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KENYA ROADS BOARD

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2003/2004

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA ROADS BOARD FOR THE YEAR
ENDED 30 JUNE 2004

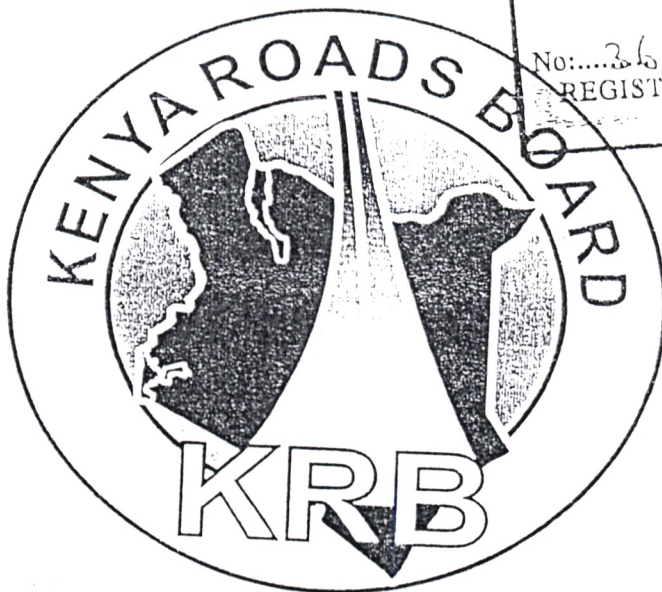
KENYA NATIONAL AUDIT OFFICE

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REGISTRY HEADQUARTERS
NAIROBI



KENYA ROADS BOARD

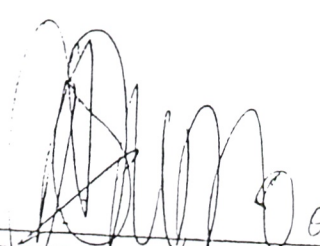
FINANCIAL STATEMENTS FOR THE
FINANCIAL YEAR 2003/2004

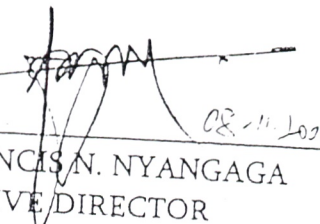
STATEMENT OF BOARD MEMBERS RESPONSIBILITIES

The Kenya Roads Board Act No. 7 1999 requires the Board Members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Board as at the end of the financial year and of the Board's Income and Expenditure Statement for that period. It also requires the directors to ensure the Board keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board and to ensure that the Financial Statements comply with the establishing Act. They are also responsible for safeguarding the assets of the Board and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board Members accept responsibility for the FY 2003/04 annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenya Roads Board Act. The Board Members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of the Board's Income and Expenditure Statement. The Board Members further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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


MR. ALFRED C. JUMA
CHAIRMAN
KENYA ROADS BOARD


DR. FRANCIS N. NYANGAGA
EXECUTIVE DIRECTOR
KENYA ROADS BOARD

INSTITUTIONAL DETAILS

Kenya Roads Board was formed by an Act of parliament No. 7 of 1999

Registered office and principal place of business:

3rd Floor
Kenya Re Towers , Off Ragati Road
Upper Hill Area

Postal Address

P. O. Box 73718 – 00200
NAIROBI

Bankers

Citibank N.A.
Upperhill
P.O. Box 30711
NAIROBI

Standard Chartered Bank
Kenyatta Avenue
P.O. Box 30034
NAIROBI

Central Bank of Kenya
P.O. Box 60000
NAIROBI

Auditor

Controller and Auditor General
P. O. Box 30084 – 00100
NAIROBI

Lawyers

Lumumba Mumma and Kaluma Advocates
P. O. Box 10676 – 00400
NAIROBI

Board Members

- 1) Eng. Samuel Otonglo - Chairman
- 2) Eng. Isaiah K. W. Mutonyi - Executive Director, KRB
- 3) Mr. Kiriinya Mukira - PS, MoRPW
- 4) Mr. Joseph Magari - PS, Finance
- 5) Mr. Sammy Kyungu - PS, Transport
- 6) Mr. Zachary Ogongo - PS, Local Government
- 7) Amb. Peter Ole Nkuraiya - PS, Foreign Affairs
- 8) Mr. Joseph Muongeri - Kenya Association of Tour Operators
- 9) Mr. Alfred C. Juma - Automobile Association
- 10) Mrs. Kellen Kariuki - ICPAK
- 11) Amb. John P. Mbogua - Kenya Association of Manufacturers
- 12) Mr. Silas Muriithi Kinoti - Institution of Surveyors of Kenya
- 13) Mrs. Susan Millie Owino - League of Kenya Women Voters
- 14) Mr. Nelson Ruto Korir - Kenya Transporters Association

Senior Management Staff

- 1) Dr. Francis N. Nyangaga - General Manager, Planning, Policy and Operations
- 2) Mr. Nicodemus M. Muteti - General Manager, Finance & Administration
- 3) Eng. Stephen W. Ndinika - General Manager, Technical Compliance
- 4) Ms Ruth M. Bitu - Manager Human Resource
- 5) Ms Lucy K. Gathika - Legal Secretary



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA ROADS BOARD FOR THE YEAR ENDED 30 JUNE 2004

I have audited the financial statements of Kenya Roads Board for the year ended 30 June 2004 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Board and the Controller and Auditor General

The Board is responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Board and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the Board as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1.0. Annual Public Roads Programme

The Kenya Roads Board prepared its Annual Public Roads programme for 2003/2004 on whose basis it allocated and disbursed funds totalling Kshs.1,470,000,000 to Districts Roads Committees (DRC). Audit inspections of roads carried out in Nairobi in December 2004 showed possible duplication and waste as follows:

1.1. Huruma Access Roads, which the DRC indicated in the progress of work report to have patched using quarry waste for Kshs.5,264,150 was being worked on by the Nairobi City Council (NCC) at the time of the audit. The NCC was excavating the material and hauling it to another road in December 2004. Although KRB has explained that DRC carried out some holding maintenance works pending rehabilitation by the Council, it is apparent there was inadequate coordination between DRC and the Council which may have resulted in undetermined loss of public funds.

1.2. During the year under review fourteen (14) District Roads Committees namely; Makueni, Kitui, Meru, Mbeere, Maragua, Bomet, Buret, Kericho, Vihiga, Kuria, Siaya, Migori, Nyando and Laikipia varied roads works in the approved annual public roads programme in 41 constituencies to other roads at implementation stage in respect of which a total of Kshs.44,173,581 had been disbursed by the Board contrary to Section 19(5) of the Kenya Roads Board Act, 1999 which requires a road agency to seek prior written approval of the Board. Consequently, the total expenditure of Kshs.44,173,581.10 was incurred without appropriate authority of the Kenya Roads Board.

2.0 Roads Department: Expenditure Returns 2nd Tranche

A review of the second tranche expenditure returns submitted to Kenya Roads Board by the Roads Department revealed the following unsatisfactory matters:-

2.1 Over Certification

During the year under review the analysis of cumulative certificate amounts and retention monies revealed that four (4) road projects nos. RD 0138,0331, 0248 and 038 were over certified by a total of Kshs.136,299,721 and that the over certified amounts were awaiting procurements of appropriate addenda. In the absence of approved variations in respect of related road contracts, the propriety of total payments of Kshs.136,299,271 could not be confirmed. Further the Roads Department made payments totalling to Kshs.30,304,955.70 to four (4) firms who were not included in the list of contractors approved by the Kenya Roads Board for the 2nd tranche. The four firms did not therefore qualify to be awarded contracts. It is therefore not clear how the contractors were initially identified and assigned some works. Although the management has explained that non-payment of the contractors would have resulted in suspension of some works, it is not clear whether the said contractors were eventually approved by the Board as no evidence of such approval was seen. In addition, Kenya Roads Board disbursed a total of Kshs.1,470,000,000.00 to several DRCs which had not submitted expenditure returns to the Board to account for the previous disbursements contrary to section 25(20) of the Kenya Roads Board Act. No

explanations have been provided for breach of the law. It is also not clear how the Board ensures that disbursed funds are utilized for the approved projects.

3. Ministry of Local Government: Irregular Expenditure

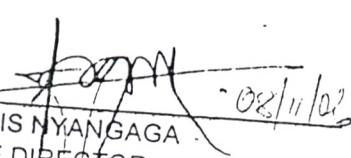
During the year under review funds totalling Kshs.83,785,956.50 disbursed to various Councils were irregularly spent for paying salaries and other expenses not related to road rehabilitation, as follows:

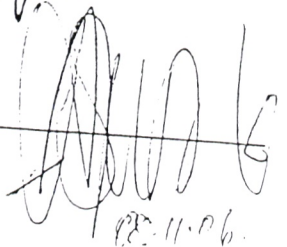
| Council | Remarks | Amount spent (Kshs.) |
|----------------------|--|-----------------------------|
| Nairobi City Council | Overtime allowances | 17,101,845.00 |
| Mombasa Municipal | Irregular transfers and Unauthorized contract Variations | 51,100,000.00 |
| Kisumu Municipal | Payment of salaries | 3,000,000.00 |
| | Payment of electricity | 43,104.00 |
| | Unauthorized contract Variations | 1,945,465.00 |
| Kakamega Municipal | Payment of salaries, NSSF And income tax contributions | 1,535,845.00 |
| Garissa Municipal | General Operation cost and tax | 755,412.50 |
| Kisii Municipal | Payments for contracts Without tenders | 1,753,588.00 |
| Kericho Municipal | Transfer to LATF account | 1,100,000.00 |
| Nyeri Municipal | Repairs of lorry engine | 1,310,935.00 |
| | Transfer to LATF account | 599,762.00 |
| | Purchase of defective used Engine | 340,000.00 |
| Thika Municipal | Irregular transfer to General Rate fund A/C | <u>3,200,000.00</u> |
| | | <u>83,785,956.50</u> |

KENYA ROADS BOARD

BALANCE SHEET AS AT 30th JUNE 2004

| | NOTE | 2003/04 KSHS | 2002/03 KSHS |
|---|------|-------------------------|-------------------------|
| FIXED ASSETS | | | |
| Property Plant & Equipment | 4 | 44,450,677.92 | 60,245,840.45 |
| TOTAL FIXED ASSETS | | 44,450,677.92 | 60,245,840.45 |
| CURRENT ASSETS | | | |
| Cash and Bank | 8 | 1,917,140,000.95 | 2,019,859,877.10 |
| Debtors | 5 | 3,744,949.95 | 471,888.10 |
| TOTAL CURRENT ASSETS | | 1,920,884,950.90 | 2,020,331,765.20 |
| TOTAL ASSETS | | 1,965,335,628.82 | 2,080,577,605.65 |
| Accumulated Fund - Operational Surplus from operations | | | |
| Road Maintenance Levy Fund | 1 | 100,013,900.00 | 100,013,900.00 |
| | 9 | 196,119,325.27 | 152,878,008.05 |
| | 1 | 944,081,365.50 | 298,961,212.85 |
| TOTAL EQUITY | | 1,240,214,590.77 | 551,853,120.90 |
| CURRENT LIABILITIES | | | |
| Creditors | 6 | 73,690,689.65 | 13,382,186.95 |
| Agencies Payable | 7 | 651,430,348.40 | 1,515,342,297.80 |
| TOTAL CURRENT LIABILITIES | | 725,121,038.05 | 1,528,724,484.75 |
| TOTAL EQUITY AND LIABILITIES | | 1,965,335,628.82 | 2,080,577,605.65 |

 - 08/11/04
 DR. FRANCIS NYANGAGA
 EXECUTIVE DIRECTOR


 ALFRED C. JUMA
 CHAIRMAN

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD ENDED
30TH JUNE 2004

| | NOTE | ACTUAL(KSHS) 2003/04 | ACTUAL(KSHS) 2002/03 |
|-------------------------------------|------|-------------------------|-------------------------|
| Road Maintenance Levy Fund Receipts | 2 | 9,045,110,152.65 | 7,739,100,178.00 |
| INCOME | | | |
| Road Maintenance Levy Fund | 3 | 252,000,000.00 | 228,984,144.00 |
| Interest Earned | | 2,516,077.90 | 3,715,525.75 |
| Gain on Disposal of Assets | | 94,972.50 | 0.00 |
| Sale of Tender | | 105,000.00 | 231,000.00 |
| TOTAL INCOME | | 254,716,050.40 | 232,930,669.75 |
| EXPENDITURE | | | |
| Directors Emoluments | | 8,274,569.00 | 23,271,371.00 |
| Directors Insurances | | 145,872.00 | 145,872.00 |
| Directors Field Trips | | 2,555,503.00 | 2,713,360.50 |
| Directors Overseas Travel | | 1,687,652.85 | 1,014,210.00 |
| Directors Training | | 4,040,863.10 | 2,156,947.50 |
| Salaries & Wages | | 43,299,640.90 | 40,923,376.35 |
| Staff Pension | | 5,141,466.00 | 4,457,488.50 |
| Staff Training & Development | | 9,939,522.40 | 4,972,557.35 |
| Advertising & Publicity | | 9,537,989.15 | 6,057,419.30 |
| Bank Charges | | 277,616.35 | 173,023.35 |
| Books & Publications | | 79,539.00 | 33,695.00 |
| Conferences & Seminars | | 1,528,151.60 | 5,144,658.60 |
| Consultancies | | 66,276,486.40 | 0.00 |
| General Insurances | | 2,651,472.00 | 2,387,627.00 |
| Legal & Professional fees | | 192,422.00 | 46,840.00 |
| Newspapers & Magazines | | 319,130.00 | 285,060.00 |
| Office Expenses | | 3,465,858.50 | 3,005,701.55 |
| Rent of Premises | | 8,936,818.40 | 6,544,692.00 |
| Research & Development | | 150,000.00 | 0.00 |
| Security | | 1,052,253.20 | 1,447,900.40 |
| Stationery | | 3,277,914.20 | 2,361,095.30 |
| Telephone & Postages | | 4,017,927.55 | 4,248,948.95 |
| Vehicle Expenses & Repairs | | 4,802,581.25 | 3,070,829.30 |
| Audit Fees Provision | | 150,000.00 | 150,000.00 |
| Field Activities: | | | |
| ED & Chairman | | 1,803,491.70 | 505,835.00 |
| PP | | 3,067,867.60 | 901,038.20 |
| TC | | 2,223,175.00 | 1,533,196.70 |
| F & A | | 846,298.85 | 494,342.00 |
| Legal Secretary & Internal Auditor | | 78,900.00 | 50,900.00 |
| Depreciation | | 21,910,042.83 | 21,145,666.00 |
| TOTAL EXPENSES | 4 | 211,731,024.83 | 139,243,651.85 |
| Surplus of Income over Expenditure | | 42,985,025.57 | 93,687,017.90 |

CASH FLOW STATEMENT FOR THE PERIOD ENDED 30th JUNE 2004

| | KSHS | KSHS |
|--|-----------------------|-------------------------|
| CASH FLOWS FROM OPERATION | | |
| Surplus of Income over Expenditure | 42,985,025.57 | |
| Adjust for: | | |
| Depreciation | 21,910,042.83 | |
| Investing Income | -2,516,077.90 | |
| Operating Profit before working capital changes | <u>62,378,990.50</u> | |
| Increase in Debtors | -3,273,061.85 | |
| Decrease in Creditors | <u>803,603,446.70</u> | |
| Net cash flow from operating activities | | -744,497,518.05 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Net Interest Earned | 2,516,077.90 | |
| Purchase of Fixed Assets | <u>-6,087,748.05</u> | |
| Net cash used in investing activities | | -3,598,802.40 |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Increase in Retained Surplus | 256,291.65 | |
| Increase in Road Maintenance Levy Fund | <u>645,120,152.65</u> | |
| Cash flow from financing activities | | <u>645,376,444.30</u> |
| Net increase in cash and cash equivalent | | -102,719,876.15 |
| Add: Cash and cash equivalent at beginning of period | | <u>2,019,859,877.10</u> |
| Cash and cash equivalent at end of period | | 1,917,140,000.95 |

KENYA ROADS BOARD

JUNE 2004: NOTES TO THE ACCOUNTS.

NOTE 1:

ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared under the historical cost basis.

Currency

The accounts are in Kenya Shillings.

Depreciation

The depreciation policy is a full charge in the year of acquisition and no charge during the year of disposal. This is calculated on a straight line basis to write off the cost of fixed assets over their useful lives at the following rates:

| | |
|------------------------|-------|
| ▪ Computer Equipment | 33⅓ % |
| ▪ Office Equipment | 12.5% |
| ▪ Motor Vehicles | 25.0% |
| ▪ Furniture & Fittings | 12.5% |

Revenue Recognition

The Board is allocated 3% of the Road Maintenance Levy Fund to run its operations. These funds are disbursed together with other disbursements to agencies. Revenue is recognized once the Board has given approval to pay.

Accumulated Fund – Operational

This consists of funds which have been set aside for initial capital.

Road Maintenance Levy Fund

This amount represents funds available for disbursement as at 30th June 2004 of Kshs 944,081,365.50 to be carried forward for disbursement in the following year.

NOTE 2:

Road Maintenance Levy Fund Disbursements

| RECIPIENT/AGENCY | 2003/04 KSHS | 2002/03 KSHS |
|---------------------------------|----------------------|----------------------|
| Opening Balance | | |
| Receipts | 298,961,211 | 211,432,535 |
| Funds Available | 9,045,110,153 | 7,739,100,178 |
| | 9,344,071,364 | 7,950,532,713 |
| Disbursements: | | |
| KRB OPERATIONS | 252,000,000 | 227,477,144 |
| ROADS DEPT. (ABC ROADS) | 4,788,000,000 | 4,271,065,757 |
| ROADS DEPT. (D,E & OTHER ROADS) | 934,000,000 | 606,605,720 |
| MINISTRY OF LOCAL GOVERNMENT | 672,000,000 | 675,605,721 |
| DISTRICT ROADS COMMITTEES | 350,000,000 | 606,605,720 |
| KENYA WILDLIFE SERVICES | 60,000,000 | 51,000,000 |
| CONSTITUENCIES | 1,344,000,000 | 1,213,211,440 |
| TOTAL DISBURSEMENTS | 8,400,000,000 | 7,651,571,502 |
| | | |
| CLOSING BALANCE | 944,071,364 | 298,961,211 |

NOTE 3:

The income for Kenya Roads Board from RMLF is made up as follows:

| ITEM | AMOUNT |
|-------------------------|-----------------------|
| 1 st Tranche | 59,223,580.00 |
| 2 nd Tranche | 16,675,616.00 |
| 3 rd Tranche | 27,188,543.00 |
| 4 th Tranche | 17,627,177.00 |
| 5 th Tranche | 23,669,883.00 |
| 6 th Tranche | 37,596,742.00 |
| 7 th Tranche | 20,104,172.00 |
| 9 th Tranche | 49,914,287.00 |
| TOTAL | 252,000,000.00 |

NOTE 4:

Property, Plant and Equipment

| | COMPUTER EQUIPMENT | OFFICE EQUIPMENT | MOTOR VEHICLES | FURNITURE & FITTINGS | TOTAL |
|--------------------------|-----------------------|---------------------|-------------------|-------------------------|----------------|
| Depreciation Rate | 33.33% | 12.50% | 25.00% | 12.50% | |
| Assets at cost 1 July 03 | 22,519,913.85 | 8,928,820.00 | 34,497,057.00 | 31,040,470.40 | 96,986,261.25 |
| Additions in this year | 269,123.20 | 1,810,137.55 | | 4,168,597.30 | 6,247,858.05 |
| Disposal | | | -160,110.00 | | -160,110.00 |
| Depreciable amount | 22,789,037.05 | 10,738,957.55 | 34,336,947.00 | 35,209,067.70 | 103,074,009.30 |
| Charge for the period | 7,596,345.68 | 1,349,664.72 | 8,590,514.25 | 4,373,518.18 | 21,910,042.83 |
| Depreciation charge b/f | 12,103,537.00 | 1,823,496.45 | 15,121,430.60 | 7,664,824.45 | 36,713,288.50 |
| Total Depreciation | 19,699,882.68 | 3,173,161.17 | 23,711,944.85 | 12,038,342.63 | 58,623,331.33 |
| N B V as at 30 June 2004 | 3,089,154.37 | 7,565,796.38 | 10,625,002.15 | 23,170,725.08 | 44,450,677.97 |

NOTE 5:

Debtors

The composition for debtors is as follows:

| | 2003/04 | 2002/03 |
|--------------------|--------------|------------|
| Telephone Deposits | 62,200.00 | 57,200.00 |
| Staff Debtors | 1,274,049.95 | 409,054.20 |
| Directors Taxes | 2,408,700.00 | 0.00 |
| Other Debtors | 0.00 | 5,633.90 |
| Total | 3,744,949.95 | 471,888.10 |

NOTE 6:

Creditors

These are grouped as follows:

| | 2003/04 | 2002/03 |
|-----------------------|---------------|---------------|
| Suppliers | 1,238,791.85 | 261,545.00 |
| Provisions & Accruals | 72,451,897.80 | 13,120,641.95 |
| Total | 73,690,689.65 | 13,382,186.95 |

NOTE 7:

Agency Payable

This relates to funds approved for disbursement to agencies but not yet released. The balances owing as at 30th June 2003 are as shown below:

| Agency | Amount |
|----------------------------------|----------------|
| Ministry of Local Government | 212,536,415.40 |
| Ministry of Roads & Public Works | -10,680,401.80 |
| District Roads Committees | 353,079,884.30 |
| Kenya Wildlife Service | 118,211.60 |
| Constituencies | 96,376,238.90 |
| Total | 651,430,348.40 |

NOTE 8:

Cash & Bank

The amount of cash and bank is made up as follows:

| | |
|--------------------------|------------------|
| Bank: Citibank | 228,145,173.90 |
| Bank: Standard Chartered | 745,139,524.95 |
| Bank: Central Bank | 943,805,002.90 |
| Petty Cash | 50,299.20 |
| TOTAL | 1,917,140,000.95 |

NOTE 9:

Surplus from operations

The amount of surplus from operations is made up as follows:

| | |
|------------------------|----------------|
| Surplus Previous Years | 153,134,299.70 |
| Surplus Current Year | 42,985,025.57 |
| TOTAL | 196,119,325.27 |