

REPORT OF THE AUDITOR-GENERAL ON KERIO VALLEY DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kerio Valley Development Authority set out on pages 40 to 67, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, 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 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 Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kerio Valley Development Authority as at 30 June 2017, 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 Kerio Valley Development Authority Act ,Cap 441 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Trade and Other Receivables

1.1 Doubtful Debts

As previously reported, the doubtful debts' balance of Kshs.37,969,252 as at 30 June 2017 as disclosed in note 30(c) to the financial statements includes a sum of Kshs.22,090,971 owed by a former Managing Director, Kshs.316,740 by former Directors, Kshs.1,506,195 by former staff and Kshs.14,055,346 by former tenants who vacated the premises with arrears. However, as previously reported, the management has not indicated the efforts made so far to have the amounts collected.

Consequently, the validity of the receivable from exchange transactions figure of Kshs.61,164,817 could not be confirmed.

1.2 Staff Debtors

The receivables from exchange transactions balance of Kshs.61,164,817 includes salary advances/IOUs amount of Kshs.4,459,181 as disclosed in note 30(a) to the financial statements relating to the period July 2015 and earlier. However, no justifiable reason has been given for failure to recover these staff debtors which have been outstanding for a long period of time. Further, no provision has been made in respect of these long outstanding debts although their collectability is doubtful.

Consequently, the validity and accuracy of the staff debtor's balance of Kshs.4,459,181 could not be confirmed.

2.0 Trade and Other Payables

2.1 Employee Benefits Obligation

As reported in the previous year, included in the trade and other payables figure of Kshs.57,531,588 as at 30 June 2017 are staff benefits obligation amounting to Kshs.16,933,937 relating to the August 2000 and June 2012 that had not been remitted to the respective pension managers (trustees). This is contrary to the Retirement Benefits Act No.3 of 1997 which requires employers to remit pension deductions to the respective schemes within 15 days of making the deduction. Although management has explained that the delay has been due to under funding and that the Board has approved disposal of some Authority's assets to clear the obligation, no documentary evidence has been provided for audit verification.

The Authority is therefore in breach of the Retirement Benefits' Act No. 3 of 1997 and this may lead to potential risk of fines and penalties due to continued non-remittance of staff benefits.

3.0 Investment Property

As previously reported, the statement of financial position reflects investment property balance of Kshs.708,904,769 as at 30 June 2017 and as disclosed under note 41(b) to the financial statements. The amount relates to the net book value of permanent buildings. However, a detailed schedule of the investment property together with the valuation reports showing how rents paid were determined were not provided for audit review.

In the circumstances, the completeness and accuracy of the investment property balance of Kshs.708,904,769 could not be confirmed.

4.0 Construction of Rokocho Honey Plant

Note 20 to the financial statements reflects conditional grants of Kshs.83,223,680 which include an amount of Kshs.4,270,419 incurred on design and construction of a new

honey processing refinery to provide adequate storage and processing space. The contract was awarded to a construction company on 25 July 2016 at a contract sum of Kshs.5,742,000. The contract period was for 240 days commencing on 2 August 2016 and the completion was to be on 3 March 2017 and later extended to 31 August 2017. However, as at March 2018, the project had not been completed despite payment of Kshs.4,270,419 which represented 74% of the contract sum. The management has not explained the circumstances that contributed to the non-execution of the project by the contractor.

Further, it was observed that though the main building had been done up to the roof, both walling and floor plastering had several cracks.

In the circumstances, the objectives of the project has not been achieved and the Authority did not obtain value for money on the expenditure of Kshs.4,270,419 on the project.

5.0 Nagule-Akiring Water pan

During the year under review, the Authority incurred an expenditure of Kshs.13,279,858 on construction of Nagule Akiring Water pan. The contract to construct the water pan (40,000m³) was awarded to a construction company on 3 December 2015 at a contract sum of Kshs.13,279,859. The contract period was 60 days commencing 4 December 2015 and completion date was 2 February 2016. A full payment of Kshs.13,279,858.90 was paid to the contractor on 9 September 2016 vide payment voucher number 56 and certificate no. (1).

A physical verification of the project in the month of March 2018 revealed that the chain link fence which had been erected by the contractor had been vandalized by the community citing security reasons for their livestock while taking water.

Consequently the Authority did not obtain value for money on the expenditure of Kshs.13,279,858.90.

6.0 Rehabilitation of Loyapat Irrigation Scheme

Included in the conditional grants expenditure of Kshs.116,203,104 for the year ended 30 June 2017 as disclosed under note 20 to the financial statements is an amount of Kshs.3,032,996 paid to a contractor for the rehabilitation of Loyapat Irrigation Scheme. The contract was awarded to a construction company on 21 October 2014 at a contract sum of Kshs.46,047,768 through restricted tendering. According to the contract agreement, the works were to commence on November 2014 and expected to be completed on June 2015. As at 14 February 2017, the total contract sum had been paid. However, the implementation of contract delayed until the financial year 2016/2017 and the management did not provide approval of contract extension.

Further, a physical verification of the project in March 2018 revealed that despite the works of intake accessories being complete, 600 x 500mm control stop-bar at the entrance of siltation chamber and 200mm thick natural stone pitching on sides of the

diversion canal intake apron jointed with cement mortar (1,3) c/s mix were not well built. They were built at a lower height and that whenever the river floods the water flows over the stop bar and the stone apron and floods the farms. At the time of audit verification, the main canal from the intake had silted up. Though the project was handed over to the community, the farms had not been cultivated.

Consequently the community may not have obtained value for money on the expenditure of Kshs.46,047,768 on the project.

7.0 Remuneration of Directors

The statement of financial performance reflects remuneration of directors expenses of Kshs.13,114,943. However, the expenditure was not supported with proper analysis indicating the amount paid to each director, nature of the allowance, date of the meeting and nature of the meeting attended.

Consequently, the validity and completeness of the expenditure on remuneration of directors of Kshs.13,114,943 could not be confirmed.

8.0 Audit Fees

The statement of financial performance indicates that there is no provision of audit fees for the audit services rendered. This is contrary to section 41(1)(c) of the Public Audit Act, 2015. Therefore, the management of the Authority is in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kerio Valley Development Authority in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Financial Performance

During the year, the Authority recorded a deficit of Kshs.101,537,006 which resulted to increased accumulated deficit of Kshs.2,129,080,849 from a deficit of

Kshs.2,027,543,843 in 2016. If strategies are not put in place to reverse the loss-making trend, the Authority's future operations are likely to be adversely affected.

2.0 Human Resource Management

2.1 Staff Composition

Included in the statement of financial performance are employee costs amounting to Kshs.197,981,089 for the year ended 30 June 2017. However, audit review of the payroll showed that the Authority had four hundred and fifty-nine (459) employees out of whom three hundred and four (304) or 66% of employees were from the dominant community, while one hundred fifty-five (155) or 34% are from non-dominant communities as detailed below:

Details	Number of staff	No. from Dominant Community	No. From Non-dominant community	% Dominant Community
Board of Directors	17	11	6	65
Senior management	8	7	1	88
Other permanent staff	459	304	155	66
Total	491	322	169	66

In addition, eleven (11) out of the seventeen (17) appointed board members are from the same ethnic community being 65% of the board membership. This is contrary to Section 7 of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the management is in breach of the law.

2.2 Officers in Acting Capacity

Included in employee cost figure of Kshs.197,981,089 is acting allowance expenditure amounting to Kshs.457,484 paid to ten (10) officers who were in acting capacity since January 2013 and earlier. No justifiable reason has however been provided for not filling these positions through competitive process as required by the human resource policy of the Authority. Consequently, the Authority breached its own regulations.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

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.

Those charged with governance are responsible for overseeing the Kerio Valley Development Authority financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude, if management have disclosed, on the appropriateness of the management's use of the going concern 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 as a going concern or 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's to cease to continue as a going concern.

- 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's 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.



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

Nairobi

11 July 2018