REPUBLIC OF KENYA

# KENYA NATIONAL AUDIT OFFICE



# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# THE FINANCIAL STATEMENTS OF KENYA URBAN ROADS AUTHORITY

## FOR THE YEAR ENDED 30 JUNE 2014

# KENYA URBAN ROADS AUTHORITY

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 30TH JUNE, 2014

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

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# I. KENYA URBAN ROADS AUTHORITY INFORMATION AND MANAGEMENT

## (a) Background information

The *Kenya Urban Roads Authority* was formed on enactment of the Kenya Roads Act, 2007, 2007. At cabinet level, Kenya Urban Roads Authority is represented by the Cabinet Secretary for the Ministry of Transport and Infrastructure, who is responsible for the general policy and strategic direction of the *Authority*.

## (b) Principal Activities

The principal activity of the *Kenya Urban Roads Authority* is to professionally provide quality, safe and adequate urban road network that satisfies stakeholder needs.

## (c) Key Management

The Kenya Urban Roads' day-to-day management is under the following key organs:

- Principal Secretary; State Department of Infrastructure and the;
- Director General

## (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

| Designation | Name |
|---|---|
| 1. Director General | - Eng. Joseph N. Nkadayo, MBS |
| 2. General Manager (Finance & Administration) | - Wilson K. Chirchir |
| 3. General Manager (Maintenance) | - Eng. Peter Mbuthia Mundina |
| 4. General Manager (Design & Construction) | - Eng. John Mwicha Mwatu, OGW |
| 5. General Manager (Planning & Environment) | - Eng. Silas Murira Kinoti |

**(e) Entity Headquarters**

Kenya Urban Roads Authority,
P.O. Box 41727-00100,
IKM Place, Bishops Road,

5th Avenue Ngong',
**NAIROBI - KENYA**

**(f) Entity Contacts**

Telephone: (254) 020-8013844,
E-mail: info@kura.go.ke
Website: www.kura.go.ke

**(g) Entity Bankers**

1. Kenya Commercial Bank
Moi Avenue Branch
P O Box 30081 -00100
**NAIROBI – KENYA**

**BRANCHES**

KCB MOI AVENUE-NAIROBI-Head office.

KCB INDUSTRIAL AREA-KURA-Nairobi Region.

KCB NYERI-KURA-Central Region.

KCB MERU-KURA-Upper Eastern Region.

KCB GARISSA-KURA-North Eastern Region.

KCB MVITA-KURA-Coast Region.

KCB Machakos-KURA-LowerEastern Region.

KCB Eldoret-KURA-North Rift Region.

KCB Nakuru-KURA-South Rift Region.

KCB Kakamega-KURA-Western Rift Region.

2. **CO-OPERATIVE BANK OF KENYA LTD,**
UPPER HILL BRANCH,
P.O BOX 48231-00100,
**NAIROBI.**

3. **NATIONAL BANK OF KENYA,**
HILL BRANCH,
P.O BOX 45219-00100,
**NAIROBI.**

**(h) Independent Auditors**

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
**NAIROBI, KENYA**

**(j) Principal Legal Adviser**

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
**NAIROBI, KENYA**

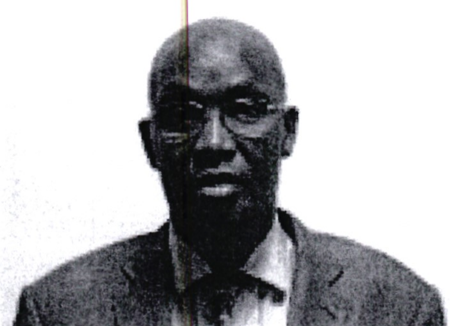
## II. THE BOARD OF DIRECTORS

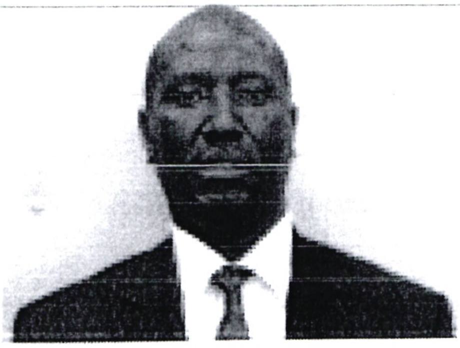
| | |
|---|---|
| <br>**1. Prof Johnstone Mutisya Kiamba** | Chairman;<br>Doctor of Philisopy -Urban and Regional Planning;<br>Experience - 1 1yrs as a Lecturer, Department of urban and regional planning<br>DOB - 1952 |
| <br>**2. Mrs. Janet Mucheru** | Alternate Member – Permanent Secretary Ministry of Transport & Infrastructure<br>Master of Business Administration (MBA) &<br>Vast Experience in public Administration<br>DOB - 1962 |
| <br>**3. Wanyambura Mwambia** | Alternate Member – Permanent Secretary Ministry of Finance |
| <br>**4. Githinji Kahuthu** | Institution of Surveyors of Kenya |

| | |
|---|---|
|  **5. Mr. Dickson K. Mbugua** | Matatu Welfare Association |
|  **6. Mr. Hassan Noor Hassan** | Alternate Member – Permanent Secretary Office of the Deputy Prime Minister and Minister of Local Goverment |
|  **7. Ms. Mary Gesare** | Kenya Association of Manufactures Human Resource Management DOB - 1968 |
|  **8. Mrs. Pricillah M. Mwadime** | Local Government Association DOB - 1969 |

| | |
|---|---|
|  **9. Eng. Daniel Waithaka Njora** | Institute of Engineers of Kenya (IEK)<br>DOB - 1952 |
|  **10. Eng. Joseph Nakodony Nkadayo, MBS** | Director General – Secretary to the Board |

## III. MANAGEMENT TEAM

| | |
|---|---|
|  **1. Eng. Joseph Nakodony Nkadayo, MBS** | **Director General/CEO**<br>Masters-Highway Engineering<br>Bachelor of Science-Civil Enginering<br>Registered/Licenced(ERB), Corporate Member<br>(Institute of Engineers of Kenya) |
|  **2. Mr. Wilson Kipng'eno Chirchir** | **General Manager-Finance & Administration**<br>MBA (Finance)<br>Bachelor of Education(Science)<br>Member-ICPAK |

| | |
|---|---|
| <br>**3. Eng. Peter Mbuthia Mundinia** | **General Manager - Maintenance**<br>Masters MBA(Executive)<br>Bachelor of Science(Civil Engineering)<br>Member-IEK<br>Registered/Licenced EBK |
| <br>**4. Eng. John Mwicha Mwatu, OGW** | **General Manager – Design & Construction**<br>BSc (Civil Engineering)<br>Member-IEK<br>Registered/Licenced EBK |
| <br>**5. Eng. Silas Murira Kinoti** | **General Manager – Planning & Environment**<br>Bachelor of Science(Civil Engineering)<br>Member-IEK<br>Registered/Licenced EBK |

## IV. CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Financial Statements for Kenya Urban Roads Authority for the year ended 30th June, 2014.

KURA is charged with the management of Urban Roads in forty six (46) Municipalities and two Cities in Kenya.

The Authority has since its inception undertaken various road projects in execution of its Mandate and taking cognizance of the Kenya Constitution 2010, vision 2030 and the significant contribution of urban areas to the Country's GDP.

Some of the projects initiated and completed successfully include the Western Ring Roads (Funded through a grant of the Japanese Government), Eastern and Northern Bypasses, Rehabilitation and Upgrading of Lang'ata Road (KWS-Bomas Section), City Cabanas Interchange and Nakuru Town roads. KURA is also adding into the national Road Network improved road lengths through on-going road projects such as the Kapsoya Roads in Eldoret, Lodwar Town Roads, Garissa Town Roads and Easteigh Roads

With the support of bilateral partners, the authority started implementation of a number of Donor Funded Projects such as the EU Missing Links in Nairobi, Meru Bypass and Outering Road. Feasibility studies and detailed engineering design of various roads were initiated in collaboration with JICA, the design of dualling of Ngong' Road commenced. KURA has successfully designed the proposed Eldoret Ring Roads.

Strong Management and Governance continue to be Key components to our implementation model, financial prudence being key. As is the norm, the Board during the period under review underwent a successful evaluation process of assess its performance. I am delighted to report that the Board played its role as was expected. The various committee of the Board continue to play a vital role in supporting the Board in discharging its duties.

We are confident that KURAs mandate is executed prudently and in compliance with all regulatory obligations. The Management Team has the Board's full confidence as they continue steering the Authority to greater heights.

We believe in continued improvement and support the Management in its drive towards being ISO certified. It is at the heart of this belief that various programmes are approved for Management execution.

We have enjoyed great support ad goodwill from our stakeholders and trust that we can continue to count on it in the future. I would like to express my gratitude to my fellow members for their wise council. To Management and staff for the dedication loyalty and believe in KURA, our strategy and our exciting future.

**Eng. Daniel Waithaka Njora**

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER

KURA was established under the Kenya Roads Act, 2007 with the mandate to manage, develop, rehabilitate and maintain roads within the two Cities and forty six Urban Areas of Kenya. Roads infrastructure is identified under the Economic Pillar of the Vision 2030 as an important foundation in enabling the economic and social prosperity of the Country.

The contribution of urban areas to any country's economy cannot be over-emphasized. The urban areas contribute 80% of the world's economic output. Urbanization and growth go together. No country has ever reached middle income status without a significant population shift into cities. Urbanization is necessary to sustain growth in developing countries, and it yields other benefits as well.

For instance, the City of Nairobi is home to about 8% of the total Kenyan population but accounts for over 51% of the National Gross Domestic Product annually. National Urban Development Policy (NUDP, 2013) posits that Kenya's principal cities and urban areas are the engines of economic growth, accounting for about 70% of GDP. Urban areas provide economies of scale through agglomeration thus making provision of basic services economically viable.

KURA is committed to providing adequate and safe urban Roads that satisfy customer requirements. We are an implementing agency for road projects funded by the exchequer and development partners. In the 2014/2014 Financial Year KURA delivered a number of key roads projects aimed at decongestion of the City of Nairobi and other major Urban Areas. For example the KWS-Bomas section of Langata Road, City Cabanas interchange and Lodwar Town roads were completed.

Other roads projects are on-going at various stages of completion. These include Upgrading of First Avenue Eastleigh and General Waruinge Roads, Upgrading of Upper Hill Roads, Phase 1, Construction of Kapsoya Roads in Eldoret Municipality, Rehabilitation of Access Road to Unsoa at Changamwe Industrial Area in Mombasa County, Upgrading to Bitumen Standards of Kinunga Kamuyu Road in Nyeri County, and Upgrading to Bitumen Standards of Machakos TTC in Machakos County

In addition the Authority completed procurement for works and supervision contracts for major roads project ready to be executed in the 2014/2015 FY. These include construction to Bitumen Standards of Meru Bypass, dualling of Ngong Road from All Saints Cathedral to George Padmore Lane, dualling of Nairobi Outering Road Improvement Project including construction of Non-Motorised Transport Facilities (NMT) and Nairobi Roads Decongestion programme.

As a forward plan strategy the Authority undertook feasibility studies and detailed engineering design for various roads such as the proposed Eldoret Ring roads, Greater Eastern bypass, Mavoko roads, Kakamega roads, Ruiru Municipality roads and Waiyaki Way – RedHill to Ruaka link.

The Authority has continued to maintain, using the Road Levy Maintenance Fund, existing road network so as to preserve the huge investments on the roads and ensure reasonable level of service.

In the 2013/2014 financial year under review the Authority signed and executed its performance contract. The authority achieved 1100km of routine maintenance, 63 lane km of periodic maintenance and 33.4lane km of new construction of roads. The achievement constituted a composite score of 2.8838. The targets were not fully achieved because the Authority part of the funds meant for KURA was budgeted for under the County Governments at the beginning of the financial year and it was only in December, 2013 when the first disbursements were made. As such, at the end of the financial year, there were variances in budget allocations and the actual expenditures. Consequently procurement and implementation of works were delayed by the budgetary constraints.

Kenya Urban Roads Authority provided on request technical support Turkana, Isiolo, Bomet, Garissa, Uasin Gishu and Baringo County Governments. KURA is also involved in preparatory works for opening up roads for the Konza City.

Over the years the delivery of paved roads in Kenya through conventional methods has been challenged by low budgetary allocation (development vote), slow pace of road construction by contractors due to delayed payment. Competition between Infrastructure and Social Services for funding priorities in most cases tilts towards Social Services. To fill the existing gap in road infrastructure financing, the Government of Kenya through the State Department of Infrastructure developed an Annuity Program for road development to be implemented in three phases. The programs targets to add a total length of 10,000 kms of new paved roads network out of which 20% will be national roads and 80% rural road network. KURA will participate in the construction/rehabilitation of approximately 900km of roads in the next 5years under the program.

The Government is keen addressing the perennial problem of traffic jams in Nairobi. In this regard KURA commenced identification and procurement of a rapid decongestion program in Nairobi aimed at improving layouts of some critical junctions at a cost of sh. 1 billion to be fully implemented in the 2014/2015 FY.

Finally I hereby thank the Government of Kenya and our Development partners for supporting us to serve the Public. I thank our esteemed internal and external customers for their valuable engagements with the Authority. We shall continue to partner with all for successful and improved services.

**Eng. Peter M. Mundinia**
**Ag. Director General – Secretary to the Board**

## KURA CORPORATE SOCIAL RESPONSIBILITY STATEMENT 2013/2014

KURA aims to be recognized as an organization that is transparent and ethical in all its dealings as well as making a positive contribution to the community in which it operates. KURA has integrated Corporate Social Responsibility (CSR) in our mandate as a key and fundamental investment. We appreciate that our image and responsibility to society depends on our ability to attract and retain not only workers but also clients and stakeholders.

The Authority has identified organizational governance, ethics, respect for human rights, labour practices, environmental practices, fair operating practices, community involvement and development as the key building blocks for our CSR. KURA gives priority and attention to the following specific areas; Sports, road safcty, cnvironment, health and education.

To implement the programme, the authority has established a CSR committee whose mandate is to spearhead, coordinate, implement and oversee the authority's CSR activities. A draft CSR policy has been developed and awaits Board's approval. The objective of CSR policy to give guidance on how the authority will carry out its mandate while implementing best practices in the society in which in which it operates. The policy shall guide employees, contractors and other stakeholders engaged and involved in KURA's activities.

The following projects were undertaken under the year in review;

- The Authority recognizes and works closely with the Youth, Women and Persons with Disabilities (PWDs). Several Contracts worth Kshs.404,428,538.85 were awarded to companies/contractors owned by the above persons.
- In recognition of reducing pollution on the environment, the authority managed to construct over 3km of footpaths and footbridges. Cycle lanes were also constructed to enable urban residents shift their focus to the use of bicycles and reduce toxic emissions.
- The Authority undertook two road safety campaigns in Mombasa and North Rift to sensitize public on the importance of safety in our roads. The campaigns were spearheaded by members of the Board and with the support and participation of other institutions in the country.
- The Authority came to the aid of Jacaranda Special School, Kileleshwa in Nairobi City County and constructed 100metres long security fence at the cost of kShs.3.2million to improve the security of the disabled children in the School as part of Corporate Responsibility (CSR) activities. Jacaranda School is a public special school catering for children, youth and young adults who are mentally handicapped.
- Following the terrorist attack on Westgate Mall on 21st September, 2013 in which one of our staff member survived, the Management resolved to support those affected in prayers, blood donation and financial contributions. In solidarity and patriotism, staff managed to raise Kshs. 260,000.00 (Two hundred and sixty Thousand only) towards this purpose.

The Authority has continued to provide equal opportunities through maintaining and promoting our commitment to the fundamental freedoms enshrined in the Bill of Rights contained in Chapter 4 in the Constitution of Kenya; and the obligations on the promotion of equal opportunities as per core Values of the KURA contained in the Service Charter.

KURA recognizes that we must integrate our Authority's values and operations to meet the expectations of our stakeholders. They include citizens in all the 47 counties, contractors, development partners, employees, suppliers, the community and the environment. Promotion of National Cohesion and Patriotism is at the core of KURA's activities.

The Authority has developed several Human Resource and Safety Policies which have been approved by the Board and they are applicable to not only KURA staff but also to contractors employed to undertake works for the organization. It has adopted a Working Environment Safety Guidelines in reference to the Occupational Safety and Healthy Act, 2007. It has also proactively tried to address the needs and aspirations of staff through the continuing development of diversity, work-life balance and health and well-being policies and initiatives.

The Authority has developed and adopted the following policies; HIV/AIDS policy, Labour Laws, Policy, Gender Mainstreaming Gender-based Violence Policy, corruption prevention policy, Code of Conduct, Human Resource Management and Administrative Policy, Training Policy, Disability Policy, Occupational Safety and Health Policy.

KURA is committed to environmental management practices that minimize waste and maximize efficiencies. The authority Promotes innovation and technology that reduces environmental pollution while conserving the flora and fauna. The Authority was able to plan over 1350 trees along the recently completed road projects. It has also constructed km of footpaths meant to enable pedestrians move easily and safely to work and back in the urban towns and cities. Three footbridges were completed for public safety.

KURA Board and Management have made a commitment to improving opportunities and quality of life in the community we serve and some of our work in this area will fall under the Community Impact Strategy. All our major road projects undergo rigorous environmental EIA and Project Affected Persons are resettled humanely.

We take seriously all feedback, complaints and compliments that we receive from our stakeholders and, where possible, maintain open dialogue to ensure that we fulfill the requirements outlined within our service charter.

## VI. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the *Kenya Urban Roads Authority's* affairs.

**Principal activities**

The principal activities of the Kenya Urban Roads Authority are (continue to be) Provide quality, safe and adequate urban road network that satisfies stakeholder needs.

**Results**

The results of the Kenya Urban Roads Authority for the year ended June 30, 2014 are set out on page 1 to 4.

**Directors**

The members of the Board of Directors who served during the year are shown on page viii.

**Auditors**

The Auditor General is responsible for the statutory audit of the *Kenya Urban Roads Authority* in accordance with the Section of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board.

**Eng. Peter M. Mundinia**
**Secretary of the Board & Ag. Director General**
**NAIROBI**

**Date:** 12/03/2015

## VII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68 (1) k of the Public Finance Management Act, 2012 and section of the State Corporations Act, require the Directors to prepare financial statements in respect of that *Kenya Urban Roads 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, 2013. 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 Financial Reporting Standards (IFRS), and in the manner required by the PFM Act 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, 2013, 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.

**Director** **Director**

## VIII. REPORT OF THE INDEPENDENT AUDITORS ON THE *AUTHORITY*

We have audited the accompanying (consolidated) financial statements of *Kenya Urban Roads Authority for the year ended June 30, 2014*, which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; (v) a statement of comparison of budget and actual amounts and (v) a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

The *Kenya Urban Roads Authority's* Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the *Authority's* preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at June 30, 2014, and its financial performance as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

_____________________ _____________________

**Auditor General** **Date**

# REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
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NAIROBI

# OFFICE OF THE AUDITOR-GENERAL

## REPORT OF THE AUDITOR-GENERAL ON KENYA URBAN ROADS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Urban Roads Authority set out on pages 1 to 21, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

**Management's Responsibility for the Financial Statements**

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

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

**Auditor-General's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Urban Roads Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Kenya Roads Act, 2007.

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

**Nairobi**

**25 March 2015**

## IX. STATEMENT OF FINANCIAL PERFORMANCE
**For the year ended 30 June 2014**

| | Note | 2013-2014 | 2012-2013 (Restated) |
|---|---|---|---|
| **Revenue from Non-Exchange Transactions** | | | |
| RMLF Funds (KRB) | 3 | 5,305,804,292 | 4,931,825,226 |
| GoK Exchequer Recurrent Funds | 5 | 60,000,000 | 4,988,253,083 |
| Licenses Penalties and Levies | 4 | 16,593,874 | - |
| Donor Funds | 5 | 192,883,930 | 497,456,046 |
| Disposal of Assets | | - | - |
| **Revenue from Exchange Transactions** | | **5,575,282,096** | **10,417,534,355** |
| Finance Income - Interest from Bank Deposits | 6 | 105,884,217 | 124,952,872 |
| Other Income | 4 | 2,745,900 | - |
| **Total Revenue** | | **108,630,117** | **124,952,872** |
| **Expenses** | | **5,683,912,213** | **10,542,487,227** |
| Board of Directors Expenses | 7 | 12,236,470 | 23,964,525 |
| Compensation to Employees | 8 | 585,646,490 | 555,027,566 |
| Depreciation & Amortization Costs | 9 | 90,760,557 | 97,159,280 |
| Operating & Administrative Costs | 10 | 263,970,038 | 271,267,793 |
| Road Rehabilitation & Maintenance Cost | 11 | 3,200,784,946 | 2,624,943,619 |
| Audit Cost | 12 | 1,160,000 | 1,160,000 |
| Road Design & Construction Costs | 13 | 52,734,352 | 7,097,871,046 |
| Funding to Municipalities | 14 | - | 216,108,786 |
| **Total Expenses** | | **4,207,292,853** | **10,887,502,615** |

| | | | |
|---|---|---|---|
| **Other Gains/(Losses)** | | | |
| Gain on sale of assets | 15 | 8,659,910 | 10,911,500 |
| **Surplus before tax** | | **1,485,279,269** | **(334,103,888)** |
| **Surplus for the period** | | **1,485,279,269** | **(334,103,888)** |
| Accumulated Reserves B/F | | 2,594,243,990 | 2,928,347,879 |
| Accumulated Reserves C/F | | **4,079,523,259** | (2,594,243,991) |

## XII. STATEMENT OF FINANCIAL POSITION
**As at 30 June 2014**

| | Note | 2013-2014 | 2012-2013 (Restated) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and Cash Equivalents | 16 | 3,152,371,799 | 2,801,955,297 |
| Receivables from Non-Exchange Transactions | 17 | 1,205,992,019 | 689,829,859 |
| Inventories | 18 | 11,669,078 | 4,142,151 |
| **Non-current assets** | | **4,368,874,439** | **3,495,927,307** |
| Property, Plant and Equipment | 20 | 26,539,199,790 | 20,052,331,238 |
| **Total Non-Current Assets** | | **26,539,199,790** | **20,052,331,238** |
| **Total Assets** | | **30,908,074,229** | **23,548,258,545** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables from exchange transactions | 19 | 1,958,878,676 | 559,262,569 |
| Refundable deposits Road cut permits | 19 | 10,810,000 | 6,140,000 |
| Provisions-Contingent Liability | 19 | - | 4,881,432 |
| Staff Statutory Obligations Payable | 19 | 251,491 | 293,730 |
| Staff Gratuity Payable | 19 | 34,120,031 | 33,561,602 |
| Retention | 19 | 562,170,797 | 382,996,521 |
| Withholding Tax Payable | 19 | 14,723,734 | 65,036,397 |
| **Total Current Liabilities** | | **2,580,964,929** | **1,052,172,251** |
| **Non-current liabilities** | | | |
| Non-current employee benefit obligation | | - | - |
| Non-current provisions | | - | - |
| **Total Non-Current Liabilities** | | - | - |
| **Total liabilities** | | **2,580,964,729** | **1,052,172,251** |
| **Net assets** | | **28,326,377,839** | **22,496,086,294** |

| | | |
|---|---|---|
| Capital Reserves | (19,652,510) | (26,719,209) |
| Accumulated surplus | (4,079,523,259) | (2,594,243,991) |
| Road Projects Funds Reserves | (24,229,092,187) | (19,875,123,117) |
| **Total net assets and liabilities** | **30,908,074,229** | **23,548,258,545** |

**Eng. Peter M. Mundinia**
**Ag. Director General**

**Date** 12/03/2015

**Eng. Daniel W. Njora**
**Ag. Chairman of the Board**

**Date** 12/3/2015

## XIII. STATEMENT OF CHANGES IN NET ASSETS
### For the year ended 30 June 2014

| | Capital Replacement Development Reserve | Accumulated Surplus | Reserves Grants | Total |
|---|---|---|---|---|
| **Balance as at 30 June 2012** | | | | |
| As previously stated | 5,679,000 | 2,928,347,879 | - | 2,934,026,879 |
| Prior year adjustment 1 | | (19,875,123,117) | 19,875,123,117 | - |
| Prior year adjustment 2 | | 19,875,123,117 | | |
| **As restated** | **5,679,000** | **2,928,347,879** | **19,875,123,117** | **2,934,026,879** |
| Surplus/(Deficit) for the period | - | (334,103,888) | | (334,103,888) |
| Transfers to/from accumulated surplus | (5,679,000) | - | - | (5,679,000) |
| Additions | 26,719,209 | | | 26,719,209 |
| **Balance as at 30 June 2013** | **26,719,209** | **2,594,243,991** | **19,875,123,117** | **22,496,086,317** |
| Surplus for the Period | - | 1,485,279,269 | 19,875,123,117 | 21,361,459,925 |
| Transfers to/from accumulated surplus | - | - | - | - |
| Government Grants | (7,066,699) | | 2,541,155,634 | 2,548,222,333 |
| Donor Grants | - | - | 1,812,813,436 | 1,812,813,436 |
| **Balance as at 30 June 2014** | **19,652,510** | **4,079,523,259** | **24,229,092,187** | **28,328,267,956** |

## XIV. STATEMENT OF CASH FLOWS

| | 2013/2014 | 2012/2013 Restated |
|---|---|---|
| **Cash flows from Operating Activities** | | |
| **Receipts** | | |
| RMLF Funds | 5,305,804,292 | 4,931,825,226 |
| GoK Exchequer Funds | 60,000,000 | 63,500,000 |
| Fines, Penalties and Levies | - | - |
| Licenses and Permits | 16,593,874 | - |
| Donor Grants/Loans | 192,883,930 | - |
| Gain on Disposal | - | 10,911,500 |
| Other Income, Rentals and Agency Fees | 2,745,900 | 37,314,104 |
| **Total Receipts** | **5,578,027,996** | **5,043,550,830** |
| **Payments** | | |
| Board of Directors Expenses | 12,236,470 | 23,964,525 |
| Compensation to Employees | 585,646,490 | 555,027,566 |
| Operating & Administrative Costs | 263,970,038 | 271,267,793 |
| Road Rehabilitation & Maintenance Cost | 3,200,784,946 | 2,624,943,619 |
| Audit Cost | - | 1,160,000 |
| Road Design & Construction Costs | 52,734,352 | 6,600,415,000 |
| Funding to Other Municipalities | - | 216,108,786 |
| **Total Payments** | **4,115,372,296** | **10,292,887,289** |
| **Net cash flows from operating activities** | **1,462,655,699** | **(5,249,336,459)** |
| **Cash flows from Investing Activities** | | |
| Purchase of property, plant, equipment and intangible assets | (4,787,329,529) | (67,834,896) |
| Development Funds Received | 2,541,155,634 | 4,924,753,083 |
| Proceeds from sale of Property, Plant and Equipment | 6,893,235 | 9,849,450 |
| Increase in Creditors | 1,528,792,478 | 419,712,920 |
| Decrease in non-current receivables | (515,162,160) | (654,798,736) |
| Increase in inventories | 7,526,927 | (1,995,553) |
| **Net cash flows used in investing activities** | **(1,218,123,415)** | **4,629,686,268** |
| **Cash flows from financing activities** | | |
| Bank Interest | 105,884,217 | 87,638,768 |
| **Net cash flows used in financing activities** | **105,884,217** | **87,638,768** |
| **Net increase/(decrease) in cash and cash equivalents** | **350,416,502** | **(532,011,424)** |
| Cash and cash equivalents at 1 JULY | 2,801,955,297 | 3,333,966,721 |
| **Cash and cash equivalents at 30 JUNE** | **3,152,371,799** | **2,801,955,297** |

## XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| Revenue | Original budget 2013-2014 Kshs '000 | Adjustments 2013-2014 Kshs '000 | Final budget 2013-2014 Kshs '000 | Actual on comparable basis 2013-2014 Kshs '000 | Performance difference 2013-2014 Kshs '000 |
|---|---|---|---|---|---|
| RMLF Funds | 3,761,170,875 | - | 3,761,170,875 | 5,305,804,292 | (1,544,633,417)[1] |
| AIA -Interests and other incomes | 25,000,000.00 | - | 25,000,000 | 133,883,900 | (108,883,900)[2] |
| GOK Exchequer | 60,000,000 | - | 60,000,000 | 60,000,000 | - |
| Donor Funds | - | - | 2,500,000,000 | 192,883,930 | 2,307,116,070[3] |
| **Total income** | **3,846,170,875** | - | **6,346,170,875** | **5,692,572,122** | **653,598,752** |
| **Expenses** | | | | | |
| **Property plant and Equipment** | 96,319,894 | - | 96,319,894 | 107,532,116 | (11,212,222)[4] |
| Board of Directors Expenses | 25,280,000 | - | 25,280,000 | 12,236,470 | 13,043,530 |
| Compensation to Employees | 708,654,261 | - | 708,654,261 | 585,646,490 | 123,007,771 |
| Depreciation & Amortization Costs | 5,200,000 | - | 5,200,000 | 90,760,557 | (85,560,557)[5] |
| Operating & Administrative Costs | 343,392,379 | - | 343,392,379 | 263,970,038 | 79,422,340 |
| Road Rehabilitation & Maintenance Cost | 2,607,324,341 | - | 2,607,324,341 | 3,200,784,946 | (593,460,605)[6] |
| Road Design & Construction Costs | 60,000,000 | - | 60,000,000 | 52,734,352 | 7,265,648 |
| **Total expenditure** | **3,846,170,875** | - | **3,846,170,875** | **4,313,664,969** | **(467,494,094)** |
| **Surplus for the Period** | - | - | - | **1,378,907,153** | - |

# XVI. NOTES TO THE FINANCIAL STATEMENTS

## 1. Statement of compliance and basis of preparation – IPSAS 1

The Public Finance Management (PFM) Act Section 192 provided the Setting up of the Public Sector Accounting Standards Board through Gazette Notice No. 1199 of 28th February, 2014. Following the Boards approval on adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, Kenya Urban Roads Authority has adopted the pronouncements made by the PSASB board in preparation of its current year Financial Statements.

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

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

## 2. Summary of significant accounting policies

### a) Revenue recognition

#### i) Revenue from non-exchange transactions – IPSAS 23

**Fees, taxes and fines**
The Authority recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

**Transfers from other government entities**
Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably.

### b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Authority differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**c) Investment property – IPSAS 16**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

**Notes to the Financial Statements Cont.**

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

**d) Property, plant and equipment – IPSAS 17**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as 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.

**e) Leases – IPSAS 13**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**f) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial

Recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**g) Research and development costs**

The Authority expenses research costs as incurred.

**Notes to the Financial Statements Cont.**

**h) Financial instruments – IPSAS 29**

***Financial assets***

***Initial recognition and measurement***

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

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After

initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

***Impairment of financial assets***

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

**Notes to the Financial Statements Cont.**

***i) Financial liabilities***

***Initial recognition and measurement***

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.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

***Loans and borrowing***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

**i) Inventories – IPSAS 12**

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 are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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.

**Notes to the Financial Statements Cont.**

**j) Provisions – IPSAS 19**

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

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any Reimbursement.

***Contingent liabilities***

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

***Contingent assets***

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**k) Nature and purpose of reserves**

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

**l) Changes in accounting policies and estimates – IPSAS 3**

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.

**Notes to the Financial Statements Cont.**

**m) Employee benefits – IPSAS 25**
**Retirement benefit plans**

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Authority pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

**n) Foreign currency transactions – IPSAS 4**

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.

**o) Borrowing costs – IPSAS 5**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.
Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**p) Related parties – IPSAS 20**

The Entity 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 Entity, or vice versa. Members of key management are regarded as related parties and comprise the councillors, the executive mayor, mayoral committee members, the city manager, deputy city manager and senior managers.

**q) 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 Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**r) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**s) Significant judgments and sources of estimation uncertainty – IPSAS 1**

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Notes to the Financial Statements Cont.**
State all judgements, estimates and assumptions made: e.g

***Estimates and assumptions***
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

***Useful lives and residual values***

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

***Provisions***

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are

Rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

**Notes to the Financial Statements Cont.**

**t) Subsequent events – IPSAS 14**

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, 2014.

| | 2014<br>Shs | 2013<br>Shs |
|---|---|---|
| **3. Revenue from non-exchange transactions** | | |
| RMLF 15% - Road Maintenance Levy Fund | 4,389,430,323 | 4,821,825,226 |
| RMLF Pangani Bridge Fund | 90,000,000 | - |
| RMLF Emergency Fund | 43,000,000 | - |
| RMLF 10% - Road Maintenance Levy Fund | 783,373,969 | 110,000,000 |
| **Total RMLF Funds** | **5,305,804,292** | **4,931,825,226** |

**4. Fines, penalties and levies**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Liquidated Damages | 7,997,954 | - |
| Road Cutting Fees | 6,598,600 | 37,314,104 |
| Other Income | 1,997,320 | - |
| Sale of Tender Documents | 2,745,900 | - |
| **Total** | **19,339,774** | **37,314,104** |

**5.Transfers from government and other governments**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| **Unconditional grants** | | |
| GoK – Recurrent Fund | 60,000,000 | 63,500,000 |
| NUTRIP Project Fund | 192,883,930 | - |
| | **252,883,930** | **63,500,000** |

**6. Finance income -**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Interest on Bank Deposits | 105,884,217 | 87,638,768 |
| **Total finance income – external investments** | **105,884,217** | **87,638,768** |

**7. Board Expenses**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Directors Sitting Allowance | 5,449,700 | 7,493,375 |
| Directors Training Costs | 2,930,920 | 6,974,798 |
| Directors Travelling Costs | 2,601,250 | 8,310,352 |
| Directors Meal Allowances | 228,000 | 142,000 |
| Chairman's Honoraria & Telephone Allowances | 1,026,600 | 1,044,000 |
| **Total Board Expenses** | **12,236,470** | **23,964,525** |

**8. Employee costs**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Staff Salaries | 448,728,799 | 444,084,490 |
| Staff Pension | 24,135,380 | 23,175,005 |
| Staff Gratuity | 17,371,253 | 16,405,097 |
| Staff Medical – In Patient | 36,771,341 | 55,268,915 |
| Staff Training | 17,752,747 | 16,094,059 |

| | | |
|---|---|---|
| Staff Medical – Out Patient | 23,910,072 | - |
| Staff Group Personal Accident & Group Life | 10,834,792 | - |
| Staff Uniforms | 1,599,317 | - |
| Staff Wellfare | 1,119,284 | - |
| Casual Wages | 2,531,635 | - |
| NSSF Employer's Contribution | 806,120 | - |
| Director of Industrial Training | 85,750 | - |
| **Employee costs** | **585,646,490** | **555,027,566** |

**9. Depreciation and amortization expense**

| | 2014 | 2013 |
|---|---|---|
| | Shs | Shs |
| Property, plant and equipment | 90,760,557 | 97,159,280 |
| **Total depreciation and amortization** | **90,760,557** | **97,159,280** |

**10. Operating & Administrative Expenses**

| | 2014 | 2013 |
|---|---|---|
| | Shs | Shs |
| Conference & Seminars | 12,406,787 | 14,554,442 |
| Communication Costs | 5,152,859 | 5,141,996 |
| Occupancy Costs | 48,624,673 | 46,194,835 |
| Travel Costs | 83,508,660 | 102,568,604 |
| Advertising, Publicity & CSR | 29,560,860 | 34,009,054 |
| Bank Charges & Commissions | 9,622,297 | 813,387 |
| Other Office Running Costs | 75,093901 | 67,985,054 |
| **Total general expenses** | **263,970,038** | **271,267,372** |

**11. Road Maintenance &Rehabilitation costs**

| | 2014 | 2013 |
|---|---|---|
| | Shs | Shs |
| Routine Maintenance* | 1,162,822,990 | 2,581,997,711 |
| Periodic Maintenance | 1,966,663,346 | |
| RMLF Pangani Bridge | 13,024,219.00 | |
| Consultancy,Planning, Feasibility EIA Costs | 7,419,616.01 | |
| Emergency Intervention Programs Costs | 1,698,363 | 554,862,115 |
| Road Safety and Childrens Traffic Parks Costs | 4,960,020 | 169,582,884 |
| Road Furniture &Road Marking | 25,061,881 | |
| Axle Load Contol costs | 1,870,595 | |

| | | |
|---|---|---|
| Road Reserve Identification& Control costs | 3,293,912 | |
| Emergency road works | 13,947,608 | |
| KYEP | - | 141,025 |
| Survey costs | 22,310 | |
| **Total road maintenance and Rehabilitation expenses** | **3,200,784,862** | **3,306,583,735** |

**Reconciliation – Road Maintenance & Rehabilitation costs**

| | |
|---|---|
| As reported in 2012/ 2013 | 3,306,583,735 |
| Prepayments to Contractors | (681,640,115) |
| Total Road Maintenance and Rehabilitation expenses | 2,624,943,620 |

**The Kshs 681,640,115 was prepayments to contractors relating to FY 2013/2014 that had been erroneously included in the Road Rehabilitation Cost of FY 2012/2013. The Restatement is to correct the error**

**12. Audit Cost**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Audit costs KENAO | 1,160,000.00 | 1,160,000.00 |
| Total | 1,160,000.00 | 1,160,000.00 |

**13. Road design and construction costs**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Northern &Eastern bypass | | 3,732,537,840 |
| AI,.A Loans | | 497,456,046 |
| Missing link roads | 52,734,352 | 3,200,000 |
| Other road construction costs | | 2,864,510,160 |
| Total Road Design and Construction costs | 52,734,352 | 7,097,704,046 |

**15.Other Gains**

| | 2014 Shs | 2013 Shs |
|---|---|---|
| Disposal of Motor Vehicle | 8,659,910 | 10,911,500 |
| **Total other income** | **8,659,910** | **10,911,500** |

**16. Cash and cash equivalents**

| | 2014 | 2013 |
|---|---|---|
| | **Shs** | **Shs** |
| Bank | 3,152,371,799 | 2,801,955,297 |
| **Total cash and cash equivalents** | **3,152,371,799** | **2,801,955,297** |

**17. Receivables from non-exchange transactions**

| | 2014 | 2013 |
|---|---|---|
| | **Shs** | **Shs** |
| Debtors (non-exchange transactions) | 1,205,992,019 | 689,829,859 |
| **Total current receivables** | **1,205,992,019** | **689,829,859** |

**Receivables from non-exchange Transactions**

| | |
|---|---|
| As reported in 2012/2013 | 8,189,744 |
| Prepayments to Contractors | 681,640,115 |
| Total Road Maintenance and Rehabilitation expenses | |
| | 689,829,859 |

**The Kshs 681,640,115 was prepayments to contractors relating to FY 2013/2014 that had been erroneously included in the Road Rehabilitation Cost of FY 2012/2013. The Restatement is to correct the error**

**18. Inventories**

| | 2014 | 2013 |
|---|---|---|
| | **Shs** | **Shs** |
| Consumable stores | 11,669,078 | 4,142,151 |
| **Total inventories at the lower of cost and net realizable value** | **11,669,078** | **4,142,151** |

**19.** Accounts Payables from non-exchange transactions

| | 2014 | 2013 |
|---|---|---|
| | **Shs** | **Shs** |
| Payables (Suppliers & Contractors) | 1,958,878,676 | 559,262,569 |
| Refundable Deposits Road Cut Permits | 10,820,000 | 6,140,000 |
| Provision Contingent Liability | - | 4,881,432 |
| staff statutory obligations payable | 251,491 | 293,730 |
| Staff gratuity payable | 34,120,031 | 33,561,602 |
| Retention | 562,170,797 | 382,996,521 |
| withholding tax payable | 14,723,734 | 65,036,397 |
| **Total Payables from non-exchange transactions** | **2,580,964,729** | **1,052,172,251** |

**20. Property, Plant & Equipment**

| | Work-in- Progress | Furniture and Fittings | Computers and Technical Equipments | Motor Vehicle | Total |
|---|---|---|---|---|---|
| Year ended 30th june 2014 cost or valuation | | | | | |
| Opening balance 01.07.2014 | - | 84,208,233.00 | 146,020,767.00 | 142,707,597.00 | 372,936,597.00 |
| Disposals | - | - | | (7,066,699.11) | (7,066,699.11) |
| Additions during the year | 26,395,567,767.25 | 4,157,720.10 | 17,739,448.73 | 40,587,314.00 | 26,458,052,250.08 |
| **Closing Cost or Valuation 30.06.2014** | **26,395,567,767.25** | **88,365,953.10** | **163,760,215.73** | **176,228,211.89** | **26,458,052,250.08** |
| **Accumulated Depreciation** | | | | | - |
| Opening balance 01.07. 2013 | - | (24,823,915.00) | (108,188,991.00) | (62,715,567.00) | (195,728,473.00) |
| Accumulated depreciation on disposal | - | - | - | 1,766,674.78 | 1,766,674.78 |
| Depreciation charge for the Year | - | (12,256,854.04) | (34,446,649.83) | (44,057,053.06) | (90,760,556.93) |
| **Closing Balance 30.06.2014** | - | **(37,080,769.04)** | **(142,635,640.83)** | **(105,005,945.28)** | **284,722,355.15)** |
| **Closing Net book Value 30.06.2014** | **26,395,567,767.25** | **51,285,184.06** | **21,124,574.90** | **71,222,266.61** | **26,539,199,792.82** |
| Year ended 30th June 2013 cost or valuation | | | | | |
| Opening balance 01.07.2013 | - | 68,289,509.00 | 101,267,985.00 | 128,330,388.00 | 297,887,882.00 |
| Disposals | - | - | (159,000.00) | (12,342,000.00) | (12,501,000.00) |

| | | | | | |
|---|---|---|---|---|---|
| Additions during the year | - | 15,918,724.00 | 44,911,782.00 | 26,719,209.00 | 87,549,715.00 |
| **Closing Cost or Valuation 30.06.2013** | - | **84,208,233.00** | **146,020,767.00** | **142,707,597.00** | **372,936,597.00** |
| **Accumulated Depreciation** | | | | | |
| Opening balance 01.07. 2012 | - | (11,739,413.00) | (59,875,780.00) | (34,922,097.00) | (106,537,290.00) |
| Accumulated depreciation on disposal | - | - | 84,667.00 | 7,883,429.00 | 7,968,096.00 |
| Depreciation charge for the Year | - | (13,084,502.00) | (48,397,878.00) | (35,676,899.00) | (97,159,279.00) |
| **Closing Balance 30.06.2013** | - | **(24,823,915.00)** | **(108,188,991.00)** | **(62,715,567.00)** | **(195,728,473.00)** |
| **Closing Net book Value 30.06.2013** | - | **59,384,318.00** | **37,831,776.00** | **79,992,030.00** | **177,208,124.00** |

## XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, 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.

| **Reference No. on the external audit Report** | **Issue / Observations from Auditor** | **Management comments** | **Focal Point person to resolve the issue *(Name and designation)*** | **Status: *(Resolved / Not Resolved)*** | **Timeframe: *(Put a date when you expect the issue to be resolved)*** |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

***Guidance Notes:***

(i) Use the same reference numbers as contained in the external audit report;

(ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;

(iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;

(iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

**Ag. Director General**

**Date:** 12/03/2015

**Ag. Chairman of the Board**

**Date:** 12/3/2015