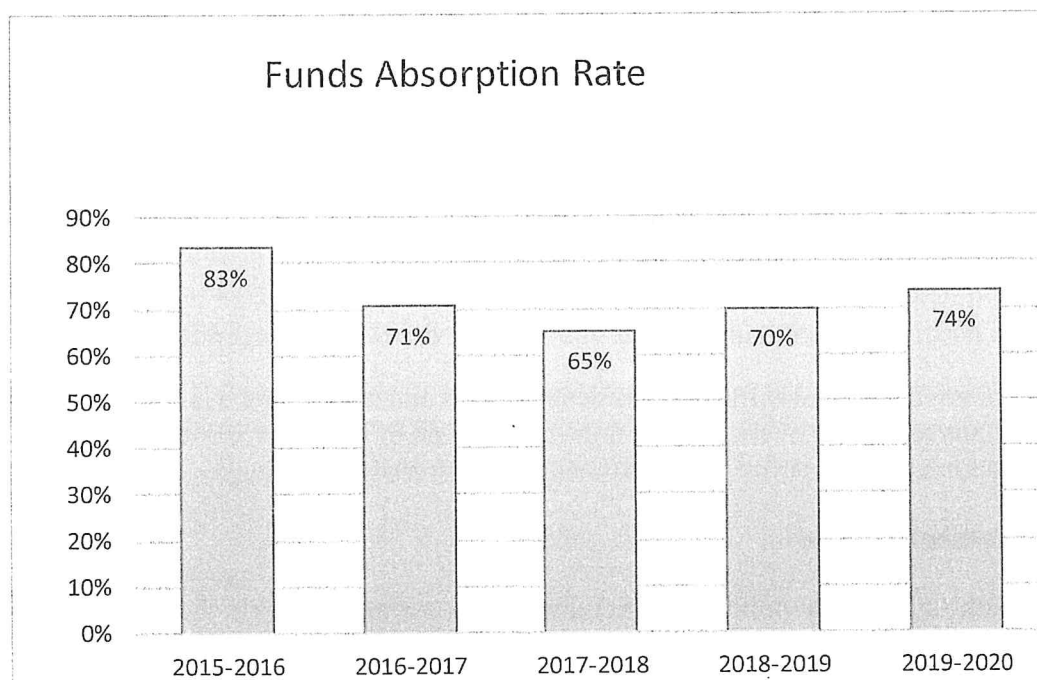


**Total RMLF: 23,781,150**

### Funding History



### Funds Absorption Rate





## **CHAIRMAN'S STATEMENT**

### **Overview**

**I**t is my pleasure to present the Eleventh Financial Statements for the Kenya Rural Roads Authority, for the year ended 30<sup>th</sup> June 2020. This report outlines a review of the financial status, projects and Programmes for the rural road infrastructure that were planned and implemented including the challenges encountered and progress made towards fulfilling the mandate of the Authority. In addition, it gives a future outlook of the Authority. It has been prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS).

### **Re-alignment with the Constitution 2010 and Road Sector Reforms**

The Authority takes pride in fulfilling the mandate bestowed upon it to develop, construct and maintain the national secondary trunk road network in the country. The scope of the rural road network was revised via the Kenya Gazette Legislative Supplement No. 4 (Special Edition) of 22<sup>nd</sup> January 2016. The Authority is currently managing 22,769Km of national secondary trunk road network (Class C). The current portfolio of contracted road works coverage is over 7,200Km of roads under improvement to bitumen standard at a cost of over KShs. 320Billion which are at various stages of implementation.

### **Support to the Kenya Vision 2030 and Big Four Agenda**

The Kenya Vision 2030 aims at making Kenya a newly industrialized country providing high quality of life for all its citizens by the year 2030. Under the Vision's economic pillar, the economy is projected to grow at an annual rate of 10% per annum. To realize this growth, an efficient road network is a key enabler towards the growth of key sectors of the economy identified under the Kenya Vision 2030. Presently, the National Government continues to construct the pledged 10,000Km of roads countrywide under various road construction methods and technologies among them the Low Volume Seal Roads (LVSr) technology and the conventional design approach. The attainment of Vision 2030 aspirations will depend heavily on the quality of road infrastructure network through reduction of transport costs, improvement of accessibility and enhancement of road safety. Consequently, a sustained dedication and commitment continues unabated on the part of the Board of Directors to ensure efficient attainment of the national development agenda.

National secondary trunk road infrastructure development and maintenance is a critical enabler in the realization and sustainability of each of the four focus pillars of the government development agenda: universal healthcare, food security, manufacturing and affordable housing.

### **General Economic Outlook**

Kenya has made significant political, structural and economic reforms that have largely driven sustained economic growth, social development and political gains over the past decade. In 2019, Kenya's economic growth averaged 5.7%, placing Kenya as one of the fastest growing economies in Sub-Saharan Africa. The recent economic expansion has been boosted by a stable macroeconomic environment, positive investor confidence and a resilient services sector.

Kenya's economy is being hit hard through supply and demand shocks on external and domestic fronts, interrupting its recent broad-based growth path. Apart from the COVID-19 (Coronavirus) pandemic, the locust attack which started in early 2020 affected many parts of Kenya especially the North Eastern region. It had a negative impact on the food security and growth of the agriculture sector in the country. Real Gross Domestic Product (GDP) growth is projected to decelerate from an annual average of 5.7% (2015-2019) to 1.5% in 2020. However, if it takes longer than expected to



bring the COVID-19 pandemic under control, GDP could contract by 1.0% in 2020 and see a delay in the projected recovery to 5.2% growth in 2021. The downside risks may include a protracted global recession undermining Kenya's export, tourism and remittance inflows. In addition, further tightening of COVID-19 health response measures may disrupt the domestic economic activities including execution of road works.

Kenya has the potential to be one of Africa's success stories from its growing youthful population, a dynamic private sector, highly skilled workforce, improved infrastructure, a new constitution and its pivotal role in East Africa. In 2020, Kenya ranked 56<sup>th</sup> in the World Bank ease of doing business rating, up from 61<sup>st</sup> in 2019 (among 190 countries). Compared to its neighbours, Kenya has a well-developed social and physical infrastructure. As of 2020, Kenya is the third largest economy in Sub-Saharan Africa, coming behind Nigeria and South Africa.

### **Strategic Focus**

The Board is continuously committed to entrenching principles and values of public service and best practice in corporate governance in the Authority's activities. During the Financial Year (FY) 2019/2020, the Board spearheaded transparency and disclosure, accountability, risk management, internal controls, ethical leadership and good corporate responsibility which ensured sustainability, performance and excellence in achievement of the Authority's strategic objectives, strategies and activities including good financial performance.

In the period under review, the Authority received a total of KShs. 90.5Billion against a budget allocation of KShs. 91.5Billion. A total of 1,027Km of road network was upgraded to bitumen standard against a target of 916Km. Majority of the core/operational performance indicators were met despite the emergence of COVID-19 which affected some operations at the tail-end of the financial year. The strategic focus remains positive based on enhanced National Government's commitments for increased budgetary allocations over the years from development vote exchequer releases and the current road bond financing.

The Board remains confident that, notwithstanding the challenging financing gap, the Authority has the intrinsic strength and operational resilience to optimize its performance in FY 2020/2021.

### **Appreciation**

On behalf of the Board of Directors, Management and Staff of the Authority, I express my sincere gratitude to the Government of Kenya; the National Treasury and Planning; the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works; related road agencies; development partners; taxpayers and other stakeholders for their continued support. This goes a long way towards building a solid institution that is responsive to its mandate and stakeholders' expectations. It is the Board's undertaking that it shall endeavor to achieve stakeholder expectations and even surpass them where possible.



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**Director**

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**Date**

## **REPORT OF THE DIRECTOR GENERAL**



This report is prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS). It describes the progress the Authority achieved in the FY 2019/2020 against targeted performance outputs as contained in the Authority's Performance Contract, Strategic Plan (2018-2022), policies, service delivery charter and government directives.

Guided by our Core Values (Good Governance, Professionalism, Innovation, Integrity, Equity, Team Work and Collaboration), the Authority ascribes to high standards of professionalism across all cadres as manifest in sustained high achievement of performance targets over the years. Enshrined in the Strategic Plan are our codified ambitions as an institution, which have been developed in keeping with essential policy and legislative targets for the roads subsector as envisaged by the National Government via sessional economic guidelines. The Strategic Plan has also incorporated the views and aspirations of critical stakeholders among them the citizens of the Republic of Kenya, other arms of Government, Development Partners, road contractors and service providers.

### **Service Delivery**

The Authority undertook a seamless interface between SAGE and Bank System for seamless payment settlement ensuring security of payments.

During the FY under review, the Authority committed to modernize its systems by introduction of modern technologies, for example, the use of Enterprise Resource Planning Solution integrating among others HR and Payroll, Finance, ICT with an Employee Self Service Portal and Intranet Portal for all Kenya Rural Roads Authority (KeRRA) staff to improve service delivery.

### **Performance Management**

During the year under review, the Authority continued to implement 154 road work contracts (6,617Km) worth KShs. 297.5Billion for Roads10000 LVSR Programme. The programme has up to date produced an output of 3,225Km. To date, various road projects have been substantially completed. These include:

- 1) Mariakani – Bamba (D549) and Kilifi – Kiwandani Primary School Roads
- 2) Kamatira – Cheptongei Road
- 3) Brooke Bond – Maili Nne – Kipkelion – Londiani/Maili Nne – Chepsion Roads
- 4) Daraja Sita – Dikirr – Chebole – Labotiet (D233 & D234) Roads
- 5) Ruaka – Banana – Limuru (D407) – Ngecha (E423) and Thogoto – Gikambura – Mutarakwa (Phase 111) (D411) Roads
- 6) Mauche – Bombo – Olenguruone – Kiptagich – Silibwet Road
- 7) Junction B8 – Masalani Road
- 8) Sultan Hamud – Kasikeu – Wautu – Kyambeke – Kikoko (D515) Road
- 9) Karima A2 – Kianjege – Mukangu – Ndimaini – Karatina and Kiburu – Kabonge Roads
- 10) Njegas – Mutito – Gatwe – Kangaita/Kiaga – Kianjege – Mikinduri Roads
- 11) Butere – Sidindi and Butere (Bukolwe) – Musanda – Bungasi – Sigomere – Ugunja Roads
- 12) Malindi – Kaloleni – Sala Gate (C103) and Sabaki – Marekebuni (D553) Roads
- 13) Lwakakha – Korosiondet – Tulienge – Sirisia – Namwela – Chwele Road
- 14) Imaroro – Mashuru – Isara Road
- 15) Kimutwa – Makaveti – Kwa Mutisya Road



- 16) Kangeta – Muutine – Laare Road
- 17) Gati-Iguru – Ithanga – Mithini – Kirimiri – Gakungu/Gakungu – Makuyu – Kamahuha – Mbombo Roads
- 18) Teganda – Ndaraweta – Isaik – Sigorwet – Leldaret Road
- 19) Soimet – Kapletundo – Mogogosiek and Kapletundo – Kapngoken – Kilgoris – Olososayiet Roads
- 20) Jnc A104 – Drys – Jnc C53 – Kapchorwa – Plateau -Naiberi Road
- 21) Murang'a Town (Hui Town Stn) – Karii Railway Stn – Muthingiriri – Marewa – Gakindu Bridge – Wandaka – Gikuu – Kayuyu – Mirira Road

Other road work contracts for conventional design approach, R2000 Programme, rehabilitation/reconstruction works and periodic and routine maintenance works continued to be implemented. A total of 1,027Km were upgraded to bitumen standards, 35Km reconstructed/rehabilitated, 18,657Km routinely maintained, 5 bridges/box culverts constructed, 1,147Km of roads designed and 1,507Km of road reserves mapped.

### **Capacity Building**

The Authority is privileged to have a dedicated staff. Competency-based training was offered to staff members through an elaborate training plan for all staff by attending short courses during the period under review. Youth internship and industrial attachments to offer practical work exposure to graduate and undergraduate students were also extended to 269No. students, who were attached to different Directorates and Sections within KeRRA to gain on-the-job experience for a minimum period of three months.

Various members of staff were promoted to fill skills gaps among different cadres. This has boosted the morale of the staff as well as enhanced their productivity. The current Board of Directors were inaugurated in January 2020 and Board inductions and continuous skills development continued so as to familiarize the Directors with their responsibilities, general principles of corporate governance and board practices.

Further, the Authority relocated from Blue Shield Towers to Barabara Plaza where working environment is more conducive. This will also lower some overhead costs and create savings for other core/operational activities.

### **Mainstreaming of Cross-cutting Issues**

Kenya Rural Roads Authority continues to make a significant contribution towards mainstreaming of cross-cutting issues. Among them include road safety mainstreaming by developing, maintaining and managing rural road environment and by identifying and addressing road safety concerns. Other cross cutting issues include environment conservation, gender mainstreaming, disability mainstreaming, national cohesion and values, HIV/AIDs prevention, strategies against drug abuse and anti-corruption measures within KeRRA operations and activities.

### **Future Outlook FY 2019/2020**

The Authority developed a five-year Strategic Plan (2018-2022) to provide a road map for meeting its strategic goals. The Strategic Plan inculcates good corporate governance, accountability, performance improvement and effective service delivery as key hallmarks in achieving the Authority's mandate. It also takes cognizance of the changes in the operating environment such as the implementation of the Constitution of Kenya 2010, Government laws and policies, the Second Kenya Road Sector Investment Programme, the Third Medium Term Plan (2018-2022), Sustainable Development Goals, emerging issues and challenges, among others to ensure synchronization with the same.

The Authority will aim at rehabilitating the existing road infrastructure and completing the ongoing contracted works to support the primary growth sectors of the economy in trajectory to economic transformation and effective service to the citizens.

### **Appreciation**

In conclusion, I take this opportunity to express my sincere gratitude to the Authority's stakeholders; the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works and the National Treasury and Planning for their distinguished role in helping the Authority achieve its mandate through both policy and budgetary support. In addition, my appreciation goes to development partners (KfW, AfD, BADEA and EU) and related road agencies for their continued support.

On behalf of the Management team, I would also like to thank the Board of Directors for their continued support, visionary leadership and the guidance they provided to the team throughout the year. I also wish to recognize the role played by the Authority's clients who continue to support its various initiatives. They remain a crucial stakeholder without whom the Authority would not have achieved its set objectives and goals.

Lastly, on behalf of the Board and Management of KeRRA, I take this opportunity to congratulate KeRRA's staff for their tireless efforts and commitment that have enabled recording remarkable performance. I look forward to their continued support in making our vision a reality.



Eng. Philemon K. Kandie  
**Ag. Director General**



## REVIEW OF PERFORMANCE FOR FY 2019/2020

Section 81 Sub-Section 2(f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the National Government entity's performance against predetermined objectives.

**Kenya Rural Roads Authority (KeRRA)** has Five (5) strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. These strategic pillars are as follows:

Key Result Area	Performance Target	Planned Activities/Outcome	Outputs 2019-2020
<b>Strategic Objective 1: To increase the national secondary trunk road network under bitumen standard</b>			
1. Roads designed (Km)	<ul style="list-style-type: none"> <li>To design 1,582.92Km of rural road network</li> </ul>	<ul style="list-style-type: none"> <li>Design roads to support accessibility to all production, market and social centres for enhanced economic growth</li> </ul>	<ul style="list-style-type: none"> <li>2,294.2Km</li> </ul>
2. New roads constructed under Conventional approach (Km)	<ul style="list-style-type: none"> <li>To upgrade 122.7Km of rural roads network to bitumen standards</li> </ul>	<ul style="list-style-type: none"> <li>Open up rural roads to reduce transport cost and journey time.</li> </ul>	<ul style="list-style-type: none"> <li>32.2Km</li> </ul>
3. New roads constructed under Annuity Program (Km)	<ul style="list-style-type: none"> <li>To upgrade 68Km of rural roads network to bitumen standards</li> </ul>	<ul style="list-style-type: none"> <li>Open up rural roads to reduce transport cost and journey time.</li> </ul>	<ul style="list-style-type: none"> <li>70.0Km</li> </ul>
4. New roads upgraded under Roads 2000 Program - LVSR (Km)	<ul style="list-style-type: none"> <li>To upgrade 141.54Km of rural roads network to bitumen standards</li> </ul>	<ul style="list-style-type: none"> <li>Open up rural roads to reduce transport cost and journey time.</li> </ul>	<ul style="list-style-type: none"> <li>100.5Km</li> </ul>
5. New roads constructed under Roads 10,000 Program (Km)	<ul style="list-style-type: none"> <li>To upgrade 1,500.8Km of rural roads network to bitumen standards</li> </ul>	<ul style="list-style-type: none"> <li>Open up rural roads to reduce transport cost and journey time.</li> </ul>	<ul style="list-style-type: none"> <li>1,850.7Km</li> </ul>
6. Bridge Construction Program (No.)	<ul style="list-style-type: none"> <li>To construct 6No. bridges</li> </ul>	<ul style="list-style-type: none"> <li>Design and construct bridges to support accessibility to all production, market and social centres for enhanced economic growth</li> </ul>	<ul style="list-style-type: none"> <li>7 No. constructed</li> </ul>

Key Result Area	Performance Target	Planned Activities/Outcome	Outputs 2019-2020
<b>Strategic Objective 2: To improve maintenance and rehabilitation of the national secondary trunk road network</b>			
7. Equalization funded road works (Km)	<ul style="list-style-type: none"> <li>To improve 194Km of roads in 14 marginalized Counties to gravel standard</li> </ul>	Provide basic services in marginalized areas to the level generally enjoyed by other areas	<ul style="list-style-type: none"> <li>200Km</li> </ul>
8. Periodic maintenance (Km)	<ul style="list-style-type: none"> <li>To carry out periodic maintenance of 150Km of rural road network</li> </ul>	<ul style="list-style-type: none"> <li>Well maintained roads</li> </ul>	<ul style="list-style-type: none"> <li>164Km</li> </ul>
9. Roads reconstructed and rehabilitated (Km)	<ul style="list-style-type: none"> <li>To rehabilitate 120Km of rural road network</li> </ul>	<ul style="list-style-type: none"> <li>Well maintained rural roads</li> </ul>	<ul style="list-style-type: none"> <li>70.6Km</li> </ul>
10. Roads maintained under Roads 2000 Program (Km)	<ul style="list-style-type: none"> <li>To maintain 177.2Km using labour based methods</li> </ul>	<ul style="list-style-type: none"> <li>Use labour based methods in maintaining rural roads</li> </ul>	<ul style="list-style-type: none"> <li>207.6Km</li> </ul>
11. Axle load monitoring	<ul style="list-style-type: none"> <li>To monitor 26No. rural roads for axle loading</li> </ul>	<ul style="list-style-type: none"> <li>Safeguarding rural roads investment</li> </ul>	<ul style="list-style-type: none"> <li>16No. rural roads monitored for axle loading</li> </ul>
<b>Strategic Objective 3: To develop road management plans and systems</b>			
12. Road Reserves Mapping	<ul style="list-style-type: none"> <li>To Map 2010.47Km of road reserves</li> </ul>	<ul style="list-style-type: none"> <li>Safeguard road asset from encroachment</li> </ul>	<ul style="list-style-type: none"> <li>1507Km of road reserves mapped</li> </ul>
13. Traffic census	<ul style="list-style-type: none"> <li>Traffic count report at 100% census points</li> </ul>	<ul style="list-style-type: none"> <li>Traffic census data for planning and design purposes</li> </ul>	<ul style="list-style-type: none"> <li>Report on traffic count at 50% census points.</li> </ul>
<b>Strategic Objective 4: To enhance service delivery</b>			
14. Implementation of Citizens' Service Delivery Charter	<ul style="list-style-type: none"> <li>Reviewing and printing Service Charter in English and Kiswahili.</li> <li>Staff sensitized on the Customer Service Charter and the Service Charter</li> </ul>	<ul style="list-style-type: none"> <li>Informed citizens</li> <li>Improved customer care</li> </ul>	<ul style="list-style-type: none"> <li>Service Charters have been displayed prominently in the size indicated in the guidelines</li> <li>205No. Staff sensitized on the Customer Service Charter and the Service</li> </ul>



Key Result Area	Performance Target	Planned Activities/Outcome	Outputs 2019-2020
15. Application of Service Delivery Innovations	<ul style="list-style-type: none"> <li>Implement Sage Bridge Application (Pay Bridge) System Development</li> </ul>	<ul style="list-style-type: none"> <li>Roll out new payment platform</li> </ul>	<ul style="list-style-type: none"> <li>Charter has been cascaded and circulated to all 47 Regional Offices as per the guidelines</li> <li>The system went live in April 2020 and is currently used by Finance Section for processing all payments</li> </ul>
16. Resolution of Public Complaints	<ul style="list-style-type: none"> <li>Resolve all public complaints</li> </ul>	<ul style="list-style-type: none"> <li>Satisfied public</li> </ul>	<ul style="list-style-type: none"> <li>Resolved all public complaints for the quarter and forwarded report to CAJ in the prescribed format</li> </ul>
<b>Strategic Objective 5: To enhance corporate governance</b>			
17. Develop capacity of the Board	<ul style="list-style-type: none"> <li>Four (4) trainings for the Board: <ul style="list-style-type: none"> <li>Board Audit Risk and Governance Committee</li> <li>Board Human Resource Committee</li> <li>Board Technical Committee</li> <li>Full Board retreat</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Undertake Board induction and trainings</li> </ul>	<ul style="list-style-type: none"> <li>Induction conducted for the new Board</li> </ul>

## **CORPORATE GOVERNANCE STATEMENT**

### **Overview**

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

### **Organization Structure of the Authority**

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

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

### **Appointments to the Board**

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

### **Board Organization and Structure**

The composition of the Board is as per the provisions of Section 8 of the Kenya Roads Act, 2007. The Board is composed of representatives of relevant Government Ministries and private sector as represented by the various nominating bodies and is independent of management. The Board has set up Four (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 a way to enhance Board effectiveness. To further enhance effectiveness, the directors have been trained on various issues on Corporate Governance and Mwogozo Code of Conduct

## **Board Committees**

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

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

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

### **Finance Committee**

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



### **Board Technical Committee**

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

  
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**Director**

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**Date**

## MANAGEMENT DISCUSSION AND ANALYSIS

### SECTION A

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

The National Government's commitment continues to be seen through the improved budgetary allocation to the road sector. In the period under review, the Authority received a total of KShs. 89.52Billion against a budget allocation KShs. 90.0Billion for the full financial year. Included in the funding is KShs. 25.5Billion towards settlement of pending bills arrears for the Authority as at 25<sup>th</sup> February 2020.

### SECTION B

#### Entity's compliance with statutory requirements

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

### SECTION C

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

The Authority has an ongoing portfolio of 8,054Km of contracts under reconstruction and upgrading worth KShs. 351Billion with 3,930 Km expected to be completed within the next three years at a total cost of KShs. 189Billion. The bulk of the contracted works falls under the Roads 10,000 Low Volume Seal Roads Programme. During the financial year, the contracts under the Annuity Programme through Public Private Partnership have progressed past the 70Km mark on Ngong – Kiserian – Isinya and Kajiado – Imarora Roads and LVSR has achieved a cumulative 3,878Km in terms of milestones.

### SECTION D

#### Major risks facing the entity

The major risks that the Authority is exposed to are reported on the Note 26 of this report.

### SECTION E

#### Material arrears in statutory/financial obligations

The Authority is not in arrears in the payment of statutory obligations though it has pending bills of approximately KShs. 13.780Billion as at 30<sup>th</sup> June 2020. These have been included as part of Payables.

### SECTION F

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

There has been no reports of financial improbity by the internal audit, external audit or other Government agencies.

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT/ SUSTAINABILITY

### 1. Sustainability Strategy and Profile

A broad Political, Economic, Social, Technological, Environmental and Legal (PESTEL) scan was undertaken with a view to describing the circumstances under which the Authority operates so as to be able to appreciate the factors that will either support or impede the process of implementing the Strategic Plan.

Factor	Strategic implication	Strategic Response
<b>Political Factors</b>		
1. Political Interference	<ul style="list-style-type: none"> <li>Interference with project planning and implementation</li> <li>Cost inflation due variation</li> </ul>	<ul style="list-style-type: none"> <li>Adherence to project implementation guidelines</li> <li>Public participation</li> <li>Adherence to Annual Road Works Program (ARWP)</li> </ul>
2. Funding to the Authority affected by political dynamics	<ul style="list-style-type: none"> <li>Low funding level in comparison to increased demand for better roads</li> <li>Additional funding</li> </ul>	<ul style="list-style-type: none"> <li>Lobby parliament and cabinet</li> <li>Stakeholder engagement</li> </ul>
3. Multiplicity of players in policy development	<ul style="list-style-type: none"> <li>Interference with policy implementation</li> <li>Conflicting directives leading to risk of non-compliance</li> </ul>	<ul style="list-style-type: none"> <li>Lobby parliament and cabinet</li> <li>Stakeholder engagement</li> </ul>
4. Weak institutional leadership •	<ul style="list-style-type: none"> <li>Interference with institutional governance</li> <li>Partial or total non-adherence to policies and guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Uphold Corporate Governance guidelines</li> <li>Develop assertive leadership</li> <li>Capacity building</li> </ul>
5. Prolonged political activity	<ul style="list-style-type: none"> <li>Interference with project implementation</li> <li>Gaps in leadership and direction</li> </ul>	<ul style="list-style-type: none"> <li>Adherence to project implementation guidelines</li> <li>Engagement with relevant stakeholders</li> </ul>
<b>Economic Factors</b>		
1. Lack of adequate funds	<ul style="list-style-type: none"> <li>Maintenance backlog (increased road asset deterioration)</li> <li>High vehicle operating costs</li> <li>High road user costs</li> <li>Reduced network improvement</li> <li>High cost of interest payments</li> </ul>	<ul style="list-style-type: none"> <li>Increase RMLF allocations</li> <li>Lobby for enhanced external funding</li> <li>Explore alternative options of funding</li> <li>Increased collaboration with external partners</li> </ul>
2. Fiscal and Monetary Policies	<ul style="list-style-type: none"> <li>High taxation</li> <li>Inflation</li> <li>High cost of fuel and road works materials</li> <li>Limitations to line budgetary items</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and review of policies and strategies</li> <li>Macroeconomic stability</li> <li>Adaptation to changes in fiscal policy</li> </ul>
3. Regional economic disparities	<ul style="list-style-type: none"> <li>Discrepancies in economic empowerment among counties (marginalized areas)</li> <li>Skewed regional competitive advantage</li> </ul>	<ul style="list-style-type: none"> <li>Increased Equalization fund</li> <li>Increased Equitable 10% RMLF</li> <li>Standardisation and harmonisation</li> </ul>
<b>Social Factors</b>		
1. Road Reserve Encroachment	<ul style="list-style-type: none"> <li>Increased accidents</li> <li>Loss of livelihoods</li> <li>Increased project costs</li> <li>Hostility</li> </ul>	<ul style="list-style-type: none"> <li>Road reserve demarcation</li> <li>Public sensitization</li> <li>Stakeholder engagement</li> </ul>



Factor	Strategic implication	Strategic Response
	<ul style="list-style-type: none"> <li>Interference with project implementation</li> </ul>	
2. Poor adherence to axle load limits	<ul style="list-style-type: none"> <li>Costly maintenance of roads</li> <li>Reduced road lifespan</li> </ul>	<ul style="list-style-type: none"> <li>Public sensitization</li> <li>Enforcement of axle load limits</li> <li>Periodic road design reviews</li> <li>Stakeholder engagement</li> </ul>
3. Meeting Societal Expectations	<ul style="list-style-type: none"> <li>Formulation and review of ARWP</li> <li>Formulation and review of Corporate Social Responsibility (CSR) work plan</li> </ul>	<ul style="list-style-type: none"> <li>Effectively manage expectations</li> <li>Public sensitization</li> <li>Engagement with stakeholders</li> <li>Upholding organisational core values</li> </ul>
<b>Technological Factors</b>		
1. Automation and information security	<ul style="list-style-type: none"> <li>High investment in ICT systems and infrastructure</li> <li>Effective information security management</li> <li>Enhanced efficiency and operational interconnectivity</li> </ul>	<ul style="list-style-type: none"> <li>Develop suitable ERPs</li> <li>Develop and implement information security strategies</li> <li>Implement ISMS</li> </ul>
2. Emerging technologies in road construction and ICT	<ul style="list-style-type: none"> <li>Incorporate usage of locally available materials and labour</li> <li>High cost of transition</li> <li>Need for matching staff knowledge and exposure with technology</li> </ul>	<ul style="list-style-type: none"> <li>Adaptation of technology and road construction concepts to emerging trends including R2000 &amp; R10,000</li> <li>Monitor obsolescence of technology and approaches</li> <li>Frequent updates</li> <li>Plan for future technological improvements</li> <li>Capacity building</li> </ul>
<b>Ecological factors/Environmental &amp; Road Safety</b>		
1. Adverse weather conditions (floods, mudslides, prolonged rainfall and drought)	<ul style="list-style-type: none"> <li>Partial or total cut-off of the road network</li> <li>Increased frequency and costs of road maintenance and rehabilitation works</li> <li>Delay in execution of projects in adverse weather and cost overruns</li> <li>Availability of manpower</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement annual disaster mitigation and management strategy</li> <li>Enhance works insurance to cover for adverse weather</li> </ul>
2. Availability of natural road construction material	<ul style="list-style-type: none"> <li>Depletion of natural resources</li> <li>High construction costs</li> <li>Damage to economically productive lands</li> </ul>	<ul style="list-style-type: none"> <li>Research on alternative road construction material</li> <li>Embrace viable emerging technologies</li> </ul>

## 2. Environmental Performance

As the Authority implemented its key operations, it ensured mitigation against environmental degradation. This involved making decisions and taking actions that are in the interests of protecting the natural world, with particular emphasis on preserving the capability of the environment to support human life. Among the key activities undertaken included the following:

- (i) 18No. EIA licences were issued by NEMA;
- (ii) 10No. Staff were trained on Environmental Impact Assessment/Environmental Audit; and
- (iii) A Management Committee to fast track Tree Planting MOU between the Authority and Kenya Forest Service (KFS) was constituted.

### 3. Employee Welfare

The Authority recruitment process is guided by the following statutes

- a) The Employment Act, 2007  
*This ensures the protection of the fundamental rights of employees and provides basic conditions of employment of employees. It defines the contractual obligations of both parties. It ensures both the rights of employees are protected in terms of Terms and Relationships, Protection of Wages, Employment Relationship and Termination and Dismissal.*
- b) The National Cohesion and integration Act, 2008  
*That prohibits discrimination in employment. It requires all public establishments to seek to represent the diversity of the people of Kenya in the employment of staff and to have no more than one third of its staff from the same ethnic community.*
- c) The Public Service Commission Act, 2017 and PSC Regulations, 2020  
*Some of the staff working in KeRRA were originally from the Ministry and the provisions of the Act pertaining to Appointments, Promotions, Re-designations, Transfers, Secondments and Deployments are applied.*
- d) The KeRRA HR Policies and Procedures Manual  
*The Authority is an equal opportunity employer and does not in its recruitment and selection process, discriminate on the basis of gender, race, religion, ethnicity or any other form of discrimination. The constitutional requirement on mainstreaming of Gender and Persons with Disabilities as stipulated in Article 232 of the Constitution of Kenya is observed alongside any policies issued by the National Cohesion and Integration Commission (NCIC).*

### 4. Performance Appraisal

The performance management system of the Authority is designed to measure employee performance and ultimately the achievement of intended results for the organization. The Authority has an incentive scheme aimed at rewarding members of staff based on the value they are adding to the Authority in relation to their performance, approved experience and professional skills/competence. This framework therefore establishes a basis for rewarding exemplary performance and administering sanctions for poor performance, motivating employees to have positive attitude to work and to enhance productivity in the Authority.

Whilst the Authority recruits competent personnel, it endeavors to continuously improve the Knowledge, Skills and Attitudes of its employees to ensure that their performance meets and/or exceeds the minimum expectations and benchmarks best practices. It recognizes the need for training and development of all employees in order to ensure effective delivery of its broad mandate. Training opportunities are therefore offered to all its employees in order to improve their work performance and personal development. Funds allowing, all members of staff should have at least Five (5) days training in a year.

The Authority has a developed Career Progression Guidelines which provides for a well-defined career structure aimed at attracting, motivating and facilitating retention of qualified and experienced personnel in the Kenya Rural Roads Authority (KeRRA). It establishes distinct levels of responsibilities in the grading structure and sets standards for advancement to higher grades on the basis of professional competence, specialization, knowledge, experience, proven ability, diligence and drive as reflected in work performance and results.

The Authority has developed an Occupational Safety and Health Policy which guides its operations to ensure the safety of both Employees in the workplace and other stakeholders.

## **5. Market Place Practices**

Anti-corruption – Contractors have declaration forms in tender documents and the evaluation committees also sign declaration forms on conflict of interest.

The Authority through the Constituency Roads Committees (CRCs) in the various Regional Offices engages various stakeholders in prioritization of maintenance of roads.

The Authority through its Procurement Department uses the most preferred procurement method based on services and goods being procured. Open Notational Tendering is used to encourage competition among suppliers. The bidders are debriefed on how they fared during the tendering process and notification is issued to all participating bidders indicating the successful bidders.

The Authority trains its suppliers on what is expected of them in terms of the bidding process, ethical behavior and confidentiality of information. Special groups have also been allocated tenders.

## **6. Community Engagements**

Our approved Annual CSR Work Programme for the year was however greatly affected by the outbreak of the COVID-19 Pandemic which led to the cancellation of numerous activities including those we have perennially supported such as the Mater Heart Run.

Below is the tabulation of the activities carried out in the reporting period.

<b>No.</b>	<b>PROJECT NAME</b>	<b>PARTICIPANTS</b>	<b>DETAILS</b>	<b>LOCATION</b>	<b>DATE</b>	<b>AMOUNT/ VALUE (KShs.)</b>
1.	Eldama Ravine Half Marathon	KeRRA and other agencies supporting the Programme	Sponsorship fee	Eldama Ravine, Baringo County	5 <sup>th</sup> October 2019	900,000.00
2.	National Tree Planting Exercise	KeRRA and all State agencies and Departments of MOTIHUD	Exercise in compliance with presidential directive of attaining at least 10% Forest Cover	Ngong, Kajiado County	24 <sup>th</sup> June 2020	131,000.00
3.	Engineering Students Association Conference	KeRRA, Government agencies and student bodies	Conference for Associates of Engineering Students in Kenya	Nairobi	10 <sup>th</sup> August 2019	200,000.00



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*For the year ended 30<sup>th</sup> June 2020*

4.	Donation of Office Furniture to Maua Primary School in Mihango Embakasi East, Nairobi	Assets Disposal & CSR Committees	The school was considered for assistance following a request	Nairobi	27 <sup>th</sup> November 2019	480,472.00 (Valuation*)
5.	Annual Day of Remembrance of Road Safety	KeRRA, NTSA & Religious Groups	Remembrance of victims of road accidents and awareness on the same in liaison with the NTSA	Kyumvi, Machakos County	17 <sup>th</sup> November 2019	100,000
<b>Total</b>						<b>5,371,472.00</b>

## **REPORT OF THE DIRECTORS**

The directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June 2020, in accordance with the provisions of Section 8 of Kenya Roads Act, 2007 which disclose the state of affairs of the Authority.

### **Principal Activities**

The principal activity of the Authority is the management, development, rehabilitation and maintenance of the rural road network in Kenya classified as C and others.

### **Results**

The results for the Authority for the year ended 30<sup>th</sup> June 2020 are set out on Page 35.

### **Directors**

The directors who held office during the year and to the date of this report are set out on Pages 3-8.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Authority's books of accounts in accordance with the provisions of Article 229 of the Constitution of Kenya, 2010, Kenya Roads Act, 2007 and the Public Audit Act, 2015.

By order of the Board



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Eng. Philemon Kandie  
**Secretary to the Board**

## **STATEMENT OF DIRECTORS RESPONSIBILITIES**

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2020, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

### **Approval of the financial statements**

The Authority's financial statements were approved by the Board on \_\_\_\_\_ 2020 and signed on its behalf by:



Director

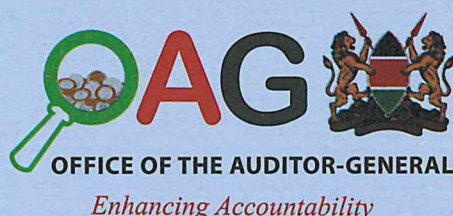


Director General



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## **REPORT OF THE AUDITOR-GENERAL ON KENYA RURAL ROADS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020**

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Rural Roads Authority set out on pages 34 to 69, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Rural Roads Authority as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Kenya Roads Act, 2007.

#### **Basis for Qualified Opinion**

##### **1. Donor Funded Projects**

The donor funded projects implemented by the Authority during the year had the following unsatisfactory matters that have a bearing on the accuracy and completeness of the Authority's financial statements: -

##### **1.1 Improvement of Rural Roads and Market Infrastructure in Western Kenya Project Credit No. BMZ 2007-65 123 (KFW)**

###### **1.1.1 Inaccuracies in Financial Statements**

The statement of receipts and payments reflected cumulative receipts from loans from external development partners of Kshs.887,755,032. However, the amount differed from the amount disclosed under the report on funding summary cumulative amount received of Kshs.741,906,848 under Paragraph 1.7 resulting to an unexplained variance of



Kshs.145,848,184. Similarly, the statement reflected counterpart funding from the Government of Kenya of Kshs.542,315,413 which differed from the cumulative amount received under the report on funding summary cumulative amount of Kshs.416,688,951 under Paragraph 1.7 resulting to an unexplained variance of Kshs.125,626,462.

Consequently, the accuracy and completeness of the reported cumulative receipts from loans from external development partners and counterpart funding from the Government of Kenya of Kshs.887,755,032 and Kshs.542,315,413 respectively for the year ended 30 June, 2020 could not be confirmed.

### **1.1.2 Accounting for Donor Refunds**

The financial statements reflected a refund of EUR 720,000 (Kshs.82,492,200) to the donor KfW pursuant to Clause 8 of Annex 6 of the separate agreement of attachment B (Annex 3). However, the refund was not properly accounted for through the statement of receipts and payments. Instead, the refund was deducted from fund balances brought forward in the statement of financial assets and liabilities and aggregated together with purchase of goods and services in the statement of cashflows. Further, Note 5 to the financial statements on road works expenditure included the refunded amount of Kshs.82,492,200 which misstated the balances to the extent.

Consequently, the accuracy and completeness of the donor refund of EUR 720,000 equivalent to Kshs.82,492,200 as at 30 June, 2020 could not be confirmed.

### **1.1.3 Retention Monies**

The Project owed contractors an amount of Kshs.14,603,693 by way of retention monies to guard for shoddy workmanship during the defect liability period. However, the liability was not reported in the statement of assets and liabilities as prescribed by the International Public Sector Accounting Standards Board (IPSAB).

Consequently, the accuracy and completeness of the retention monies balance of Kshs.14,603,693 and the financial statements as at 30 June, 2020 could not be confirmed.

## **1.2 Central Kenya Rural Roads Improvement and Maintenance Project (AFD Credit No. CKE 101201B, Credit No. CKE 1046 01 J and Credit No. CKE 1094 01 M)**

### **1.2.1 Inaccuracies in the Financial Statements**

The statement of cash flows reflected a balance of Kshs.858,259,368 under comparative cash and cash equivalents at the end of the year, which differed with the audited financial statements amount of Kshs.846,902,653 resulting to an unreconciled variance of Kshs.11,356,715 which was not explained. Further, the statement of comparative budget and actual amounts reflected total receipts utilization variance of Kshs.572,467,024. However, recasting resulted in a balance of Kshs.860,855,866 resulting to misstatement by Kshs.288,388,842 that was not corrected.

In addition, and as disclosed in Note 8.5 to the financial statements, the statement of receipt and payments reflected a loan from external development partners- receipts and payments controlled by the entity of Kshs.398,476,591. However, the special accounts statement reflected an amount of Kshs.402,756,447 resulting to an unreconciled difference of Kshs.4,279,856.

In the circumstance, the accuracy and completeness of the financial statement as prepared and presented could not be ascertained.

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

### **Key Audit Matters**

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

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Unresolved Prior Year Matters**

The following prior year matters remained unresolved as of 30 June 2020: -

##### **1.1. Interest on Delayed Payments**

As reported previously, the Authority continues to incur interest expense on account of delayed payments to contractors. As at 30 June, 2020, cumulative interest on delayed payments amounted to Kshs.220,621,047;(2019-Kshs.213,157,112). Although Management has explained that this was occasioned by delayed Exchequer releases, there is no evidence of measures being taken to reverse this trend into the future.



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

As reported in 2017/2018, the Project was awarded at a contract sum of Kshs.818,445,018 with commencement and expected completion dates of 10 October, 2012 and 10 February, 2016 (revised to 10 April, 2016) respectively. Examination of the Project file and related documents revealed the following concerns: -

### **1.2.1. Assignment of Works**

Works valued at Kshs.504,824,286 were assigned to another contractor on 28 January, 2015. This is indicative of poor performance of the main contractor. Management did not explain measures being taken to avoid similar recurrence in the future.

### **1.2.2. Delayed Project Implementation**

The Project progress report dated 5 August, 2016 indicated overall implementation of 99.9% against contract period utilization of 130.2%. Despite the contractor having requested for substantial project completion inspection on 13 September, 2016, Management had not undertaken the same as at 30 June, 2017. However, as at 30 June, 2018, the Project records indicated the Project having been taken over on 15 April, 2018 and being under defects liability period. Management has not explained the reasons for the delay in the takeover and why the main contractor originally awarded the Project had to assign part of the Works to another contractor.

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

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

### **1.3.1. Delayed Project Delivery**

Overall project delivery was at 73% as at 30 June, 2018 despite 40 months into the contract. This was indicative of delay in project delivery and likelihood of costs escalation. A review of the progress in the year under audit revealed that, the Project was at 88% as at 30 June, 2019, an indication continued and significant slow progression.

### **1.3.2. Interest on Late Payments**

Included in the project payment certificate Number 20 dated 27 June, 2017 was interest on delayed certificate claim totaling to Kshs.7,001,678 which was a nugatory expenditure.

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

The 67.79 kilometers road project traverses Kimilili, Bungoma West and Mount Elgon sub-Counties of Bungoma County. The Project is divided into 4 distinct road projects namely: -

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

Review of the Project file and the related records revealed the following unsatisfactory matters: -

#### **1.4.1. Delayed Project Delivery**

The Project completion status as of 31 July, 2015 indicated weighted average completion of 94%. This was despite the contract period having expired on 13 May, 2010 and sixty-one (61) months late of the expected completion date in the signed contract. The current project status could not be established as Management did not provide any information on the project in the year under review.

#### **1.4.2. Financial Distress of the Contractor**

Further, available information indicates the project contractor was under receivership as reported in the Daily Nation of Monday, 23 February, 2015. Consequently, the Contractor's yard including the site offices at Kamukuywa, were placed under a Receiver Manager and all site operations brought to a halt. Rent arrears due to the Authority from the contractor on account of Mwatunge Camp in Taita Taveta amounting to Kshs.3,028,125 as at 30 June, 2018 had not been settled. This amount relates to a previous contract with the Authority.

#### **1.4.3. Request for Mutual Winding Up of the Contract**

On 9 July, 2015, the Receiver Manager requested the Authority for mutual winding up of the contract. This was on account of insufficient contract fund balance for the remaining works based on design specifications. In its response, the Authority on 16 July, 2015 concurred and requested the resident engineer to commence on the mutual winding up of the contract, undertake a project appraisal and submit a report with recommendations by 27 July, 2015. Further, the Attorney General on 1 September, 2016 advised Management to terminate the contract forthwith in accordance with clause 63.1 of the conditions of the contract. However as at 30 June, 2019, there was no evidence of any action having been taken to resolve the matter.

From the foregoing, it was not been possible to confirm whether the public obtained value for money for the expenditure of Kshs.2,622,131,272 incurred on the Project.

### **1.5. Assignment of Works and Delayed Project Delivery -Munyu-Karisheni Road**

As reported previously, the project scope entailed construction of four (4) roads covering total distance of 45 Km at a contract sum of Kshs.2,468,815,445. The contract commencement and expected completion dates were 1 October, 2012 and

30 September, 2014 respectively. The main contractor assigned another contractor works valued at Kshs.2,064,537,961 and covering a distance of 39.9 KMs on 21 April, 2015 after approval by the Authority on 9 March, 2015, an indication of poor performance. The details of the assigned roads were as follows: -

- |  |          |
|--|----------|
| i. Road D448 6+000 to Km 21+200 (Kirisheni)    | 15.2 Kms |
| ii. Road E171A Lusoi-Munyu-Kakuret             | 7.3 Kms  |
| iii. Road RAR27 Giting'a- Kamburuaini-Sarafina | 7.3 Kms  |
| iv. Road RAR 29 Ibauini-Mwicwiri-Njoguini      | 10.1 Kms |

Upon the assignment, the main contractor scope was reduced to 6 Kms or 13.3% of the coverage. However, as at 30 June, 2017, project delivery progress stood at 72% despite being fifty-seven (57) months late of the expected completion time. The assigned contractor progress also stood at 71.23% as date despite being two (2) months late of the contract delivery time. Overall, the combined project delivery rates stood at 73.1%, 91% and 95.7% as at 30 June, 2017, 30 June, 2018 and 30 June, 2019 respectively an indication of project delay with no satisfactory explanation being rendered.

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

As reported in 2017/2018, the Project was awarded at a contract sum of Kshs.1,435,212,465 with commencement and expected completion dates of 1 September, 2011 and 1 March, 2014 (revised to 1 March, 2016) respectively. Review of the Project file and the related records revealed the following unsatisfactory matters: -

##### **1.6.1. Scaling Down of Works**

The contract was subsequently repackaged into three (3) sections with new total contract sum of Kshs.2,575,110,585. This exceeded the initial contract amount by Kshs.1,139,898,120 or escalation of 79.4% and the details were as follows: -

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

The first section was repackaged as addendum No.2, approved by the Authority's tender committee on 12 September, 2014 to be completed under the initial contract. The second section was subjected to open tender and was awarded to a different contractor on 19 June, 2015 at a contract sum of Kshs.1,313,914,382 while the third section estimated to cost Kshs.536,046,915 and was deferred for implementation under the annuity programme.

##### **1.6.2. Delayed Project Implementation**

The revised contract period lapsed on 1 March, 2016, however as at 30 June, 2017, the overall progress was reported at 96% with only 88.2% of the works having been certified.



Management did not provide a satisfactory explanation for escalation of project costs by 79.5% and the significant delay in project delivery even after the Project was repackaged.

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

The project is located in Molo, Nakuru County and covers an approximate distance of 51 KMs was awarded at a contract sum of Kshs.742,290,293 and subsequently revised to Kshs.844,347,348. The commencement and expected completion dates were 6 August, 2010 and 6 February, 2016 respectively. Review of the Project file and the related records revealed the following unsatisfactory matters: -

#### **1.7.1. Assignment of Works**

Available information indicates that the original contractor assigned works valued at Kshs.113,137,135 to another Contractor in unclear circumstances.

#### **1.7.2. Delay in Project Delivery**

The latest available progress report of December 2014 indicated 67.73% physical progress. However, there were no progress reports for review as at 30 June, 2017 and as at 30 June, 2018, the Project was incomplete an indication of poor performance on the part of assigned contractor.

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

As reported previously, the Project is in Kakamega County covering a distance of approximately 34.25 KMs and was awarded at a contract sum of Kshs.1,809,465,663 on 28 March, 2011. The Project duration was for a period of twenty-four (24) months with the expected completion date of 6 June, 2013. The following concerns were noted from review of project file and related documentation:

#### **1.8.1. Assignment of Part of the Works**

The main Contractor entered into an assignment agreement in December 2014, eighteen (18) months after the expiry of contract expected completion date pursuant to clause 3.1 of the conditions of the contract. Out of the total distance, 25 KMs was assigned representing 73% of the total distance and at a contract sum of Kshs.1,113,658,598. The assignee was given 18 months window to complete the works resulting in total extension of time of thirty-six (36) months.

#### **1.8.2. Advance Payments**

As at 30 June, 2017, of Kshs.180,946,566 advance payment made to the main contractor, only Kshs.22,808,548 had been recovered leaving Kshs.158,138,018 outstanding. The recoverability of this amount was doubtful.

### **1.8.3. Delayed Project Implementation**

Project progress report as at 30 June, 2018 indicated 74.3% combined implementation progress (main contractor and assignee) against target completion date of June 2016. This was sixty (60) and twenty-four (24) months behind schedule for the main and assigned contracts respectively.

### **1.8.4. Liquidated Damages**

Conditions to contract clause 47.1 required the Employer to deduct liquidated damages of Kshs.100,000 per day after expiry of contract period if no extension of time was granted had not been enforced. Management has not rendered satisfactory explanations for its failure to enforce the clause or extend the contract as necessary.

## **1.9. Construction of Sigiri Bridge and Approach Roads R43-RW-C092**

As reported in 2017/2018 the contract was awarded on 5 March, 2015 at a contract sum of Kshs.992,546,146. The contract period was for eighteen (18) months commencing 12 August, 2015 with the expected completion date of 12 February, 2017. However, the Project implementation had been slow with overall progress being at 81.27% as at 31 October, 2017. This was despite being 7.5 months later than the expected contract completion date. There was also no evidence of extension of time for continued implementation of work without attracting penalties. As at 30 June, 2018, the Authority had recommended project takeover but there was no evidence of progress on the ground. A review of the Project during the year under review revealed that it was subsequently handed over on 5 July, 2018 with no satisfactory explanation was provided for inordinate delay in Project delivery.

## **1.10. Isiolo Township Lot 1 RWC/174A**

The above contract was awarded to a local Contractor on 6 January, 2017 at a contract sum of Kshs.980,682,371 with an implementation period of twenty-four (24) Months ending on 23 March, 2019. The progress report dated 21 June, 2019 reflected 53% progress despite having exceeded the contract period by 37% of and value of works certified and paid standing at Kshs.501,618,904 representing 56% of the contract sum. The Project is behind schedule and may lead to costs escalation. In addition, there was no evidence that Management was charging liquidated damages as provided for in the contract or the contract period having been extended.

Consequently, I am unable to confirm if value for money will be realized from the above projects under implementation but with unsatisfactory observations.

## **1.11. Donor Funded Projects**

The implementation of the improvement of rural roads and market infrastructure in western Kenya Project credit No. BMZ 2007-65 123 (KFW) had the following value for money observations: -

#### **1.11.1. Loss of Funding due to Low Absorption**

During the year under review, the Project through a letter dated 5 March, 2019 referenced No:22340/200765123 refunded EUR 720,000(Kshs.82,492,200) due to non-absorption of funds. Further, the project incurred avoidable foreign exchange losses in processing the refund of Kshs.2,775,024 due to fluctuations in the exchange rates.

#### **1.11.2. Training of Contractors on Labour-Based Contracts**

The Project paid the Kenya Institute of Highways and Building Technology - Kisii Campus Kshs.166,534,650 in the financial year 2018/2019 for training of local contractors on labour-based maintenance of roads. Thirty-three (33) contractors from three counties of Bungoma, Kakamega and Vihiga were subsequently trained. However, it was not possible to identify how trainings were carried out as there are no Project files maintained in the regional offices on the training and no contracts have been subsequently awarded to the trained contractors in the year under review.

In the circumstance, it was not possible to ascertain the lawfulness and effectiveness in the use of public funds.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

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

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

#### **Conclusion**

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

#### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
Nancy Gathungu  
**AUDITOR-GENERAL**

Nairobi

26 October, 2021



## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

		2019-2020 12 Months Jun-20 Shs'000	2018-2019 12 Months Jun-19 Shs'000
	Note		
<b>REVENUE</b>			
<b>Revenue from Non Exchange Transactions</b>			
Road Maintenance Levy Fund	6	23,781,150	16,926,623
Government Grants	7	-	168,000
Development partners' Grants	8	1,100,999	896,320
<b>Total Revenue from Non Exchange Transactions</b>		<b>24,882,149</b>	<b>17,990,943</b>
<b>Revenue from Exchange Transactions</b>			
Finance Income	9	1,043,030	720,189
Other income	10	187,681	68,537
Rental Revenue	11	1,922	1,122
<b>Total Revenue from Exchange Transactions</b>		<b>1,232,633</b>	<b>789,848</b>
<b>Total Revenue</b>		<b>26,114,782</b>	<b>18,780,790</b>
<b>EXPENDITURE</b>			
Road Works costs	12	19,228,736	18,017,728
Directors' Costs	13	11,360	33,635
Employment Costs	14	2,404,559	2,336,998
Repairs and maintenance	15	38,380	51,016
Other Operating Costs	16	342,943	392,507
Depreciation and amortization expense	17	173,346	112,200
<b>Total Expenditure</b>		<b>22,199,324</b>	<b>20,944,083</b>
<b>Operating Surplus /deficit for the year</b>		<b>3,915,458</b>	<b>(2,163,293)</b>

The significant accounting policies and the notes on Pages 41 to 76 form an integral part of these financial statements.




# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2019-2020 12 Months Jun-20 Shs'000	2018-2019 12 Months Jun-19 Shs'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	18	41,916,427	28,487,736
Receivables from exchange transactions	19	16,115,256	18,904,974
Receivables from non exchange transactions	19	3,404,620	5,799,942
Inventories	20	5,142	5,124
		<u>61,441,445</u>	<u>53,197,776</u>
<b>Non-Current Assets</b>			
Property Plant and Equipment	21	357,898	292,774
Road Infrastructure Assets	22	79,440,931	67,992,504
Capital Work In Progress	23	157,576,650	115,170,082
		<u>237,375,479</u>	<u>183,455,361</u>
<b>Total Assets</b>		<u>298,816,924</u>	<u>236,653,137</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables from exchange transactions	24	18,550,239	28,645,936
Payables from Non-Exchange transactions	24	-	-
Employee benefit obligation	25	162,871	124,468
		<u>18,713,110</u>	<u>28,770,405</u>
<b>Non-Current Liabilities</b>			
Payables from exchange transactions	24	10,143,470	7,711,642
		<u>10,143,470</u>	<u>7,711,642</u>
<b>Total Liabilities</b>		<u>28,856,580</u>	<u>36,482,047</u>
<b>Net Assets</b>		<u>269,960,344</u>	<u>200,171,090</u>
<b>REPRESENTED BY:</b>			
GOK Development Fund	SCNA	267,192,864	201,422,676
Revaluation Reserve	SCNA	-	-
Staff Mortgage Fund	SCNA	381,452	277,844
Accumulated(Deficit)/ Surplus	SCNA	2,386,028	(1,529,430)
<b>Total Net Assets and Liabilities</b>		<u>269,960,344</u>	<u>200,171,090</u>

The significant accounting policies and the notes on Pages 41 to 76 form an integral part of these financial statements. The financial statements on Pages 1 to 76 were approved for issue by the Board of Directors on ----- and were signed on their behalf by:

  
.....  
**Ag. Director General**  
Eng. Philemon Kandie

  
.....  
**Director Corporate Services**  
CPA Dan Manyasi  
ICPAK M. No:6407

  
.....  
**Director**

Date.....

Date .....

Date .....



**STATEMENT OF CHANGES IN NET ASSETS**

**For the Year Ended 30 June 2020**

	Note	Accumulated Surplus	GOK Development Fund	Staff Mortgage Fund	Revaluation Reserve	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>At 1st July 2018</b>		633,862	164,326,765	273,996	-	165,234,623
Funds received during the year		-	37,095,912	3,848	-	37,099,761
Surplus for the year		(2,163,293)	-	-	-	(2,163,293)
<b>At 30th June 2019</b>		(1,529,430)	201,422,677	277,844	-	200,171,091
<b>At 1st July 2019</b>		(1,529,430)	201,422,677	277,844	-	200,171,091
Funds received during the year		-	65,770,188	103,608	-	65,873,796
Surplus for the year		3,915,458	-	-	-	3,915,458
<b>At 30th June 2020</b>		2,386,028	267,192,865	381,452	-	269,960,345

The significant accounting policies on pages and the notes on pages 40 to 74 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	2019-2020 12 Months Jun-20 Shs'000	2018-2019 12 Months Jun-19 Shs'000
<b>Cash flows from operating activities</b>		
Surplus for the year	3,915,458	(2,163,293)
<i>Adjustments for:</i>		
<i>Prior Year adjustment</i>		
Depreciation of property, plant and equipment/Revaluation	173,346	112,200
Interest Income	(1,043,030)	(720,189)
<b>Changes in operating assets and liabilities</b>		
Receivables from exchange transactions	2,789,718	1,409,050
Receivables from non exchange transactions	2,395,322	3,717,627
Inventories	(17)	1,168
Payables from Non-exchange transactions	-	-
Payables from exchange transactions	(7,663,870)	24,371,730
Employee benefit obligation	38,403	24,187
<i>Net cash from operating activities</i>	<u>605,329</u>	<u>26,752,482</u>
<b>Cash flows from investing activities</b>		
Interest Income	1,043,030	720,189
Purchases of Property Plant and equipment	(238,469)	(202,318)
Addition in Road infrastructure assets	(53,854,995)	(60,504,754)
<i>Net cash used in investing activities</i>	<u>(53,050,433)</u>	<u>(59,986,883)</u>
<b>Cash flows from Financing activities</b>		
Capital Grant received	65,770,188	37,095,912
Mortgage Fund	103,608	3,848
<i>Net cash used from investing activities</i>	<u>65,873,796</u>	<u>37,099,761</u>
Net increase in cash and cash equivalents	13,428,691	3,865,359
Cash and cash equivalents at start of year	<u>28,487,736</u>	<u>24,622,378</u>
Cash and cash equivalents at end of year	<u><u>41,916,427</u></u>	<u><u>28,487,736</u></u>

The significant accounting policies and the notes on Pages 41 to 76 form an integral part of these financial statements.

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

	Note	Original Budget 2019-2020 Shs'000	Adjustments Shs'000	Final Budget 2019-2020 Shs'000	Actual on comparison Basis 2019-2020 Shs'000	Performance Difference 2019-2020 Shs'000
<b>Revenue</b>						
Road Maintenance Levy Fund	6	19,709,096	4,359,554	24,068,650	23,781,150	287,500
Government Grants	7	40,321,047	25,706,740	66,027,787	65,770,188	257,599
Development partners' Grants	8	1,450,000	-	1,450,000	1,100,999	349,001
Finance Income	9	525,000	525,000	1,050,000	1,043,030	6,970
Other income	10	10,000	180,000	190,000	187,681	2,319
Rental Revenue	11	2,200	-	2,200	1,922	278
<b>Total Revenue</b>		<u>62,017,343</u>	<u>30,771,294</u>	<u>92,788,637</u>	<u>91,884,970</u>	<u>903,667</u>
<b>EXPENDITURE</b>						
Road Works Costs-Maintenance	12	16,240,920	4,359,554	20,600,474	19,228,736	1,371,737
Directors' Costs	13	31,660	-	31,660	11,360	20,300
Employment Costs	14	2,602,821	-	2,602,821	2,404,559	198,262
Repairs and maintenance	15	45,350	2,000	47,350	38,380	8,970
Other Operating Costs	16	788,346	(2,000)	786,346	342,943	443,402
Depreciation and amortization expense	17	-	-	-	173,346	(173,346)
Development Fund		41,771,047	25,706,740	67,477,787	65,770,188	1,707,599
<b>Total Expenditure</b>		<u>61,480,143</u>	<u>30,066,294</u>	<u>91,546,437</u>	<u>87,969,512</u>	<u>3,576,926</u>
<b>Operating Surplus /deficit for the year</b>		<u>537,200</u>	<u>705,000</u>	<u>1,242,200</u>	<u>3,915,458</u>	<u>(2,673,258)</u>



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

1. RMLF  
Release by of RMLF Savings
2. Governments Grants  
Release of Pending Bills by National Treasury
3. Finance Income  
Prudent Cash Management
4. Other Income  
Recall of Guarantees
5. Expenditure
  - i) Road works Maintenance-Utilisation of prior year balances by Regional Offices
  - ii) Directors Costs-Curtailed Board activities due to COVID-19
  - iii) Maintenance Cost-Curtail activities due to COVID-19
  - iv) Operating Expenses-Curtail activities due to COVID-19

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General Information

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

### 2. Statement of compliance and Basis of Preparation

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

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

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

### 3. Adoption of New and Revised Standards

#### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

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

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

Standard	Effective date and impact:
<b>IPSAS 41:</b> Financial Instruments	<p><b>Applicable: 1<sup>st</sup> January 2022:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p><i>The Authority does hold financial assets in the course its normal operations and thus the standard will impact the financials. The authority is in the process of realigning its reporting to reflect the anticipated changes especially of assets held in the foreign currency.</i></p>
<b>IPSAS 42: Social Benefits</b>	<p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ol style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</li> </ol> <p><i>The Authority currently does not have any ongoing social Benefits Programmes and thus the standard is not expected to have any impact.</i></p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p><b>Applicable: 1st January 2022:</b></p> <ol style="list-style-type: none"> <li>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> </ol>



Standard	Effective date and impact:
	Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other Improvements to IPSAS	<p><b>Applicable: 1<sup>st</sup> January 2021:</b></p> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</li> <li>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</li> <li>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</li> <li>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</li> </ul>

### iii) Early adoption of standards

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

## 4. Summary of Significant Accounting Policies

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

### (a) Basis of Preparation

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

### (b) Presentation of Financial Statements

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

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

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

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

The original budget for FY 2019-2020 was approved by the National Assembly in June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The Authority's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

### **(d) Taxation**

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

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

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

### **(e) Translation of Foreign Currencies**

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

### **(f) Revenue Recognition**

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

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

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

Receipts from the Road Maintenance Levy Fund comprise of 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

**(g) Financial Instruments**

***i) Financial assets***

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

***ii) 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.

### ***iii) 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.

### ***iv) Payables***

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

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

## **(h) Provisions**

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

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

**i) 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.

**ii) Contingent assets**

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

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

**(i) Operating Leases**

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

**(j) Provision for Liabilities and Charges**

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

**(k) Property, Plant and Equipment**

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

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

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

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

	Rate (%)
Buildings	2.5%
Computers	33.3%
Furniture and Fittings	12.5%
Technical Equipment	12.5%
Motor Vehicles	25.0%
Road Infrastructure Assets	(Not depreciated)

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

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

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

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

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

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

#### **(m) Construction Contracts**

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

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

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



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

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

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

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

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

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

#### **(o) Inventories**

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

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

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

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

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

#### **(p) Cash and Cash Equivalents**

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

**(q) Nature and Purpose of Reserves**

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

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

***i) Staff mortgage fund***

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

***ii) Capital fund***

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

***iii) Accumulated surpluses/deficit***

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

***iv) Development fund***

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

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

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

**(s) Employee Benefits**

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

The Authority and its employees also contribute to the statutory pension scheme, The National Social Security Fund (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 KShs. 135.49Million (2018-2019: KShs 135.92Million) represents contributions payable to the plan by the Authority at rates specified in

the rules of the plan. The expense has been included within the staff pension costs under staff costs.

**(t) Comparatives**

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

**(u) Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30 2020.

**5. Critical Accounting Estimates, Judgements and Assumptions**

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

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

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

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

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

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

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

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

***i) Contingent liabilities***

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



**ii) Provision for doubtful debts**

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

**iii) Other Provisions**

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

**iv) Impairment Losses**

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

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

	2019-2020 Shs'000	2018-2019 Shs'000
<b>6. Road Maintenance Levy</b>		
10% Constituency Links Roads	2,842,564	2,801,941
10% Special allocation	10,314,370	4,916,410
22% Constituency Roads Fund	6,253,640	6,164,270
RMLF Operations	4,370,576	3,044,003
<b>Total Road Maintenance Levy</b>	<b>23,781,150</b>	<b>16,926,623</b>
<b>7. Other Government Grants</b>		
Development Projects	65,770,188	37,263,912
Spot Improvement Projects	-	-
Equilization Fund	-	-
Administrative funds	-	-
<b>Total Government Grants</b>	<b>65,770,188</b>	<b>37,263,912</b>
Deferred Income	-	-
Transfer to Development Fund	(65,770,188)	(37,095,912)
	<b>-</b>	<b>168,000</b>

	2019-2020 Shs'000	2018-2019 Shs'000
<b>8. Development Partners Grants</b>		
European Union	232,899	284,229
L'Agence Française de Développement(AFD)	778,576	550,798
German Development Bank(KFW)	43,274	53,496
BADEA	46,250	7,796
<b>Total Development Partners' Grants</b>	<u>1,100,999</u>	<u>896,320</u>
<b>9. Finance Income</b>		
Interest from fixed deposits	1,043,030	720,189
<b>Total Finance Income</b>	<u>1,043,030</u>	<u>720,189</u>
<b>10. Other Income</b>		
Receipts from sale of tenders	624	2,510
Other Levies	187,057	66,027
<b>Total Other Income</b>	<u>187,681</u>	<u>68,537</u>
Other levies income includes receipts from recall of performance guarantees, bid bonds and cross-cutting of roads.		
<b>11. Rental Revenue</b>		
Receipts from operating lease rental	1,922	1,122
<b>Total Rental Revenue</b>	<u>1,922</u>	<u>1,122</u>
Rental income is rent income received from various Regional Office camps. The properties were inherited from our Parent Ministry.		
<b>12. Road Works Expenditure</b>		
RMLF 10%-Constituency Link Roads	3,107,206	3,083,234
RMLF 22%-Constituency Roads Fund	5,316,873	6,773,012
RMLF 10%-Special Allocation	4,626,336	3,430,305
Donor Funded Projects	2,001,788	1,104,624
Refund Donor KFW	82,492	-
GoK Spot Improvement Funds	3,610,219	2,606,420
Coffee Cess	-	385
Equilisation Fund	483,822	1,019,748
<b>Total Road Works Expenses</b>	<u>19,228,736</u>	<u>18,017,728</u>
<b>13. Directors' Costs</b>		
<b>(a) Executive Directors</b>		
Emoluments	7,733	7,527
	<u>7,733</u>	<u>7,527</u>
<b>(b) Non Executive Directors</b>		
Emoluments	3,566	5,302
Training and field activities	61	20,806
	<u>3,627</u>	<u>26,108</u>
<b>Total Directors Costs</b>	<u>11,360</u>	<u>33,635</u>

	2019-2020 Shs'000	2018-2019 Shs'000
<b>14. Employment Costs</b>		
Salaries and Wages	1,777,944	1,721,413
Pension and Gratuity costs	215,034	184,610
Medical and Insurance	232,658	129,464
Training and Development	41,944	94,821
Travelling and accomodation	108,204	141,147
Other Staff welfare costs	28,775	65,543
<b>Total Employment Costs</b>	<b>2,404,559</b>	<b>2,336,998</b>
<b>15. Repairs and Maintenance</b>		
Office building	5,374	7,995
Furniture and equipment	16,611	18,308
Motor vehicles	16,394	24,712
<b>Total Repairs and Maintenance</b>	<b>38,380</b>	<b>51,016</b>
<b>16. Other Operating Expenses</b>		
Public relations and Corporate affairs	10,855	11,752
Audit Fees	3,000	3,000
Advertisement and publicity	25,654	17,539
Rent and Rates	71,641	73,999
Electricity and Water	6,164	10,738
Cleaning and sanitation	8,156	5,804
Fuel and other vehicle running expenses	27,454	36,523
Security	44,552	37,729
Consultancies	6,935	20,870
Legal Fees	2,237	16,586
Printing and Stationery	21,314	32,751
CRC and tender evaluation Expenses	43,552	31,488
Telephone, Internet and Postage	27,230	24,308
Bank Charges	4,313	4,284
Office expenses	5,362	4,368
Performance Contracting	34,524	60,768
<b>Total Other Operating expenses</b>	<b>342,943</b>	<b>392,507</b>
<b>17. Depreciation and Amortization</b>		
Property Plant and equipment	173,346	112,200
<b>Total Depreciation Expense</b>	<b>173,346</b>	<b>112,200</b>
<b>18. Cash and Cash Equivalents</b>		
Cash in hand and Bank	30,285,049	15,677,220
Staff mortgage Fund	1,098	8,424
Fixed term deposits	11,630,280	12,802,091
<b>Total Cash and Cash equivalents</b>	<b>41,916,427</b>	<b>28,487,736</b>

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



	<b>2019-2020</b>	<b>2018-2019</b>
	<b>Shs'000</b>	<b>Shs'000</b>
KCB Bank Kenya limited	41,152,399	27,478,596
Equity Bank Kenya Limited	153,682	154,906
Cooperative Bank Kenya Limited	424,867	637,982
NCBA Bank Kenya Limited	185,138	215,216
Cash in Hand	341	1,036
<b>Total Cash in Hand and Bank</b>	<b>41,916,427</b>	<b>28,487,736</b>

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

## **19. Receivables**

### **(a) Receivables from Exchange transactions**

Contractors advances	16,115,256	18,904,974
<b>Total Receivables from Exchange transactions</b>	<b>16,115,256</b>	<b>18,904,974</b>

### **(b) Receivables from Non Exchange transactions**

Advances to Staff	26,917	104,381
Deposits and Prepayments	300	44,077
Other Receivables(Accrued Income )	3,377,403	5,651,484
<b>Total Receivables from Non Exchange transactions</b>	<b>3,404,620</b>	<b>5,799,942</b>

<b>Total Receivables</b>	<b>19,519,876</b>	<b>24,704,916</b>
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Receivables constitute short term liquid assets which are recoverable within one year.

Grants receivable represent development grants due from the National Government (KShs 5.8Billion (2017-2018: KShs. 9.49Billion). 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:

## **20. Inventories**

Consumable stores	5,142	5,124
<b>Total Inventories</b>	<b>5,142</b>	<b>5,124</b>

<b>21. Property Plant and Equipment</b>						
<b>Period ended 30th June 2020</b>	<b>Building</b>	<b>Furniture and Fittings</b>	<b>Motor Vehicles</b>	<b>Office Equipment</b>	<b>Computers and Software</b>	<b>Plant and Machinery</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<b>Cost</b>						
At 1st July 2019	101,477	135,114	512,443	36,154	203,354	1,041,394
Additions	6,876	45,458	108,770	6,438	70,927	238,469
At 30th June 2020	108,353	180,572	621,213	42,591	274,281	1,279,863
<b>Depreciation</b>						
At 1st July 2019	16,579	117,267	403,881	26,705	131,730	748,620
Charge for the year	2,709	14,756	89,113	4,276	62,097	173,346
At 30th June 2020	19,288	132,023	492,994	30,980	193,827	921,965
<b>Net Book Value</b>						
At 30th June 2020	89,065	48,549	128,219	11,611	80,454	357,898

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

The gross carrying amount of fully depreciated property, plant and equipment amounted to KShs. 534,754,571.



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	2019-2020 Shs'000	2018-2019 Shs'000
<b>22. Road Infrastructure Assets</b>		
At 1st July	67,992,504	39,229,092
Transfer from work in progress	11,448,427	28,763,412
	<u>79,440,931</u>	<u>67,992,504</u>
<b>23. Capital Work in Progress</b>		
At 1st July	115,170,082	83,428,741
Additions	53,854,995	60,504,754
Transfer to Road Infrastructure Asset	(11,448,427)	(28,763,412)
	<u>157,576,650</u>	<u>115,170,082</u>
<b>24. Payables</b>		
<b>Exchange Transactions</b>		
<b>Current:</b>		
Due to Contractors	18,078,264	28,169,570
Other Trade payables (General Suppliers)	149,254	296,685
Staff Creditors	3,152	3,819
Other Payables(Accruals & provisions)	319,569	175,864
<b>Total Current</b>	<u>18,550,239</u>	<u>28,645,936</u>
<b>Non Current:</b>		
Contract Retention	10,143,470	7,711,642
<b>Total Non Current</b>	<u>10,143,470</u>	<u>7,711,642</u>
	<u>28,693,708</u>	<u>36,357,578</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**

	Gratuity Ksh'000	Pension costs Ksh'000	Total Ksh'000
As at 1st July 2019	48,235	76,233	124,468
Additional Provisions	45,546	(7,143)	38,403
Provision utilised	-	-	-
<b>As at 30th June 2020</b>	<u>93,781</u>	<u>69,090</u>	<u>162,871</u>

## **26. Financial Risk Management Objectives and Policies**

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

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

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

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

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

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

The financial management objectives and policies are as outlined below:

### **(a) Liquidity Risk**

Liquidity risk is the risk that the Authority will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/ operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been

discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required.

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

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

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

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

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

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



**Period Ended 30th June 2020**

	<b>Less Than 1Month</b>	<b>Between 1- 3 Months</b>	<b>Between 3- 12 Months</b>	<b>Over One Year</b>
Due to contractors			18,078,264	
Other Trade Payables	-	149,254	-	-
Staff Creditors	-	3,152	-	-
Contract Retention	-	-	-	10,143,470
Deferred Income	-	-	-	-
Other Payables	-	319,569	-	-
	<u>-</u>	<u>471,975.81</u>	<u>18,078,264</u>	<u>10,143,470</u>

**Year Ended 30th June 2019**

	<b>Less Than 1Month</b>	<b>Between 1- 3 Months</b>	<b>Between 3- 12 Months</b>	<b>Over One Year</b>
Due to contractors			28,169,570	
Other Trade Payables	-	296,685.04	-	-
Staff Creditors	-	3,818.77	-	-
Contract Retention	-	-	-	7,711,642
Deferred Income	-	-	-	-
Other Payables	-	175,863.91	-	-
	<u>-</u>	<u>476,367.73</u>	<u>28,169,570</u>	<u>7,711,642</u>

**(b) Market Risk**

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

*i) Currency risk*

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

*ii) Price risk*

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

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

**iii) Interest rate risk**

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

**(c) Credit Risk**

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

**Period Ended 30<sup>th</sup> June  
2020**

	<b>Fully Performing</b>	<b>Past Due Date but not Impaired</b>	<b>Past Due Date and impaired</b>	<b>Total</b>
Advances to Staff	26,917			26,917
Contractors advances	16,115,256			16,115,256
Deposits and Prepayments	300			300
Other Receivables	3,377,403			3,377,403
Cash at Bank	41,916,427			41,916,427
	<b>61,436,303</b>	<b>-</b>	<b>-</b>	<b>61,436,303</b>

**Year Ended 30<sup>th</sup> June  
2019**

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

**(d) 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.

#### **(e) 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.

#### **(f) Legal Risk**

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

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

### **27. Related Parties Balances and Transactions**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members



of key management are regarded as related parties and comprise the Director General and senior managers.

**(a) Related Party Transactions**

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

	2019-2020 Shs'000	2018-2019 Shs'000
<b>i) Receipt and transfers</b>		
The Government of Kenya	65,770,188	37,263,912
Kenya Roads Board	23,781,150	16,926,623
	<u>89,551,337</u>	<u>54,190,535</u>
<b>ii) Directors emoluments</b>		
Emoluments -Executive directors	7,733	7,527
Emoluments - Non Executive directors	3,566	5,302
Training and filed activities	61	20,806
	<u>11,360</u>	<u>33,635</u>

**(b) Outstanding Balances Arising from Non-Exchange Transactions**

The following were outstanding balances with related parties as at 30<sup>th</sup> June 2020

Receivable from related parties	<u>923,051</u>	<u>5,833,104</u>
Payable to related parties	<u>69,090</u>	<u>124,468</u>
Receivables from related parties can be analyzed as follows:		
The Government of Kenya	-	4,034,066
Kenya Roads Board	923,051	1,799,037
Key management personnel	-	-
	<u>923,051</u>	<u>5,833,104</u>
Payables to related parties can be analyzed as follows:		
Key management personnel	<u>69,090</u>	<u>124,468</u>

## 28. Contingent Assets and liabilities

### (a) Contingent Liabilities

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

	2019-2020 Shs'000	2018-2019 Shs'000
<b>(b) Contingent Assets</b>		
Advance Guarantees	20,133,509	15,308,035
Performance Guarantee	13,863,597	19,210,003
	<u>33,997,106</u>	<u>34,518,038</u>

## 29. Capital Commitments

Authorized and contacted for	-	-
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Non-cancellable operating lease rentals are payable as follows:

Operating lease rentals	2019-2020 Jun-20 Shs'000	2018-2019 12 Months Shs'000
Non-cancellable operating lease rentals are payable as follows		
Within one year	-	25,496
Later than one year but within five years	-	26,770
	<u>-</u>	<u>52,266</u>

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

### **30. Reconciliation of Surplus as per Budget Statement and Statement of Financial Performance**

	<b>2019-2020 Shs'000</b>
Surplus as per Statement of Budget and Actual amounts	3,915,458
Add: Transfer of Roadwork Costs to Infrastructure assets	-
Less: Transfer to Development Fund	-
Add: Transfer from Deferred Income	-
<b>Surplus(Deficit) as per Statement of financial performance</b>	<b><u>3,915,458</u></b>

### **31. Fair Value**

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

### **32. Events after the reporting period**

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

### **33. Ultimate and Holding Entity**

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

### **34. Currency**

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



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

The following is the summary of issues that resulted in a qualified opinion of the external auditor on the financial statements for the year 2017/18, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. No on Audit Report	Issue/Observation by the Auditor	Management Comments	Focal Person to resolve the Issue	Status: Resolved or Not Resolved	Time frame
1	<b>Nugatory Expenditure</b> Authority had incurred a total of KShs. 202,088,241 to pay interest on delayed payment and a further amount of KShs. 4,253,404.04 2016/17. Total Nugatory Expenditure of KShs. 206,341,645.04	This was occasioned by delayed exchequer releases	Director General	Not Resolved	
2	<b>Rehabilitation and Repair of Kasoiyo – Saos – Society (D350) Road</b> The Project was awarded to Bridgestone Construction Company Ltd at contract sum of KShs. 818,445,018 and commenced on 10 <sup>th</sup> October 2012 with expected completion as 10 <sup>th</sup> February 2016 revised to April 2016 <b>2.1 Assignment of works</b> Project File revealed assignment of works valued at KShs. 504,824,286 to Guangxi Hydroelectric Construction Bureau on the 28 <sup>th</sup> January 2015. <b>1.2 Delayed implementation.</b> The latest progress report of 5 <sup>th</sup> August 2016 showed the overall progress achieved was 99.91 against a lapse time of 130.2% of contract period. Although contractor requested for substantial completion inspection on the 13 <sup>th</sup> September 2017, this had not been undertaken at the time of the Audit	In order to ensure timely delivery of the project to the users, management made a decision to assign the works to another contractor after the initial contractor experienced challenges.	Resident Engineer	Resolved: The project is now completed	
3	<b>Contruction of Muranga – Gitugi (D427) and Njumbi – Mioro (E546) Roads</b> <b>3.1 Delayed project delivery</b> Overall project progress as at June 2017 was 47.23% against contract lapse period of 196.43% . This indicates the project is far behind schedule which could lead to cost escalation. <b>3.2 Interest on late payment</b> Certificate No 20 dated 27 <sup>th</sup> June 2017 indicated that interest on delayed payments totalling KShs. 7,001,678 had been incurred.	Although there have been delays in the project this may not necessarily result to cost escalation since the Variation of prices (VOP) is capped the contractual completion date.	Resident Engineer	Not Resolved	

4.	<p><b>Construction of Kaptama – Kapsokwony – Sirisia Road Contract No. RWC 023</b></p> <p>The Project is divided into 4 distinct portions with total length of 67Km</p> <p><b>4.1 Delayed project delivery</b></p> <p>The contract Commenced on 22<sup>nd</sup> June 2007 with contract period of 35 Months to end on 13<sup>th</sup> May 2010. Latest progress availed during audit of 31<sup>st</sup> July 2015 revealed a progress of 94% and there was no evidence of extension of time. During the year management did not avail information of the current status of the project.</p> <p><b>4.2 Financial distress by the Contractor.</b></p> <p>Contractor KSL International was put under receivership as indicated on the Daily Nation Monday 23<sup>rd</sup> February 2015 Page 37. Site Office at Kamukyuwa was placed under Receiver Manager and site operations halted. The contractor has been unable to settle rent arrears owed to the Authority amounting to KShs. 3,028,125 for Mwatunge Camp in Taita Taveta which was in a previous contract.</p> <p><b>4.3 Request for mutual winding up of the contract</b></p> <p>The Receiver Manager vide Letter ref HG/JKM/RBH/JGM/62 dated 9<sup>th</sup> July 2015 requested for mutual winding up.</p> <p>Further, the Attorney General in a letter Ref:AG/ CONF/21/6/12 VOL1(7) dated 1<sup>st</sup> September 2016 advised the management to terminate the contract forthwith in accordance with Clause 63.1 of the Conditions of Contract but there was no evidence to show action taken so far at the time of the audit. In the circumstances it is not possible to confirm whether the public obtained value for money for expenditure of KShs. 2,622,131,272 already incurred. Matter still unresolved in 2016/17</p>	<p>As stated in the audit findings the physical progress was at 94%.</p> <p>At that particular time interpretation of contract management was that issues of EOT were being recommended by The Engineer and Approved by The Employer only</p> <p>As indicated by the Auditor the contractor is currently under Receivership.</p>	Resident Engineer	Not Resolved	
5.0	<p><b>Construction to Bitumen Standard of Naromoru – Munyu – Karisheni Road Contract No. RWC 040</b></p> <p>The project scope was construction of four roads with a total length of 45.9Km and was awarded to M/S Kirinyanga Construction (K) Limited at a contract sum of KShs. 2,468,815,445 and commenced on 1<sup>st</sup> October 2012 with completion date of 30<sup>th</sup> September 2014.</p> <p><b>5.1 Assignment</b></p> <p>The contractor entered into agreement with East Africa Development Engineering Trading Co. Ltd to assign the latter parts of the works total 39.9Km.</p> <p><b>5.2 Delayed project delivery</b></p> <p>The combined overall progress as at 30<sup>th</sup> June 2017 was 73.1%. Therefore the project was behind schedule.</p>	<p>Assignment was necessary in order to speed up progress of works</p>	Resident Engineer		

6.0	<p><b>Rehabilitation and Repair of Eldoret – Ziwa – Kachibora – Eldoret – Kabenes Road</b></p> <p>The project was awarded to M/S Kimilili Hauliers at contract sum of KShs. 1,435,212,465 and commenced on 1<sup>st</sup> September 2011 with expected date of completion as at 1<sup>st</sup> March 2014 which was revised to 1<sup>st</sup> March 2016.</p> <p><b>6.1 Scaling down of works</b></p> <p>The initial contract was repackaged into three components as follows:</p> <p>i) Eldoret-Kabenes 24KM – KShs. 974,301,651</p> <p>ii) Kabenes-Kachibora 31KM-KShs. 1,064,762,019.00</p> <p>iii) Moi's Bridge Kachibora-20KM KShs. 536,046,915.00</p> <p>1<sup>st</sup> Section repackaged as Addendum No. 2 which was approved by the CTC on 12<sup>th</sup> September 2014 and is completed under the current contract. The second section was subjected to open tender and awarded to M/S China International Cooperation on 19<sup>th</sup> June 2015 at a contract sum of 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 works brings up the contract sum from an original price of KShs. 1,435,212,465 to KShs. 2,575,110,585.00.</p> <p><b>6.2 Delayed project implementation</b></p> <p>The revised contract period lapsed on 1<sup>st</sup> March 2016 but the latest progress reported dated 30<sup>th</sup> June 2017 showed overall progress was at 96% with only 88.2% certified.</p> <p>The project is behind schedule which could lead to cost overruns.</p>	Delay in project implementation was occasioned by the contract repackaging as detailed above.	Resident Engineer	Resolved: The project is now completed	
7.0	<p><b>Construction of Kibunja – Molo – Olenguruone Road (D316)</b></p> <p>The project was awarded to Kimili Hauliers at contract sum of KShs. 742,290,293 revised to KShs. 844,344,348.00 and commenced on 6<sup>th</sup> August 2010 with expected date of completion of 6<sup>th</sup> February 2016</p> <p><b>7.1 Assignment of works</b></p> <p>The contractor contracted Riflo Services for KShs. 113,137,730 to speed up the progress of the but the arrangement has not still delivered the project.</p> <p><b>7.2 Failed project delivery/termination</b></p> <p>The project was to be completed on the 6<sup>th</sup> February 2012 but the last progress report from December 2014 indicates only 67.73 physical progress. There is no evidence of action taken by management in line with the terms of the contract.</p>	There may have been a delay in the delivery of the project. However, through timely intervention by the management the works were substantially completed on 13 <sup>th</sup> December, 2018. The road is under defects liability period of 24 months, and it will end on 14 <sup>th</sup> December, 2020.	Resident Engineer	Resolved: The project is now completed	

8.0	<p><b>Construction of Sigalala – Musoli – Sabatia – Butere Roads (D260/E390)</b> The contract was awarded to M/S Associated on 28<sup>th</sup> March 2011 at a contract price of KShs. 1,809,465,663. Works commenced on 6<sup>th</sup> June 2011 and was to be completed by 6<sup>th</sup> June 2013</p> <p><b>8.1 Assignment of part of the works</b> East Africa Development Engineering and Trading Co. Ltd was assigned part of the works. The Assignee was to construct 20Km at a construct sum of KShs. 1,113,658,598.00 and the main contractor to handle 14.25Km.</p> <p><b>8.2 Advance payment</b> The main contractor was paid an advance of KShs. 180,946,566.00 and out of which KShs. 22,808,548 had been recovered by the time of the audit leaving at outstanding of KShs. 158,138,018.69</p> <p><b>8.3 Delayed project completion</b> The latest progress report dated 31<sup>st</sup> July 2017 showed that only 74.3% combined progress had been realized by both the main contractor and the assignee, an indication that the project was behind schedule which could lead to escalation of cost.</p>	The Assignee Contractor has completed the assigned section of 20.0Km and the same has been taken-over.	Resident Engineer	Resolved: The project is now completed	
9.0	<p><b>Construction of Sigiri Bridge and Approach Roads on Road R43 – RWC 092</b> The contract was awarded to China Overseas Engineering Group Co. Ltd on the 5<sup>th</sup> March 2015 at contract sum of KShs. 992,546,146. The project had a contract period 18 months and was expected to be completed by 12<sup>th</sup> February 2017.</p> <p><b>9.1 Slow progress</b> The contract period elapsed on the 12<sup>th</sup> February 2017 and there was no evidence of approval of extension of time but latest progress dated 31<sup>st</sup> October 2017 had overall progress of 81.27 % against contract lapse time of 133.33% . The management indicated the contract was substantially complete, no evidence was availed to support this.</p>	Works on the bridge has been successfully completed and opened to traffic. The Employer has recommended taking-over of the works	Resident Engineer	Resolved: The project is now completed	



**APPENDIX II: DEVELOPMENT PARTNERS PROJECTS IMPLEMENTED BY THE AUTHORITY**

Project No.	Project Title	Development Partner	Development Partners Commitment	Separate Donor Reporting Required	Consolidated in the Financial Statements
EUROPEAID/134053/IH/WKS/KE	Contracts for the Rural Roads Project in Eastern Region of Kenya	EU	Euros 14,850,000	Yes	Yes
CREDIT NO. BMZ: 200765123	Improvement of Rural Roads and Market Infrastructure in Western Kenya	KFW	Euros 9,000,000	Yes	Yes
CREDIT NO. CKE 101201B AND 1046 01J	Central Kenya Rural Roads Improvement and Maintenance Project	AFD	Euros 74,000,000	Yes	Yes
	Upgrading of "Gilgil Machinery" Road Project	BADEA	USD 11,000,000	Yes	Yes

### **APPENDIX III: INTER ENTITY TRANSFER**

*Kenya Rural Roads Authority  
Annual Report and Financial Statements  
For the year ended 30<sup>th</sup> June 2020*

Particulars	Date Received as per Bank Statement	Balance for Prior Year (2018-2019)	Current Year 2019-2020	Total received during the year 2019/2020	FY to which the amount relates
<b>A. 22% ROAD MAINTENANCE LEVY FUND</b>					
Third Tranche 22% 2018/19	16-Sep-19	859,427,777		859,427,777.00	2018/19
First Tranche 22% 2019/2020	15/Oct/19		2,244,700,371.00	2,244,700,371.00	2019/2020
Second Tranche 22% 2019/2020	13/Dec/19		2,244,700,371.00	2,244,700,371.00	2019/2020
KRB/F/37/00/A/Vol.IV(499)	27-May-20		2,244,700,371.00	2,244,700,371.00	2019/2020
KRB/F/37/00/A/Vol.IV(501)	24-Jun-20		1,385,249,443.00	1,385,249,443.00	2019/2020
<b>Total 22% RMLE</b>		<b>859,427,777.00</b>	<b>8,119,350,556.00</b>	<b>8,978,778,333.00</b>	
<b>B. 10% RMLE CRITICAL LINKS</b>					
Fourth 10% 2018/2019	9/Jul/19	969,140,478.00		969,140,478.00	2018/19
Fifth Tranche 10% 2018/19	16/Sep/19	388,057,706.00		388,057,706.00	2018/19
First Tranche 10% 2019/2020	15/Oct/19		1,017,597,501.00	1,017,597,501.00	2019/2020
Second Tranche 10% 2019/2020	13/Dec/19		1,017,597,501.00	1,017,597,501.00	2019/2020
KRB/F/37/00/A/Vol.IV(499)	27-May-20		1,017,597,501.00	1,017,597,501.00	2019/2020
KRB/F/37/00/A/Vol.IV(501)	24-Jun-20		1,017,597,501.00	1,017,597,501.00	2019/2020
<b>Total RMLE-10% - Critical Links</b>		<b>1,357,198,184.00</b>	<b>4,070,390,004.00</b>	<b>5,427,588,188.00</b>	
<b>C. RMLE CS AND OTHER ALLOCATION</b>					
KRB/F/37/00/A/Vol.V (66)	16/Sep/19	186,583,921.00		186,583,921.00	2018/19
KRB/F/37/00/A/Vol.V (66)	16/Sep/19	210,000,000.00		210,000,000.00	2019/2020
KRB/F/37/00/A/Vol.IV (62.1)	15/Oct/19		1,732,000,000.00	1,732,000,000.00	2019/2020
KRB/F/37/00/A/Vol.V(77)	13/Dec/19		124,000,000.00	124,000,000.00	2019/2020
KRB/F/37/00/A/Vol.V(88)	23/Dec/19		1,146,700,000.00	1,146,700,000.00	2019/2020
KRB/F/37/00/A/Vol.V(186)	23/Dec/19		434,000,000.00	434,000,000.00	2019/2020
KRB/F/37/00/A/Vol.V(196)	19/Mar/20		890,000,000.00	890,000,000.00	2019/2020
KRB/F/37/00/A/Vol.V(586)	14-Apr-20		844,000,000.00	844,000,000.00	2019/2020
KRB/F/37/00/A/Vol.IV(608)	27-May-20		402,685,700.00	402,685,700.00	2019/2020
KRB/F/37/00/A/Vol.IV(499)	24-Jun-20		606,600,000.00	606,600,000.00	2019/2020
KRB/F/37/00/A/Vol.IV(501)	7-Jul-20		63,600,000.00	63,600,000.00	2019/2020
<b>Total RMLE-10% - Cabinet Secretary Allocation</b>		<b>396,583,921.00</b>	<b>6,492,785,700.00</b>	<b>6,889,369,621.00</b>	
<b>D. RMLE GOK Projects</b>					
KeRRA /08/Vol.8(1015)	12-Jul-19	3,850,000,000.00		3,850,000,000.00	2019/2020
MOTTHUD & PW/A/14.21/C/VOL.11(7)	11/Dec/19		1,712,500,000.00	1,712,500,000.00	2019/2020
MOTTHUD & PW/A/14.21/C/VOL.13(47)	03-Jul-20		1,712,500,000.00	1,712,500,000.00	2019/2020
<b>Total Overheads Funds</b>		<b>3,850,000,000.00</b>	<b>3,425,000,000.00</b>	<b>7,275,000,000.00</b>	
<b>TOTAL RMLE FUNDS</b>	<b>Cash Request</b>	<b>6,463,209,882.00</b>	<b>22,107,526,260.00</b>	<b>28,570,736,142.00</b>	
<b>E. GOK EXCHEQUER FUNDS</b>					
Cash Request 33 Prior Year Funds 2018/19 LVSR	04-Jul-19		959,818,416.00	959,818,416.00	2018/19
Cash Request 34 Prior Year Funds 2018/19 LVSR	04-Jul-19		1,133,101,934.00	1,133,101,934.00	2018/19
Cash Request 35 Prior Year Funds 2018/19 LVSR	04-Jul-19		362,000,000.00	362,000,000.00	2018/19
Cash Request 36 Prior Year Funds 2018/19 LVSR	04-Jul-19		371,000,000.00	371,000,000.00	2018/19
Cash Request 37 Prior Year Funds 2018/19 LVSR	04-Jul-19		300,000,000.00	300,000,000.00	2018/19
Cash Request 38 Prior Year Funds 2018/19 LVSR	04-Jul-19		710,000,000.00	710,000,000.00	2018/19
Cash Request 39 Prior Year Funds 2018/19 LVSR	04-Jul-19		198,145,966.00	198,145,966.00	2018/19
LVSR projects	10-Sep-19		1,097,201,803.20	1,097,201,803.20	2019/2020
LVSR projects	2 10-Sep-19		1,041,427,364.20	1,041,427,364.20	2019/2020
LVSR projects	3 10-Sep-19		1,095,153,923.50	1,095,153,923.50	2019/2020
LVSR projects	4 10-Sep-19		1,797,500,000.00	1,797,500,000.00	2019/2020
LVSR projects	5 10-Sep-19		1,743,396,943.65	1,743,396,943.65	2019/2020
LVSR /Conventional projects	6 10-Sep-19		1,604,287,671.30	1,604,287,671.30	2019/2020
Head Quarter /Donor projects	7 10-Sep-19		976,006,922.80	976,006,922.80	2019/2020
GOK routine maintenance	8 10-Sep-19		419,750,000.00	419,750,000.00	2019/2020
GOK Conventional routine mainten	9 10-Sep-19		472,500,000.00	472,500,000.00	2019/2020
GOK routine maintenance	10 10-Sep-19		830,000,000.00	830,000,000.00	2019/2020
GOK routine maintenance	11 10-Sep-19		497,500,000.00	497,500,000.00	2019/2020
GOK routine maintenance	12 10-Sep-19		470,000,000.00	470,000,000.00	2019/2020
LVSR projects	13 23/12/2019		289,663,211.60	289,663,211.60	2019/2020
LVSR /Conventional projects	14 2-Mar-20		1,238,561,129.65	1,238,561,129.65	2019/2020
LVSR /Conventional projects	15 2-Mar-20		1,162,339,519.50	1,162,339,519.50	2019/2020
LVSR projects	16 2-Mar-20		1,238,999,671.15	1,238,999,671.15	2019/2020
LVSR projects	17 2-Mar-20		1,223,032,978.50	1,223,032,978.50	2019/2020
LVSR projects	18 2-Mar-20		1,277,534,636.55	1,277,534,636.55	2019/2020
Head Quarter /Donor projects	19 2-Mar-20		404,750,000.00	404,750,000.00	2019/2020
LVSR projects	20 2-Mar-20		1,159,265,370.90	1,159,265,370.90	2019/2020
LVSR projects	21 2-Mar-20		944,115,142.60	944,115,142.60	2019/2020
GOK routine maintenance	22 2-Mar-20		472,500,000.00	472,500,000.00	2019/2020
LVSR projects	23 2-Mar-20		1,329,071,012.90	1,329,071,012.90	2019/2020
GOK routine maintenance	24 2-Mar-20		975,000,000.00	975,000,000.00	2019/2020
GOK routine maintenance	25 2-Mar-20		686,000,000.00	686,000,000.00	2019/2020
GOK routine maintenance	26 2-Mar-20		497,500,000.00	497,500,000.00	2019/2020
GOK routine maintenance	27 2-Mar-20		485,000,000.00	485,000,000.00	2019/2020
Spot improvement intervention	28 2-Apr-20		1,060,000,000.00	1,060,000,000.00	2019/2020
LVSR /Conventional projects	29 2-Mar-20		1,000,906,033.90	1,000,906,033.90	2019/2020
Critical emergency interventions	30 26-May-20		275,000,000.00	275,000,000.00	2019/2020
GOK routine maintenance	31 26-May-20		170,000,000.00	170,000,000.00	2019/2020
Conventional projects	32 26-May-20		1,759,553,381.35	1,759,553,381.35	2019/2020
LVSR /Conventional projects	33 26-May-20		2,151,250,269.30	2,151,250,269.30	2019/2020
LVSR projects	34 26-May-20		2,181,789,751.05	2,181,789,751.05	2019/2020
LVSR projects	35 26-May-20		2,439,640,774.10	2,439,640,774.10	2019/2020
LVSR projects	36 26-May-20		2,699,456,239.10	2,699,456,239.10	2019/2020
LVSR projects	37 26-May-20		1,219,931,061.15	1,219,931,061.15	2019/2020
LVSR projects	38 26-May-20		2,154,033,611.25	2,154,033,611.25	2019/2020
Conventional projects	39 26-May-20		1,346,592,950.20	1,346,592,950.20	2019/2020
Spot improvement interventions	40 26-May-20		1,080,000,000.00	1,080,000,000.00	2019/2020
Critical emergency interventions	41 26-May-20		500,000,000.00	500,000,000.00	2019/2020
GOK routine maintenance	42 26-May-20		260,000,000.00	260,000,000.00	2019/2020
GOK routine maintenance	43 26-May-20		249,000,000.00	249,000,000.00	2019/2020
Critical emergency interventions	44 26-May-20		1,170,000,000.00	1,170,000,000.00	2019/2020
LVSR projects	45 24-Jun-20		2,114,583,699.60	2,114,583,699.60	2019/2020
LVSR projects	46 24-Jun-20		1,759,553,379.00	1,759,553,379.00	2019/2020
LVSR projects	47 24-Jun-20		2,300,690,205.50	2,300,690,205.50	2019/2020
LVSR projects	48 24-Jun-20		2,782,329,845.70	2,782,329,845.70	2019/2020
LVSR /Conventional projects	49 24-Jun-20		775,429,616.10	775,429,616.10	2019/2020
GOK routine maintenance	50 24-Jun-20		250,000,000.00	250,000,000.00	2019/2020
LVSR projects	51 11-Jun-20		666,308,634.45	666,308,634.45	2019/2020
Food Security and Nutrition	52 11-Jun-20		380,000,000.00	380,000,000.00	2019/2020
LVSR /Conventional	53 03-Jul-20		62,208,173,069.75	62,208,173,069.75	2019/2020
<b>Annuitiy Funds</b>					
KeRRA/08/vol.9/(89)	4-Sep-19		144,353,722.20	144,353,722.20	2019/2020
KeRRA/08/vol.9/(102)	4-Sep-19		562,026,424.00	562,026,424.00	2019/2020
KeRRA/08/vol.9/(116)	4-Sep-19		47,331,473.00	47,331,473.00	2019/2020
KeRRA/08/vol.9/(134)	9-Sep-19		631,525,916.60	631,525,916.60	2019/2020
KeRRA/08/vol.9/(181)	25-Nov-19		24,281,399.00	24,281,399.00	2019/2020
KeRRA/08/45/Vol.4/(6)	23-Dec-19		714,867,609.95	714,867,609.95	2019/2020
KeRRA/08/vol.9/(38)	20-Jan-20		9,022,577.00	9,022,577.00	2019/2020
KeRRA/08/22/Vol.1/(34)	11-Mar-20		672,501,402.50	672,501,402.50	2019/2020
KeRRA/08/22/Vol.1/(39)	14-Apr-20		10,164,556.00	10,164,556.00	2019/2020
KeRRA /05/2/LOT33/vol.1/(3347)	15-May-20		8,737,309.00	8,737,309.00	2019/2020
KeRRA /05/2/LOT33/vol.1/(5319)	15-May-20		9,541,571.00	9,541,571.00	2019/2020
KeRRA/08/22/Vol.1/(41)	16-Jun-20		9,541,571.00	9,541,571.00	2019/2020
KeRRA/08/22/Vol.1/(32)	03-Jul-20		718,119,105.55	718,119,105.55	2019/2020
<b>Total Annuitiy Funds</b>			<b>3,562,014,637.00</b>	<b>3,562,014,636.80</b>	
<b>Total GOK Exchequer Funds</b>			<b>65,770,187,707.00</b>	<b>65,770,187,707.00</b>	
<b>F. DEVELOPMENT PARTNERS</b>					
AFD-GOK Counter Part	6-Mar-20		398,476,591	398,476,590.55	2019/2020
Total Development Partners			<b>398,476,591</b>	<b>398,476,591</b>	
<b>TOTAL FUNDS RECEIVED</b>		<b>6,463,209,882.00</b>	<b>88,276,190,557.00</b>	<b>94,739,400,439.00</b>	

**APPENDIX IV: RECORD OF TRANSFERS FROM OTHER  
GOVERNMENT ENTITIES**



