

REPORT OF THE AUDITOR-GENERAL ON KERIO VALLEY DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kerio Valley Development Authority set out on pages 39 to 59, which comprise the statement of financial position as at 30 June 2018, 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 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 effects of the matter 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, 2018, and (of) its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

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 2018 as disclosed under other disclosures to the financial statements includes amount 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, the management has not indicated the efforts made so far to have the amounts collected.

Consequently, the validity of the receivables from exchange transactions figure of Kshs.70,674,588 as at 30 June 2018 could not be confirmed.

1.2 Staff Debtors

The receivables from exchange transactions figure of Kshs.70,674,588 as at 30 June 2018 which includes staff debts and salary advances amounting to Kshs.3,778,544 as disclosed in note 23(a) to the financial statements which have been outstanding from 1998 and most of the staff members are no longer in the service. However, as reported

previously, the management has not provided measures put in place to recover the funds from respective staff members. Consequently, the validity, accuracy and recoverability of the staff debts balance of Kshs.3,778,544 as at 30 June 2018 could not be confirmed.

2.0 Investment Property

As previously reported, the statement of financial position as at 30 June 2018 reflects investments property figure of Kshs.694,726,674 as disclosed in note 35 to the financial statements which relate to the net book value for thirty six (36) permanent buildings. However, valuation reports showing how the values were determined were not provided for audit review. Although the management indicates that the Ministry of Lands and Physical Planning have been engaged to conduct the valuation, the report is yet to be produced. In the circumstances, the completeness and accuracy of the investments property balance of Kshs.694,726,674 as at 30 June 2018 could not be confirmed.

3.0 Unrecorded Receipt of Funds and Advance Payment for Construction of Aror Dam

Available information revealed that the Authority prepared payment voucher for advance payment of USD 41,611,140.83 (Kshs.4,292,651,060.25) on 7 December 2017 for Aror Dam being 15% of the contract sum. However, although the amount has been disclosed under other disclosures, the advance payment has not been reflected in the statement of financial position as a prepayment and under statement of financial performance as conditional receipts (Aror). The total current assets balance of Kshs.874,726,950 and total revenue figure of Kshs.463,060,607 have been understated to the extent of non-recognition of the advance payment of USD 41,611,140.83 (Kshs.4,292,651,060.25).

In view of the foregoing, the accuracy and completeness of the the total current assets balance of Kshs.874,726,950 as at 30 June 2018 and total revenue of Kshs.463,060,607 for the year ended 30 June 2018 could not be confirmed.

4.0 Financial Performance and Service Sustainability of the Authority

During the year under review, the authority recorded a deficit of Kshs.160,737,802 which resulted to increased accumulated deficit of Kshs.2,289,818,651 from a deficit of Kshs.2,129,080,849 in 2017. Although the Authority attributes this to the substantial assets in Turkwel Dam which is a contributor of deficit due to depreciation of fixed assets for which no revenue is being received but the case is at arbitration to sort out the revenue sharing. However, if other strategies are not put in place to reverse the loss making trend, the Authority future operations are likely to be adversely affected. In consequence, Service sustainability is dependent on continued Government and creditors support.

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 matter(s) 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 Budgetary Control and Performance

1.1 Budget Performance

During the year under review, Kerio Valley Development Authority had an approved budget of Kshs.1,324,260,061 which comprised of development vote budget of Kshs.693,496,061 and recurrent vote budget of Kshs.630,764,000. At the end of the financial year ended 30 June 2018, the budget performance reflected under absorption on development vote of Kshs.474,002,365 or 68% and under absorption on recurrent vote Kshs.274,690,579 or 44% resulting to overall budget under-absorption of Kshs.748,692,944 or 57% as indicated below:

Vote	Approved Budget	Actual Expenditure	Under Absorption	Absorption %
	(Kshs)	(Kshs)	(Kshs)	
Development	693,496,061	219,493,696	474,002,365	68
Recurrent	630,764,000	356,073,421	274,690,579	44
Total	1,324,260,061	575,567,117	748,692,944	57

The management indicates that the under-utilization of development funds was as a result of Kshs.393,200,000 for resettlement and compensation of Arror which was received on 30 May 2018 a month to the end of the year and voluntary employee retirement money which could not be utilized because the union had gone to court which delayed the exercise. However, the under-absorption of the approved budget is an indication that approved projects and activities were not implemented by the authority and therefore denying intended beneficiaries benefits accruing from planned programs and activities for the year ended 30 June 2018.

1.2 Development Budget

During the year under review, Kerio Valley Development Authority had a development budget of Kshs.693,496,061 out of which Kshs.219,493,696 or approximately 32% of

the budget was spent resulting to under expenditure of Kshs.474,002,365 or approximately 68% of the development budget as indicated below:

	Project	Approved Budget	Actual Expenditure	Under Expenditure	Absorption %
		Kshs	Kshs	Kshs	
1	Charangany Water Shed Conservation Programme	95,139,236	94,878,189	261,047	0
2	Aror Multi-purpose Dam Project	400,000,000	8,634,135	391,365,865	98
3	Wei Wei Phase 3 Irrigation Project	41,000,000	37,028,831	3,971,169	10
4	Manago Value Chain Project	40,000,000	35,121,344	4,878,656	12
5	Napuu,Lomut and Lower Turkwel Irrigation Project	64,000,000	28,716,818	35,283,182	55
6	Water Harvesting & Bore holes & ESP	52,981,016	15,100,369	37,880,647	71
7	Marich pass	375,809	14,010	361,799	96
	Total	693,496,061	219,493,696	474,002,365	68

The under absorption of the approved development budget indicates that activities and projects in the annual work plan were not implemented by the authority and therefore denying intended beneficiaries benefits accruing from the projects.

1.3 Project Verification

During the year under review seven (7) projects with total contract sum of Kshs.178,128,969 out of which a total of Kshs.51,415,218 had been paid as at 30 June 2018 were verified. Three (3) projects with contract sum of Kshs.72,661,847 were found to be complete, two (2) projects with contract sum of Kshs.35,725,122 were ongoing while two (2) projects with contract sum of Kshs.69,742,000 were found to have stalled. Further, biological assets in Chemeron and Nomitio were also verified as indicated below:

No.	Project	Contract Price (Kshs)	Amount Paid 2017/18 (Kshs)	Verification status
1	Drilling and equipping of Napuu (A&B) boreholes in Turkana County	6,954,611	5,509,310	Construction of two (2) Boreholes completed but not yet operational as electricity not yet installed

2	Napuu irrigation scheme	65,325,372	0	Irrigation scheme complete and operational
3	Electricity supply to Napuu II boreholes	2,099,647	2,099,647	On-going
4	Lomut irrigation scheme	64,000,000	11,268,490	Project behind scheduled and stalled at about 17%
5	Rokocho honey plant	5,742,000	0	Building not yet complete and no work is in progress
6	Lomeritak Borehole	381,864	381,864	Rehabilitation of Borehole, complete and in use
7	Supply, delivery, installation, testing and commissioning static mango processing plant	33,625,475	32,155,907	Machines delivered to site in Tot but installation has not been done. Construction works on mango processing house is in progress.
	Total	178,128,969	51,415,218	
1	Chemeron biological assets (Cows)			Biological assets in existence
2	Nomotio biological assets (Cows)			Biological assets in existence

The management has not explained how it will ensure the stalled projects are completed for the benefit of the intended residents of respective regions.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Employee Costs

1.1 Staff Composition

The statement of financial performance for the year ended 30 June 2018 reflects employee cost figure Kshs.192,268,021. However, audit review of board members and Members of Staff composition as at 30 June, 2018 showed that the authority had seventeen (17) board members and four hundred and seventy-two (472) members of staff.

However, three hundred and sixty-eight (368) or 79% of permanent staff are from the dominant community, while ninety-six (96) or 21% are from non-dominant communities.

Further, Included in 472 members staffs are seven (7) or 88% of senior management are from the same dominant community and one (1) or 12% is from non-dominant community while nine (9) or 53% out of the seventeen (17) appointed board members are from the dominant community 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 staff from the same ethnic community.

Consequently, management is in breach of the Law.

1.2 Officers in Acting Capacity

Included in the employee cost figure of Kshs.192,268,021 acting allowance expenditure of Kshs.422,141 paid to twelve (12) officers who have been acting in their respective positions for a period of 3-8 years contrary to paragraph 4.5.8 of Kerio Valley Development Authority, Human Resource Policy and Procedures Manual 2018 which states that appointment on acting basis is temporary measure pending the substantive filling of the vacant post by either recruitment or resumption of duty by the substantive holder of the post. Acting appointment shall be limited to a continuous period of six months.

Consequently, the management breached its own regulations.

2.0 Mango Processing Plant

The statement of financial position as at 30 June 2018 reflects property plant and equipment and investment property figure of Kshs.5,637,009,173 which includes work in progress figure of Kshs.34,450,709 incurred on mango value chain. Available information revealed that included in the figure of Kshs.34,450,709 is an amount Kshs.32,155,097 paid to M/s Alvan Blanch Development Company Limited for the supply, delivery, installation and commissioning of static mango processing plant in Tot West Pokot County. Further information indicates that Kerio Valley Development Authority awarded tender No. KVDA/CO6/RFP/ 24/2015/2015 to M/s Alvan Blanch Development Company Limited for supply, delivery, installation and commissioning of

static mango processing plant at contract sum of STG Pound 249,792 approximately Kshs.33,625,474.92.

Physical verification of the project carried out in February 2019, revealed that the machines were delivered to project site in Tot in March 2018 and stored in two containers awaiting installation and commissioning due to ongoing construction works on housing unit for the machines. The management has explained that the delay in construction of mango processing house is as a result of heavy rains that hampered the contractor from delivering materials to site.

Consequently, the authority has not received value for amount of Kshs.32,155,097 incurred on supply, delivery, installation and commissioning of static mango processing plant in Tot West Pokot County.

3.0 Construction of Lomut Irrigation Scheme

The statement of financial performance reflects operational expenses amounting to Kshs.154,137,777 for the year ended 30 June 2018 comprising of operational /general expenses of Kshs.83,751,836 and grant expenses amounting to Kshs.70,385,941 as disclosed in note 19 to the financial statements. Included in the grants expenses figure of Kshs.70,385,941 is an amount of Kshs.11,268,490 incurred in construction of Lomut Irrigation scheme out of which Kshs.10,866,140 was paid to M/S Cheptulel Contractors Ltd.

Available information indicates that Kerio Valley Development Authority advertised tender No. KVDA/T/16/ 2016/2017 for the construction of Lomut Irrigation Scheme on the authority's web site and National Treasury IFMIS on 3 February, 2017. Nine (9) bids were received. Tender evaluation was done on 9 to 11 March 2017 and the tender awarded to M/S Cheptulel Construction Limited at a contract sum of Kshs.64,000,000 to construct irrigation scheme for use by Lomut residents. The contract agreement was signed on 8 May 2017 and works expected to be completed within three hundred days (300) from the date of site handing over on 18 May 2017. An amount of Kshs.10,866,140 or approximately 17 % of the contract sum was paid to M/S Cheptulel Contractors Ltd on 19 Sept 2017 being certificate number one (1) vide payment voucher number 0261 towards construction of Lomut Irrigation Scheme.

Physical verification of the project in February 2019, more than twenty two (22) months after signing of the contract agreement revealed that approximately 17% of the works had been done. However, the contractor was not on site and no work was progressing. Further, the contractor's performance bond from AMACO Insurance Company Ltd expired on 1 May 2018. Although the management has indicated that the contract was terminated on 5 December 2018, the objective of the project has not been achieved and the Authority has not obtained value for Kshs.10,866,140 incurred on the project.

4.0 Multipurpose Dam Development Projects

Available information revealed that the Authority entered into commercial contracts for Arror and Kimwarer Multipurpose Dam projects with M/S Comperativa Muratori & Cementisti (CMC DI RAVENA) Ltd - Itinera Joint Venture under Engineering, Procurement, Construction and Financing model on 5 April 2017 for a duration of 60 months. Arror Project was at a contract sum of USD 277,407,605.50 while Kimwarer was to cost USD 224,422,163.92. The two contracts are being implemented by the contractor using loans from the European Banks. Available information revealed that counterpart funding amounting to Kshs.7.7 billion from the National Treasury was required to meet the local costs of resettlement, compensation, project management and any other costs not covered by donor facilities. Further information revealed that the Authority prepared payment voucher for advance payment of USD 41,611,140.83 (Kshs.4,292,651,060.25) on 7 December 2017 for Arror and USD 33,663,324.59 (Kshs3,485,500,628) on 27 September 2018 for Kimwarer project for mobilization and design of the two projects as per the contract agreement.

The following observation were made during the audit of the two projects:

4.1 Project Approval and Tendering Process

According to cabinet memorandum of 3 December, 2008, the cabinet approved development of Arror Integrated Multipurpose Project. However, there was no evidence to show that Kimwarer Multipurpose Project was approved by the cabinet. Available information revealed that the Authority advertised tenders for the two projects Arror and Kimwarer Multipurpose Dams in the Daily Nation and Standard on 19 and 24 December 2014 as well as in Kerio Development Authority website inviting tenders from both national and international Consortium of Contractors who are capable of sourcing for funds, design, build and transfer of projects which included dam construction, hydropower generation, water supply and irrigation. From the documents availed for audit review, the procurement was undertaken by use of request for proposals (RFP). In undertaking a procurement by request for proposal, Section 78 of the Public Procurement Act, 2005 requires that the entity issue a notice inviting interested persons to submit Expression of Interest (EOI). Section 80 of the Act requires that the entity to examine each Expression of Interest (EOI) to determine if the person submitting is qualified to be invited to submit request for proposals (RFP) in accordance with the notice. However, from the documents availed for audit review, it was observed that Kerio Valley Development Authority did not issue a Notice for Expression of Interest (EOI) but instead began the procurement with invitation for interested bidders to submit request for proposals (RFP). Further, the project is not included in the annual procurement plan for the year ended 30 June 2018 contrary to section 43(3) (a) of the Public Procurement and Disposal Act, 2015 which states that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan. Although, the management indicates that the tendering process was informed by the cabinet approval, the cabinet memo available for audit review indicate that only Arror was approved by the cabinet. Therefore, Kimwarer Dam was not approved by the cabinet.

Consequently, the management breached the law.

4.2 Due Diligence for Arror and Kimwarer Multipurpose Projects

According to the Attorney General's letter reference AC/CONF/2/C/9VOL I (34) to the Cabinet Secretary the National Treasury, the authority was advised to carry out due diligence on the Company Comperativa Muratori & Cementisti (CMC DI RAVENA) Ltd before executing the contract involving key stakeholders to establish its capacity and capability to carry out the project. Available information revealed that due diligence on financial, technical and legal status of M/S CMC Di Ravenna was carried out between 25 April 2017 and 3 May 2017 in the company's offices and operations/ projects in Republic of South Africa by a team of six members: three from KVDA and one representative each from the National Treasury, office of Attorney General and Ministry of Devolution and Planning while the contracts had been signed on 5 April 2017 and 18 April 2017. Although management has explained that the commercial and financing facility agreements were signed on 5 April 2017 and 18 April 2017 because of the financiers had set stringent timeliness and that due diligence had previously been carried out in respect of the company in relation to the contract for the construction of Itare Dam in Molo, Nakuru County, no justification has been provided for disregarding the Attorney General's advice. Further information revealed that the due diligence was conducted on M/S Comperativa Muratori & Cementisti (CMC DI RAVENA) Ltd and none was conducted on joint venture partner M/S Itinera S.P.A. In addition, there is no evidence to show that key parameters such as current ratio, debt ratio and debt equity ratio useful in accessing the going concern of the firm were considered in the financial evaluation during the due diligence exercise.

Consequently, the due diligence exercise did not add value to tender evaluation and awarding process and the going concern of the company may not have been adequately accessed.

4.3 Handing Over of the Project Sites

The authority signed contracts with M/S CMC di Ravenna and Itinera Joint Venture for construction of Kimwarer and Arror Multipurpose project on 5 April 2017 while the financing agreement was signed on 18 April 2017. Section 2.1 of the General Conditions of the Contract states that the Employer shall give the Contractor right of access to, and possession of, the Site with effect from the Commencement Date. Section 8.1(b) states that Commencement Date shall be within 42 days after the date on which the Contract comes into full force. However, despite the three conditions required for the Contract to come into full force as per Section 1.6 of the General Conditions having been fulfilled, management has not provided documentary evidence of any formal handover of the sites. The management indicates that delay in site handover is because out of the Kshs.7.7 billion required for compensation and the National Treasury has released only Kshs.643,200,000. Under the circumstances, the management is in breach of the contract agreement and this may result in delay in completion of the project within the contract period. In addition, management did not provide revised contract period to take into account the new development.

4.4 Delay in Securing Land for the Projects

The financing agreement and contract agreements in respect of Kimwarer and Aror Multipurpose Project covers project works and excludes compensation and resentment of project affected persons, supervision and public participation/community sensitization and this is financed by GOK counterpart funds. Available information revealed that counterpart funding amounting to Kshs.7.7 billion from the National Treasury is required to meet the local costs of resettlement, compensation, project management and any other costs not covered by donor facilities. However, the Authority records indicate actual amount received to date is Kshs.643,200,000 as counterpart funding from the National Treasury for Aror Project for resettlement and compensation out of which Kshs.8,634,135 had been spent on public participation and sensitization as at 30 June 2018 while no counterpart funding had been received for Kimwarer Project. Under the circumstances, the Authority has not been able to secure land for the projects and compensate the owners of land where the projects are to be implemented since the funds received are insufficient. Further, information available indicates that Aror and Kimwarer dam projects are to be established on approximately 1,600 ha of land comprising of 400ha of forest land and 1200 ha of private land. The Authority has engaged the Kenya Forest Service (KFS) who granted permission for the Authority's contractor to access forest to undertake detailed studies. The Authority also requested KFS through National Land Commission to allow for utilization of 400 ha of forest land for construction of the two dams in exchange of 570 ha to be acquired from private land to be compensated by the project for conservation. Available information revealed that the National Land Commission published Kenya Gazette Notice No.925 of 1 February 2019 for intention to acquire parcels of land for Aror and Kimwarer projects. However, available information revealed Kenya Forest Service vide letter Ref: water/1/KFS/VOL.X11(47) dated 13 February 2019 revoked earlier approval to access portion of its land for the project.

Consequently, at the time of audit in February 2019, more than twenty-two (22) months after the contract agreement was signed, the Authority is yet to complete the process of acquiring project land from affected residents and it is not known when the process will be completed.

Under the circumstances, the Authority has not been able to secure land for the projects and compensate the owners of land where the projects are to be implemented since the funds received are insufficient. Further there is no evidence that the total amount required for land acquisition and compensation has been factored in the 2018/2019 budget to enable the Authority acquire land for resettlement and compensate the land owners. Consequently, the projects may not be completed within contract period and the Authority is likely to incur huge cost overruns arising from delay in handing over of the project site.

4.5 Performance Security

The Authority signed contract agreement - KVDA/RFP/39/2014-2015 on 5 April 2017 with M/S CMC di Ravenna - Itinera Joint Venture of Italy for the construction of Kimwarer

Multipurpose Project at contract sum of USD. 224,422,163.92 (Exclusive of 16% tax) approximately Kshs.21 billion.

According to Section 4.2 of the General Conditions the Contractor shall deliver the performance Security to the Employer within 28 days after the parties have signed the Contract Agreement. However, to date the Contractor has not delivered the Performance Security to the Employer although contractor has extended the bid bond awaiting the clearance of the investigations on the projects as the European financiers are reluctant to extend the financial support until the investigations are complete. Consequently, the contractor is in breach of contract agreement and therefore exposes the Authority to risk of loss of funds already paid in event of non-performance.

4.6 Project Verification

Physical verification of the projects revealed that the contractor has set up temporary site offices and started carrying out preliminary work including surveying and mapping of irrigation and mobilizing equipment and machinery. However, the land on which the projects are to be constructed has not been acquired since compensation and relocation of affected residents is yet to be done.

Consequently, the project is behind schedule and it is not known when the relocation exercise will be concluded and construction work on project to commence.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

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

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Kerio Valley Development Authority ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Kerio Valley Development Authority or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 Kerio Valley Development Authority 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 Kerio Valley Development Authority to cease to continue as a going concern or to sustain its services.

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

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

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



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

Nairobi

22 May 2019