

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
DROUGHT RESILIENCE AND SUSTAINABLE
LIVELIHOOD PROGRAMME (ADF LOAN
NO.2100150028345)**

**FOR THE YEAR ENDED
30 JUNE 2018**

**MINISTRY OF AGRICULTURE, LIVESTOCK,
FISHERIES AND IRRIGATION**

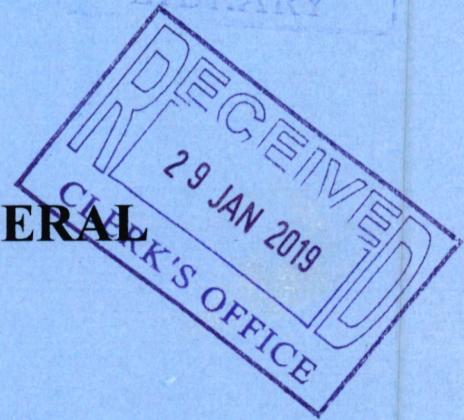
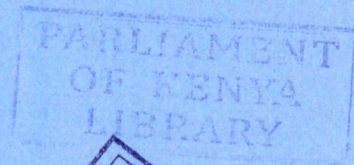


THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 27 FEB 2019 DAY: Wed

Hon. Azden Oule

Minaw Mboto







OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

2.8 SEP 2018

RECEIVED

**Project Name....DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOOD
PROGRAMME**

Implementing Entity....STATE DEPARTMENT FOR CROPS DEVELOPMENT

PROJECT CREDIT NUMBER....2100150028345

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Reports and Financial Statements
For the financial year ended June 30, 2018

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is **Drought Resilience and Sustainable Livelihood Programme. (DRSLP).**

Objective: The key objective of the project is **To Contribute to Poverty Reduction, Food Security and Accelerated Sustainable Economic Growth in the Horn of Africa (HOA).**

Address: The project headquarters offices are based at **Nairobi, Nairobi County, Kenya.**

The address of its registered office is:

**Hill Plaza Building 9th Floor, Ngong Road, opposite Milimani Law Courts.
P.O Box 30008-00100, Nairobi, Kenya**

The project also has offices/branches as follows:

- **None**

Contacts: The following are the project contacts

Telephone: **(254) 2719013/2718870**

E-mail: **npchoa@kilimo.go.ke/npchoa1@gmail.com**

Website: **www.drslpkenya.azurewebsites.net**

1.2 Project Information

Project Start Date:	The project start date is 1st July 2013
Project End Date:	The project end date is 30th June 2019
Project Coordinator:	The project coordinator is Mrs. Esther M. Wambua
Project Sponsor:	The project sponsor is African Development Bank

1.3 Project Overview

Line Ministry/State Department of the project	The Project is being implemented by the State Department for Crops Development in the Ministry of Agriculture, Livestock, Fisheries and Irrigation.
Project number	2100150028345
Strategic goals of the project	The strategic goals of the project are as follows: (i) Poverty reduction (ii) Enhance food security (iii) Accelerated economic growth

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
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Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Invest in large multipurpose water infrastructures. (ii) Improve livestock production.
Other important background information of the project	The Project aims at improving communities' resilience to drought and hence improve their livelihoods in a sustainable way.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Water availability for both domestic and livestock use (ii) Livestock productivity through pasture and water development (iii) Food security
Project duration	The project started on 1st July 2013 and is expected to run until 30th June 2019.

1.4 Bankers

The following are the bankers for the current year:

- (i) **Central Bank of Kenya (C.B.K) A/C No. 1000212519**

1.5 Auditors

The project is audited by the **Kenya National Audit Office (KENAO)**.

1.6 Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
Esther M. Wambua	SADA	Msc. Agriculture & Rural Development	Project Co-ordinator
Robert Gwadoya	Accountant	C.P.A (K) B.Com	Project Accountant
Hillary Ngeno	PAO	Bsc. Agribusiness	M&E/Agribusiness Specialist
Lawrence Mbugua	SSCMO	Dip. SCM	Project Procurement Specialist
Jonah Kebeney	Agriculture Engineer	Bsc. Agriculture Engineer	Project Engineer
Calvin Musungu	Agriculture Engineer	Bsc.Agriculture Engineer	Project Engineer

For the financial year ended 30th June 2018

Atika Ombachi	PAO	Bsc. Horticulture	Horticulture Specialist
Samuel Okati	PLPO	Msc. Agri. Resource Mgt	Livestock Specialist
Adan Dahiye Maalim	PAO	Bsc. Agriculture	Environment Specialist
Benard Wanjohi	PAO	Bsc. Agriculture	ICT Specialist

1.7 Funding summary

The Project is for duration of six (5) years from 2013 to 2018 with an approved budget of Unit of Account (UA) 41.799 million equivalent to KShs 5,481.019 million. The project got a 1 year extension up to June 2019.

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date - (30th June 2018)		Undrawn balance to date (30th June 2018)	
	Donor currency	KShs	Donor currency	KShs	Donor currency	KShs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
	Million UA	000' Ksh	Million UA	000' Ksh	Million UA	000' Ksh
(i) Loan						
African Development Bank	37.410	4,905.49848	10.04406	1,317.0581	27.36594	3,588.4404
(ii) Counterpart funds						
Government of Kenya	4.389	575.520792	0.98225	128.8	3.40675	446.720792
Total	41.799	5,481.019272	11.02631	1,445.8581	30.77269	4,035.161192

1.8 Summary of Overall Project Performance:

There is increased water availability and accessibility in the project areas and it is anticipated that by June 2019, more than 40% of the beneficiaries will have easy access to water.

There is increased forage quality and availability in the project areas and it is anticipated that by June 2019, there will be increase in carrying capacity to 1ha/LU.

There is developed rural feeder roads to improve market access, input delivery and access to animal health services in the project areas, and it is anticipated that by June 2019, the services would have improved greatly.

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Reports and Financial Statements
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There is sustained well-developed human and institutional capacity in the project area.

Challenges and recommended way forward

Feasibility studies, survey and design of structures take long to conclude. Use of internal specialist personnel from government is recommended.

Wide geographical spread of project activities across the counties including poor roads and mobile telephone network. The PCU has grouped the counties for ease of management. PCU has again enhanced the counties' capacity to follow up and work with the community management committees at the county level.

Slow pace of ownership by county executives thus affecting implementation. There's need to sensitize county executives on their roles so as to support sustainability of the structures constructed.

Low budgetary revenue allocation. Treasury and Ministry to consider up scaling, and also consider Program Based Budgets.

Slow access to revenue and counterpart funds due to IFMIS downtime. System efficiency should be improved.

1.9 Summary of Project Compliance:

All project covenants have been complied with.

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the Ministry of Agriculture, Livestock, Fisheries and Irrigation and the *Project Coordinator* for *Drought Resilience and Sustainable Livelihood Programme* are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

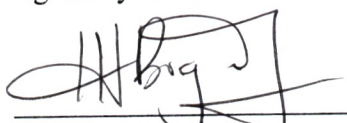
The *Principal Secretary* for the Ministry of Agriculture, Livestock, Fisheries and Irrigation and the *Project Coordinator* for *Drought Resilience and Sustainable Livelihood Programme* accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the Ministry of Agriculture, Livestock, Fisheries and Irrigation and the *Project Coordinator* for *Drought Resilience and Sustainable Livelihood Programme* are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended **June 30, 2018**, and of the Project's financial position as at that date. The *Principal Secretary* for Ministry of Agriculture, Livestock, Fisheries and Irrigation and the *Project Coordinator* for *Drought Resilience and Sustainable Livelihood Programme* further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the Ministry of Agriculture, Livestock, Fisheries and Irrigation and the *Project Coordinator* for *Drought Resilience and Sustainable Livelihood Programme* confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the *Principal Secretary* for the Ministry of Agriculture, Livestock, Fisheries and Irrigation and the *Project Coordinator* for *Drought Resilience and Sustainable Livelihood Programme* on 28th SEPTEMBER - 2018 and signed by them.


Principal Secretary


Project Coordinator


Project Accountant:

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Reports and Financial Statements
For the financial year ended June 30, 2018

Name

PROF. HAMADI I. BOGA

Name

ESTHER WAMBUA

Name: ROBERT ANADUYA

ICPAK Member Number:

14109

REPUBLIC OF KENYA



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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOOD PROGRAMME (ADF LOAN NO. 2100150028345) FOR THE YEAR ENDED 30 JUNE 2018 – MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES & IRRIGATION

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Drought Resilience and Sustainable Livelihood Programme set out on pages 1 to 33, which comprise the statement of financial assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparative 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 and Loan Agreement No.2100150028345 dated 27 February 2013 between African Development Fund (ADF) and the Republic of Kenya. 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Drought Resilience and Sustainable Livelihood Programme 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 (Cash Basis) and do not comply with the Loan Agreement and Public Finance Management Act, 2012.

In addition, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the special account statement do not present fairly, transactions for the year and the closing balance.

Basis for Adverse Opinion

1. Variances Between Audited Financial Statements for 2016/2017 and Comparative Figures in the Financial Statements for 2017/2018

The following variances were noted between the audited financial statements for 2016/2017 and comparative figures in the financial statements for 2017/2018

Report of the Auditor-General on the Financial Statements of Drought Resilience and Sustainable Livelihood Programme (ADF Loan No. 2100150028345) for the year ended 30 June 2018 – Ministry of Agriculture, Livestock, Fisheries & Irrigation

Item	Audited Figure in Financial Statements for 2016/2017 Kshs.	Comparative Figure in Financial Statements for 2017/2018 Kshs.	Variance Kshs.
Loans from External Partners	410,388,669.15	398,000,811.80	12,387,857.35
Purchase of Goods and services	66,843,704.25	78,758,135.55	(11,914,431.30)
Training expenses	523,860.00	11,688,981.00	(11,165,121.00)
Acquisition of non-financial assets	350,855,239.15	332,839,511.00	18,015,728.15

The management has not provided any explanations, reconciliations or supporting documentary evidence for the variances. Consequently, the validity and accuracy of the comparative figures cannot be confirmed.

2. Failure to Capture Transactions in the Ledger and Lack of a Trial Balance

Examination of documents and records produced for audit revealed that the figures reflected in the programme's financial statements and supporting schedules were not captured in the Ministry's IFMIS Ledger. In addition, no trial balance was provided in support of the financial statements. Consequently, the completeness and accuracy of receipts and payments presented and disclosed in these financial statements cannot be confirmed.

3. Acquisition of Non-Financial Assets

The statement of receipts and payments reflects an amount of Kshs.422,897,156.73 under payments made by third parties in respect of acquisition of non-financial assets. As disclosed under Note 8.10 to the financial statements, the payments relate to construction of civil works. The management did not, however, provide information relating to the construction progress reports and site meeting minutes. Consequently, the accuracy and completeness of information disclosed in these financial statements as regards the payments totalling Kshs.422,897,156.73 cannot be ascertained.

4. Purchase of Goods and Services

The statement of receipts and payments also reflects payments totalling Kshs.50,177,607.55 in respect of purchase of goods and services, which as disclosed under Note 8.8 to the financial statements include an amount of Kshs.35,250,973 for domestic travel and subsistence allowance. However, the expenditure of Kshs.35,250,973 relating to

domestic travel and subsistence allowance includes an amount of Kshs.2,945,420 that was not supported with any documentary evidence.

The payments totalling Kshs.50,177,607.55 also includes an amount of Kshs.1,797,714 relating to routine maintenance of vehicles and other transport equipment for which an amount of Kshs. 43,900 was similarly not supported with any documentary evidence.

Consequently, the completeness and accuracy of the amounts expended on purchase of goods and services cannot be confirmed.

5. Cash and Cash Equivalents

5.1. Unsupported cash balances

The statement of financial assets as at 30 June 2018 reflects cash balances of KShs.21,477,511.25 under cash and cash equivalents and as disclosed under Note 8.13 B to the financial statements. However, out of the total cash balances, an amount of Kshs.16,576,145.25 was not supported with any documentary evidence. As result, the completeness and accuracy of the cash balances of Kshs.21,477,511.25 cannot be confirmed.

5.2. Bank balances

The statement of financial assets as at 30 June 2018 also reflects bank balances of Kshs.26,866,689.65 under cash and cash equivalents and as disclosed under Note 8.13A to the financial statements. Examination of the programme`s bank reconciliation statement as at 30 June 2018 for Account No.100021259 held at Central Bank of Kenya revealed payments totalling Kshs. 2,143,900.00 that had not been recorded in the cash book. No explanation has been provided for this anomaly.

In addition, the bank reconciliation statement reflects cash deposits of Kshs.194,174.00 relating to receipts in the bank not yet recorded in the cash book. However, no analysis or supporting documents were provided to support the reconciling amount.

Consequently, it has not been possible to confirm the accuracy and completeness of the bank balances of Kshs. 26,866,689.65 as at 30 June 2018.

6. Statement of Comparative Budget and Actual Amounts

Contrary to the requirements of International Public Accounting Standards Financial Reporting under Cash Basis of Accounting, Paragraph 1.9 and the guidelines prescribed by the Public Sector Accounting Standards Board, the statement of comparative budget and actual amounts presented does not show the original and final budget amounts and the actual amounts on a comparable basis, respectively. The statement instead reflects nil amounts. No explanation has been provided for this anomaly.

7. The Special Account Statement (Designated Account)

The special account statement reflects an amount of Kshs. 44,042,119.09 (US \$424,490.55) as having been withdrawn during the year under review. This amount differs with the loan from external development partner of Kshs. 42,586,397 (UA 3,549,841) reflected in the statement of receipts and payments and disclosed under Note 8.5 to the financial statements. The resultant difference of Kshs. 1,455,722.09, has not been explained or reconciled.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters discussed under the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, there were no Key Audit Matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters discussed under the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Budgetary Control

Section 68(1) (a) of the Public Financial Management Act ,2012 states that, an accounting officer for a national government entity shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful and authorized. However, the statement of receipts and payments reflects an expenditure of Kshs. 422,897,156.73 under acquisition of non-financial assets against a budgetary provision of Kshs. 408,148,722.00, leading to an over-expenditure of Kshs. 14,748,434.73.

2. Acquisition of Non-Financial Assets

Section 140(b) of the Public Procurement and Assets Disposal Act, 2015 states that, a contractor shall be liable to liquidated damages for delayed performance. Section GC 4.12.1 of the Particular Conditions of Contract states that the maximum amount of liquidated damages for the whole of the works is 5% of the final contract price. In addition, Section 139(2) of the Public and Asset Disposal Act, 2015 states that, an accounting officer of a procuring entity, on the recommendation of an evaluation committee, may among other matters approve the request for extension of contract period if the request is accompanied by a certificate from the tenderer making a justification for such cost. Audit verifications however revealed the following irregularities in respect of construction of civil works under acquisition of non-financial assets:

2.1. Construction of Loosuk Earth Dam

2.1.1. Failure to Levy Liquidated Damages

According to project records, the contract was awarded to a company at a sum of Kshs.11,555,327.60 and the contract agreement was signed on 1st April 2016 with a project duration of four months and an expected completion date of 14th August 2016. Information available, however, indicate that the project was handed over on 13th June 2017, ten months after the expected completion date. In addition, verification of the latest payment to the Contractor showed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an additional Kshs. 577,766.38.

2.1.2. Irregular Extension of Contract Period

The project period was apparently extended from 14th August 2016 to the date the dam was handed over to the employer on 13th June 2017. No documentary evidence has been provided to confirm request by the Contractor for extension of the contract period and approval of the same by the employer.

2.1.3. Overpayment of Contract Sum

Audit examination of the latest payment certificate revealed that the contractor had been paid a total sum of Kshs. 11,865,594.00, which exceeded the contract sum of Kshs.11,555,327.60 by Kshs. 310,266.40.

2.2. Construction of Maralal Livestock Market

2.2.1. Failure to Levy Liquidated Damages

The above project was awarded to a company at a contract sum of Kshs. 13,431,485.65. The project had an expected date of completion of December 2015. However, the project practical completion and handing over certificates are both dated 16th May 2017. No

documentary evidence has been provided to confirm that that the employer levied liquidated damages amounting to Kshs. 671,574.28 on the contractor.

2.2.2. Irregular Extension of Contract Period

Although the project was slated for completion by December 2015 but handed over on 16th May 2017, no records have been made available for audit scrutiny to confirm that an approval from the employer for extension of the contract period was obtained.

2.2.3. Overpayment of Contract Sum

An examination of the latest payment certificate revealed that the contractor had been paid a total sum of Kshs. 13,593,269.25 instead of the contract sum of Kshs. 13,431,485.65. The overpayment of Kshs. 161,783.60 has not been explained.

2.3. Construction of Kilimani Game Galana Irrigation Scheme

2.3.1. Slow Progress of Works

The above construction contract was awarded to a contractor at a sum of Kshs.186,882,322.00. An examination of the projects latest payment certificate revealed that the overall progress made as at 10th September 2018 was 55% against an elapsed time of 123%.

2.3.2. Failure to Levy Liquidated Damages

An examination of the latest payment certificate disclosed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an additional Kshs.9,344,116.10.

2.3.3. Irregular Extension of Contract Period

The expected completion date was set as 13th June 2018 but the works are still on-going. However, documents to confirm approval of extension of the contract period have not been provided for audit scrutiny.

2.4. Construction of Loweinyang Water Pan

2.4.1. Failure to levy liquidated damages

The contract was awarded to a company at a sum of Kshs.10,985,704.00. The project's contract agreement was signed on 1st April 2016, with a stipulation that the project commencement date would be fourteen days after the contract signing date. The project duration was four months, thereby rendering the expected completion date as 14th August 2016. However, the project's hand-over certificate is dated 15th June 2017, twelve months after the expected completion date. An examination of the latest payment certificate revealed that the employer did not levy any liquidated damages. Had the employer recovered the amount from the contractor, the project would have realized an additional amount of Kshs.549,285.20.

2.5. Drilling and Equipping Chepropogh Borehole

2.5.1. Failure to Levy Liquidated Damages

The above contract was awarded to a company at a sum of Kshs.10,315,165.00. The project's contract agreement was signed on 27th January 2017, with a stipulation that the project commencement date would be fourteen days after the contract signing date. The project duration was four months, thereby rendering the expected completion date as 9th June 2017. However, the project's hand-over certificate is dated 9th July 2018, thirteen months after the expected completion date. An examination of the latest payment certificate revealed that the employer did not levy any liquidated damages. Had the employer recovered the amount from the contractor, the project would have realized an amount of Kshs. 515,758.25 in savings.

2.6. Construction Works for Kamina Irrigation Scheme

2.6. 1. Slow Progress of works

The contract was awarded to a company at a sum of Kshs. 261,592,025.40 and the project's contract agreement signed on 31st May 2017. The agreement had a stipulation that the project commencement date would be fourteen days after the contract signing date. The project duration was twelve months, thereby rendering the expected completion date of 13th June 2018. However, the project had not been completed as of November 2018.

2.6.2. Failure to Levy Liquidated Damages

An examination of the latest payment to the Contractor disclosed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an amount of Kshs.13,079,601.27 in savings.

2.6.3. Irregular Extension of Contract Period

An examination of the September 2018 project progress report indicated that the Contractor had been issued with a time extension up to 21st November 2018. However, documentary evidence to confirm request and reasons for extension as well as approval by the employer has not been provided for audit review.

2.6.4. Irregular Contract Award

A perusal of the tender evaluation report disclosed that the lowest bidder had offered a contract price of Kshs. 236,970,202.15, but he was eliminated at the preliminary evaluation stage for failure to attach a pre-bid site visit certificate. Had the lowest bidder been awarded the contract, the employer would have made a savings of Kshs. 24,621,823.25.

2.7. Drilling and Equipping of Lbukoi Borehole

2.7.1. Slow Progress of Works

The above contract was awarded to a company at a contract sum of Kshs. 7,741,646.00. An examination of the projects latest payment certificate revealed that the overall progress made as at 30th September 2018 was 30% against an elapsed time of 425%.

2.7.2. Failure to Levy Liquidated Damages

An examination of the latest payment to the Contractor disclosed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an additional amount of Kshs.425,790.53.

2.7.3. Irregular Extension of Contract Period

The contract completion date was slated for 18th September 2017 and the works are still on-going. However, no records have been made available for audit scrutiny to confirm that the Contractor had requested for an extension and that approval had been granted by the employer.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not operating effectively.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Bank, I confirm that:

Report of the Auditor-General on the Financial Statements of Drought Resilience and Sustainable Livelihood Programme (ADF Loan No. 2100150028345) for the year ended 30 June 2018 – Ministry of Agriculture, Livestock, Fisheries & Irrigation

- i. The programme's funds have not been used in accordance with the conditions of Loan Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided;
- ii. Counterpart funds have been provided and not used in accordance with the conditions of the Loan Agreement;
- iii. Goods and services financed have not been procured in accordance with the Loan Agreement and the Funds' rules and procedures;
- iv. Necessary supporting documents, records and accounts have not been kept in respect of all programme activities;
- v. Adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets do not exist; and
- vi. Ledgers and fixed assets register for the programme's assets are not maintained as required.

Responsibilities of the 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 (Cash 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 Programme's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have cease operations, or have no realistic alternative 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 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Project's 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 review is planned and performed to express a conclusion as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

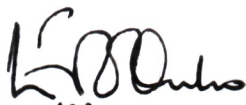
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for

my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 Programme's ability 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 Programme to cease 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 Programme 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

18 December 2018



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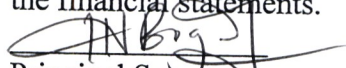
3. REPORT OF THE INDEPENDENT AUDITORS ON THE DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOOD PROGRAMME

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Reports and Financial Statements
For the financial year ended June 30, 2018

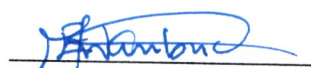
4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2018

	Note	2017/18		2016/17		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Transfer from Government entities	8.3	0.00	0.00	0.00	54,000,000	84,800,000
Proceeds from domestic and foreign grants	8.4	0.00	0.00	0.00	0.00	0.00
Loan from external development partners	8.5	42,586,397.00	422,897,156.73	65,961,300.00	332,839,511.80	1,675,683,553.73
Miscellaneous receipts	8.6	0.00	0.00	0.00	0.00	0.00
TOTAL RECEIPTS		42,586,397.00	422,897,156.73	65,961,300.00	386,839,511.80	1,760,483,553.73
PAYMENTS						
Compensation of employees	8.7	0.00	0.00	0.00	2,808,000.00	22,707,688.00
Purchase of goods and services	8.8	50,177,607.55	0.00	38,352,497.00	40,405,638.55	418,780,278.30
Social security benefits	8.9	0.00	0.00	0.00	0.00	0.00
Acquisition of non-financial assets	8.10	0.00	422,897,156.73	0.00	332,839,511.80	1,193,995,781.51
Transfers to other government entities	8.11	8,630,349.00	0	19,093,940.00	0.00	39,474,388.00
Other grants and transfers and payments	8.12	0.00	0.00	0.00	0.00	0.00
TOTAL PAYMENTS		58,807,956.55	422,897,156.73	57,446,437.00	376,053,150.35	1,674,958,135.81
SURPLUS/(DEFICIT)		(16,221,559.55)	0.00	8,514,863.00	10,786,361.45	85,525,417.92

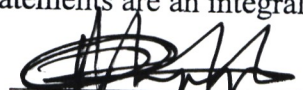
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


Principal Secretary

Name: **PROF. HAMADI I. BOGA**


Project Coordinator

Name: **ESTHER WAMBUA**


Project Accountant

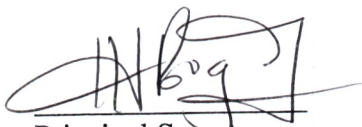
Name: **ROBERTI GWAMBOTA**
ICPAK Member Number: **14109**

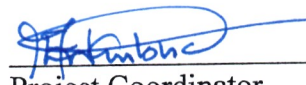
(IPSAS 1.3.24 requires an entity to separately disclose third party payments separately on the statement of receipts and payments. These are payments made by development partners directly on behalf of the entity. In recognising these transactions, the receipts must be equal to the payments made and therefore there is no surplus or deficit.)

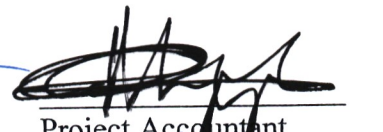
5. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2018

	Note	2017/18	2016/17
		KShs	KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8.13.A	26,866,689.65	44,685,548.20
Cash Balances	8.13.B	21,477,511.25	12,847,162.25
Cash Equivalents (short-term deposits)	8.13.C	0	0.00
Total Cash and Cash Equivalents		48,344,200.90	57,532,710.45
Accounts receivables – Imprest and Advances	8.14	965,210.00	7,998,260.00
TOTAL FINANCIAL ASSETS		49,309,410.90	65,530,970.45
REPRESENTED BY			
Fund balance b/fwd	8.15	65,530,970.45	46,229,746.00
Prior year adjustments	8.16	0	0.00
Surplus/(Deficit) for the year		(16,221,559.55)	19,301,224.45
NET FINANCIAL POSITION		49,309,410.90	65,530,970.45

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 28/9/ 2018 and signed by:


Principal Secretary
Date 28/9/2018


Project Coordinator
Date 28/9/2018

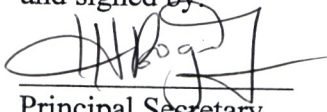

Project Accountant
Date 28/9/2018
ICPAK Member Number:
14109

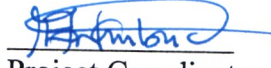
Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Reports and Financial Statements
For the financial year ended June 30, 2018

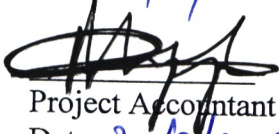
6. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2018

	Note	2017/18 KShs	2016/17 KShs
Receipts for operating activities			
Transfer from Government entities	8.3	0.00	54,000,000.00
Proceeds from domestic and foreign grants	8.4	0.00	0.00
Miscellaneous receipts	8.6	0.00	0.00
Payments for operating activities			
Compensation of employees	8.7	0.00	2,808,000.00
Purchase of goods and services	8.8	50,177,607.55	78,758,135.54
Social security benefits	8.9	0.00	0.00
Transfers to other government entities	8.11	8,630,349.00	19,093,940.00
Other grants and transfers	8.12	0.00	0.00
Adjusted for:			
Change in Imprests & Advances			
Adjustments during the year	8.16	0.00	0.00
Net cash flow from operating activities		(58,807,956.55)	(46,660,075.55)
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	8.10	422,897,156.73	332,839,511.80
Net cash flows from Investing Activities		(422,897,156.73)	(332,839,511.80)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	8.5	465,483,553.73	398,800,811.80
Net cash flow from financing activities		465,483,553.73	398,800,811.80
NET INCREASE IN CASH AND CASH EQUIVALENT			
		(16,221,559.55)	19,301,224.45
Cash and cash equivalent at BEGINNING of the year		64,565,760.45	38,231,486.00
Cash and cash equivalent at END of the year		48,344,200.90	57,532,710.45

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28/9/2018 and signed by:


Principal Secretary
Date 28/9/2018

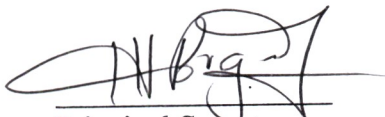

Project Coordinator
Date 28/9/2018

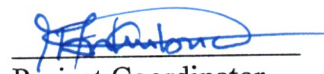

Project Accountant
Date 28/9/2018

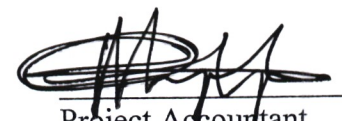
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities						
Proceeds from domestic and foreign grants						
Proceeds from borrowings						
Miscellaneous receipts						
Total Receipts						
Payments						
Compensation of employees						
Purchase of goods and services						
Social security benefits						
Acquisition of non-financial assets						
Transfers to other government entities						
Other grants and transfers						
Total Payments						

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.


Principal Secretary
Date 28/9/2018


Project Coordinator
Date 28/9/2018


Project Accountant
Date 28/9/2018
ICPAK Member No:

14109

8. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1. Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

8.1.2. Reporting entity

The financial statements are for the Drought Resilience and Sustainable Livelihood Programme under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

8.1.3. Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

8.2. Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

• Transfers from the Exchequer

Transfer from Exchequer is be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

• External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

• **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

The Project recognises all payments when the event occurs and the related cash has actually been paid out by the Project.

• **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

• **Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

• **Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

• **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

• **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) 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.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) *Accounts receivable*

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) **Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

g) **Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) **Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs 422,897,156.73 being loan disbursements were received in form of direct payments from third parties.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

j) Comparative figures

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

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2018.

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.3. RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

	2017/18	2016/17	Cumulative
	KShs	KShs	KShs
<i>Counterpart funding through Ministry ALF&I</i>			
Counterpart funds Quarter 1	0.00	27,000,000	27,000,000
Counterpart funds Quarter 2	0.00	0.00	27,000,000
Counterpart funds Quarter 3	0.00	0.00	27,000,000
Counterpart funds Quarter 4	0.00	27,000,000	54,000,000
	<u>0.00</u>	<u>54,000,000</u>	<u>54,000,000</u>
<i>Other transfers from government entities</i>			
Ministry xx			
Ministry xy			
Project zxy			
Agency xz			
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Appropriations-in-Aid	0.00	0.00	0.00
Total	<u>0.00</u>	<u>54,000,000</u>	<u>54,000,000</u>

THE COUNTERPART FUNDING CONTRIBUTION FROM THE GOVERNMENT IS CONTROLLED FROM THE MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND IRRIGATION DEVELOPMENT FUND POOL.

THUS THE PROJECT DOES NOT HAVE A COUNTERPART ACCOUNT FROM WHERE THE FUND CAN BE CONTROLLED.

THE EXPENDITURE RETURN THUS IS ATTACHED SHOWING COUNTERPART EXPENDITURES AND CAN BE VERIFIED FROM THE PARENT MINISTRY.

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Reports and Financial Statements
For the financial year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.4. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2018 we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment	Grants received in kind	Total amount in KShs	
						FY 2017/18	FY 2016/17
		USD	KShs	KShs	KShs	KShs	KShs
Grants Received from Multilateral Donors (International Organisations)							
African Development Bank			0.00	0.00	0.00	0.00	0.00
Total						0.00	0.00

* The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project. Projects should ensure that the adequate documents and support document is requested from the donors to support this grant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.5. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2018 we received funding from development partners in form of loan negotiated by the National Treasury donors as detailed in the table below:

Name of donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment	Total amount in KShs	
		UA	KShs	KShs	FY17/18	FY16/17
Loans Received from Multilateral Donors (International Organisations)						
African Development Bank	2017/18	3,549,841	42,586,397.00	422,897,156.73	465,483,553.73	398,800,811.80
Total					465,483,553.73	398,800,811.80

8.6. MISCELLANEOUS RECEIPTS

	FY 2017/18			FY 2016/17	Cumulative to date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts		
	KShs	KShs	KShs		
Property income	0.00	0.00	0.00	0.00	0.00
Sales of goods and services	0.00	0.00	0.00	0.00	0.00
Administrative fees and charges	0.00	0.00	0.00	0.00	0.00
Fines, penalties and forfeitures	0.00	0.00	0.00	0.00	0.00
Voluntary transfers other than grants	0.00	0.00	0.00	0.00	0.00
Other receipts not classified elsewhere	0.00	0.00	0.00	0.00	0.00
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

[Provide explanation as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7. COMPENSATION OF EMPLOYEES

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
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	FY 2017/18			FY 2016/17	Cumulative to date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
-					
Basic salaries of permanent employees	0.00	0.00	0.00	0.00	0.00
Basic wages of temporary employees	0.00	0.00	0.00	0.00	0.00
Personal allowances paid as part of salary	0.00	0.00	0.00	2,808,000	2,808,000
Personal allowances paid as reimbursements	0.00	0.00	0.00	0.00	0.00
Personal allowances provided in kind	0.00	0.00	0.00	0.00	0.00
Pension and other social security contributions	0.00	0.00	0.00	0.00	0.00
Compulsory national social security schemes	0.00	0.00	0.00	0.00	0.00
Compulsory national health insurance schemes	0.00	0.00	0.00	0.00	0.00
Social benefit schemes outside government	0.00	0.00	0.00	0.00	0.00
Other personnel payments	0.00	0.00	0.00	0.00	0.00
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,808,000</u>	<u>2,808,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.8. PURCHASE OF GOODS AND SERVICES

	FY 2017/18			FY 2016/17	Carried forward
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Utilities, supplies and services	0.00	0.00	0.00	961,780	3,950,852.60
Communication, supplies and services	0.00	0.00	0.00	1,137,820	2,861,000
Domestic travel and subsistence	35,250,873.55	0.00	35,250,873.55	40,172,502	156,480,598.55
Foreign travel and subsistence	0.00	0.00	0.00	486,829	328,480
Printing, advertising and – information supplies & services	0.00	0.00	0.00	4,069,895.55	12,252,201
Rentals of produced assets	0.00	0.00	0.00	0.00	0.00
Training payments	13,129,020	0.00	13,129,020	11,688,961	53,449,597
Hospitality supplies and services	0.00	0.00	0.00	2,876,030	2,417,526
Office Supplies	0.00	0.00	0.00	1,761,540	3,581,312
Specialised materials and services	0.00	0.00	0.00	3,034,510	5,735,370
Other operating payments	0.00	0.00	0.00	1,466,480	2,713,261
Routine maintenance – vehicles and other transport equipment	1,797,714	0.00	1,797,714	11,101,788	16,700,530
Routine maintenance – other assets	0.00	0.00	0.00	0.00	0.00
Exchange rate losses/gains (net)	0.00	0.00	0.00	0.00	0.00
Total	<u>50,177,607.55</u>	<u>0.00</u>	<u>50,177,607.55</u>	<u>78,758,135.5</u>	<u>260,470,728.15</u>

[Provide explanation as necessary]

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.9. SOCIAL SECURITY BENEFITS

	FY 2017/18			FY 2016/17	Cumulative to date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs		
Government pension and retirement benefits	0.00	0.00	0.00	0.00	0.00
Social security benefits in cash and in kind	0.00	0.00	0.00	0.00	0.00
Employer social benefits in cash and in kind	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

[Provide explanation as necessary]

8.10. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2017/18			FY 2016/17	Cumulative to date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs		
Purchase of buildings	0.00	0.00	0.00	0.00	0.00
Construction of buildings	0.00	0.00	0.00	0.00	0.00
Refurbishment of buildings	0.00	0.00	0.00	0.00	0.00
Construction of roads	0.00	0.00	0.00	0.00	0.00
Construction of civil works	0.00	422,897,156.73	422,897,156.73	332,839,511.80	966,005,988.73
Overhaul & refurbishment of construction and civil works	0.00	0.00	0.00	0.00	0.00
Purchase of vehicles & other transport equipment	0.00	0.00	0.00	0.00	0.00
Overhaul of vehicles & other transport equipment	0.00	0.00	0.00	0.00	0.00

For financial year ended 31/12/2016

Purchase of household furniture & institutional equipment	0.00	0.00	0.00	0.00	0.00
Purchase of office furniture & general equipment	0.00	0.00	0.00	0.00	0.00
Purchase of specialised plant, equipment and machinery	0.00	0.00	0.00	0.00	0.00
Rehabilitation & renovation of plant, equipment & machinery	0.00	0.00	0.00	0.00	0.00
Purchase of certified seeds, breeding stock and live animals	0.00	0.00	0.00	0.00	0.00
Research, studies, project preparation, design & supervision	0.00	0.00	0.00	0.00	0.00
Rehabilitation of civil works	0.00	0.00	0.00	0.00	0.00
Acquisition of strategic stocks	0.00	0.00	0.00	0.00	0.00
Acquisition of land	0.00	0.00	0.00	0.00	0.00
Acquisition of other intangible assets	0.00	0.00	0.00	0.00	0.00
Total		<u>422,897.15</u> <u>6.73</u>	<u>422,897.15</u> <u>6.73</u>	<u>332,839.511</u> <u>.80</u>	<u>966,005,988.73</u>

[Provide explanation as necessary]

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.11. TRANSFERS TO OTHER GOVERNMENT ENTITIES

During the 12 months to 30 June 2018, we transferred funds to reporting government entities as shown below:

	FY 2017/18			FY 2016/17	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Transfers to National Government entities					
KARLO	0.00	0.00	0.00	2,522,400	4,176,850
	0.00	0.00	0.00	2,522,400	4,176,850
Transfers to County Government					
West Pokot	1,498,822	0.00	1,498,822	2,671,900	5,620,142
Isiolo	1,567,675	0.00	1,567,675	2,889,900	6,325,745
Turkana	1,541,069	0.00	1,541,069	3,022,840	6,499,764
Marsabit	1,639,971	0.00	1,639,971	3,055,920	6,385,195
Baringo	1,305,848	0.00	1,305,848	2,583,500	5,536,773
Samburu	1,076,964	0.00	1,076,964	2,347,480	4,929,919
	8,630,349	0.00	8,630,349	16,571,540	35,297,538
TOTAL	8,630,349	0.00	8,630,349	19,093,940	39,474,388

We have confirmed that the beneficiary institutions have received the funds and have recorded these as inter-entity receipts. We have attached these duly signed confirmations as an Appendix to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.12. OTHER GRANTS AND TRANSFERS AND PAYMENTS

	FY 2017/18			FY 2016/17	Cumulative to date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Grants for scholarships	0.00	0.00	0.00	0.00	0.00
Transfers to lower levels of government e.g schools	0.00	0.00	0.00	0.00	0.00
Miscellaneous payments	0.00	0.00	0.00	0.00	0.00
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

[Provide explanation as necessary]

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.13. CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2017/18	2016/17
	KShs	KShs
Bank accounts (Note 8.13A)	26,866,689.65	44,685,548.20
Cash in hand (Note 8. 13B)	21,477,511.25	12,847,162.25
Cash equivalents (short-term deposits) (Note 8.13C)		
Total	48,344,200.90	57,532,710.45

The project has 2 number of project accounts spread within the project implementation area and 0 number of foreign currency designated accounts managed by the National Treasury as listed below:

8.13. A Bank Accounts

Project Bank Accounts

	2017/18	2016/17
	KShs	KShs
Local Currency Accounts		
Central Bank of Kenya [A/c No. 1000212519]	26,866,689.65	44,685,548.20
Central Bank of Kenya [A/c No. 1000176148]	0.00	0.00
Total local currency balances	26,866,689.65	44,685,548.20
Total bank account balances	26,866,689.65	114,230,655.75

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2018 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

	2017/18	2016/17
	KShs	KShs
(i) A/c Name [A/c No.....]		
Opening balance	0.00	0.00
Total amount deposited in the account	0.00	0.00
Total amount withdrawn (as per Statement of Receipts & Payments)	<u>0.00</u>	<u>0.00</u>
Closing balance (as per SDA bank account reconciliation attached)		
(ii) A/c Name [A/c No.....]	0.00	0.00
Opening balance (as per the SDA reconciliation)	0.00	0.00
Total amount deposited in the account	0.00	0.00
Total amount withdrawn (as per Statement of Receipts & Payments)	<u>0.00</u>	<u>0.00</u>
Closing balance (as per SDA bank account reconciliation attached)	<u>0.00</u>	<u>0.00</u>

The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as *Appendix xx* support these closing balances.

8.13. B Cash In Hand

	2017/18	2016/17
	KShs	KShs
Turkana	3,569,471.00	2,028,402.00
Isiolo	4,457,660.00	2,889,985.00
Marsabit	1,744,969.00	104,998.00
West Pokot	3,510,361.00	2,011,539.00
Baringo	3,114,804.25	1,808,956.25
Samburu	4,930,374.00	3,853,410.00
KARLO	149,872.00	149,872.00

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Total cash balances	<u>21,477,511.25</u>	<u>12,847,162.25</u>
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[Provide a cash count certificate for each location above]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.13. C Cash equivalents (short-term deposits)

	2017/18 KShs	2016/17 KShs
Kenya Commercial Bank [A/C No.....]	0.00	0.00
Co-Operative Bank of Kenya [A/C No.....]	0.00	0.00
Others (<i>Specify</i>)	0.00	0.00
Total	<u>0.00</u>	<u>0.00</u>

[Provide short appropriate explanations as necessary]

8.14. OUTSTANDING IMPRESTS AND ADVANCES

<i>Name of Officer or Institution</i>	<i>Amount Taken</i>	<i>Date /Date of Surrender</i>	<i>Amount Surrendered</i>	<i>Balance 2018</i>	<i>Balance 2017</i>
Robert Mugodo Gwadoya	965,210.00				
Total	<u>965,210.00</u>				

8.15. FUND BALANCE BROUGHT FORWARD

	2017/18 KShs	2016/17 KShs
Bank accounts	44,685,548.20	40,101,780.67
Cash in hand	12,847,162.25	6,127,965.33
Cash equivalents (short-term deposits)	0.00	0.00
Outstanding imprests and advances	7,998,260.00	0.00
Total	<u>65,530,970.45</u>	<u>46,229,746.00</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.16. PRIOR YEAR ADJUSTMENT

	2017/18	2016/17
	KShs	KShs
Bank accounts	0.00	0.00
Cash in hand	0.00	0.00
Cash equivalents (short-term deposits)	0.00	0.00
Receivables - Outstanding Imprests	0.00	0.00
Total	<u>0.00</u>	<u>0.00</u>

[Provide short appropriate explanations as necessary]

Reports and Financial Statements
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9. OTHER IMPORTANT DISCLOSURES

9.1 PENDING ACCOUNTS PAYABLE (See Annex 2A)

	2017/18	2016/17
	KShs	KShs
Construction of buildings	0.00	0.00
Construction of civil works	0.00	0.00
Supply of goods	0.00	0.00
Supply of services	0.00	0.00
	0.00	0.00

9.2 PENDING STAFF PAYABLES (See Annex 2B)

	2017/18	2016/17
	KShs	KShs
Permanent employees - management	0.00	0.00
Permanent employees - others	0.00	0.00
Temporary employees	0.00	0.00
Others (<i>specify</i>)	0.00	0.00
	0.00	0.00

9.3 OTHER PENDING PAYABLES (See Annex 2C)

	2017/18	2016/17
	KShs	KShs
Amounts due to National Government entities	0.00	0.00
Amounts due to County Government entities	0.00	0.00
Amounts due to third parties	0.00	0.00
Others (<i>specify</i>)	0.00	0.00
	0.00	0.00

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
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10. 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 person to resolve the issue (Name and designation)	Status (Resolve / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
DRSLP/2017(1)	The balances in the financial statements are not supported by a trial balance	The trial balance was generated based on the figures and balances reflected in the revised financial statement.	Robert Mugodo Gwadoya Chief Accountant	Resolved	Resolved
DRSLP/2017(1)	Variances between figures in the Accounts and figures in supporting schedules	The original financial statement contained omissions occasioned by accountable documents related to counterpart funds which the project has no account and therefore no total control. The office has since reconciled the variances.	Robert Mugodo Gwadoya Chief Accountant	Resolved	The issue has already been resolved.
DRSLP/2017(1)	The Cash and cash equivalents balance is not supported by bank reconciliation statements, bank statements and board	The bank balance of Kshs. 44,685,548.20 is supported by a bank reconciliation	Robert Mugodo Gwadoya Chief Accountant	Resolved	The issue has already been resolved.

*Reports and Financial Statements
For the financial year ended June 30, 2018*

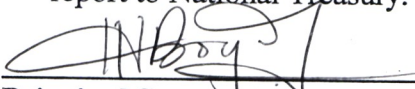
Reference No. in the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue and designation	Point to resolve the issue (Name)	Status (Resolve / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
	of survey report	statement and certificate of balance. The Kshs. 12,847,162.25 is cash at hand representing cash transfers to other government entities, which the project is fast tracking for the entities to justify/account				
DRSLP/2017/(1)	The statement of financial assets and liabilities reflects a balance of Kshs. 18,897,993.45 which, however, has not been explained or supported by a schedule/analysis or any other documentation.	The amended financial statement represents a figure of Kshs. 7,998,260.00 which represented the unsurrendered imprests, which has since been surrendered.	Robert Mugodo Gwadoya Chief Accountant		Resolved	The issue has already been 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;

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
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- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.


Principal Secretary

28/9/2018
Date


Project Coordinator

28/9/2018
Date

*Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Reports and Financial Statements
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ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities					
Proceeds from domestic and foreign grants					
Proceeds from borrowings					
Miscellaneous receipts					
Total Receipts					
Payments					
Compensation of employees					
Purchase of goods and services					
Social security benefits					
Acquisition of non-financial assets					
Transfers to other government entities					
Other grants and transfers					
Total payments					

Explain all variance below 90% and above 100%

- (i) Xxx*
- (ii) Xxx*
- (iii) Xxx*

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ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2017	Outstanding Balance 2016	Comments
	a	b	c	d=a-c		
Construction of buildings						
1.						
2.						
3.						
Sub-Total						
Construction of civil works						
4.						
5.						
6.						
Sub-Total						
Supply of goods						
7.						
8.						
9.						
Sub-Total						
Supply of services						
10.						
11.						
12.						
Sub-Total						
Grand Total						

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ANNEX 2B - ANALYSIS OF PENDING STAFF BILLS

Name of Staff	Job Group	Original Amount	Date Payable Contract ended	Amount Paid To-Date	Outstanding Balance 2017	Outstanding Balance 2016	Comments
		a	b	c	d=a-c		
Permanent Employees - Management							
1.							
2.							
3.							
Sub-Total							
Permanent Employees - Others							
4.							
5.							
6.							
Sub-Total							
Temporary employees							
7.							
8.							
9.							
Sub-Total							
Others (specify)							
10.							
11.							
12.							
Sub-Total							
Grand Total							

*Drought Resilience and Sustainable Livelihood Programme (DRSLP)
 Reports and Financial Statements
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ANNEX 2C - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief Transaction Description	Original Amount	Date Payable Contract ended	Amount Paid To-Date	Outstanding Balance 2018	Outstanding Balance 2018	Comments
		a	b	c	d=a-c		
Amounts due to National Govt Entities							
1.							
2.							
3.							
Sub-Total							
Amounts due to County Govt Entities							
4.							
5.							
6.							
Sub-Total							
Amounts due to Third Parties							
7.							
8.							
9.							
Sub-Total							
Others (specify)							
10.							
11.							
12.							
Sub-Total							
Grand Total							

Drought Resilience and Sustainable Livelihood Programme (DRSLP)
Statement of Budget Performance
For the year ended June 30, 2018

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost (KShs) 2017/18 (a)	* Purchases/Additions in the Year (KShs) 2017/18 (b)	** Disposals in the Year (KShs) 2017/18 (c)	Closing Cost (KShs) 2018 (a) – (b) + (c)
Land				
Buildings and structures				
Transport equipment				
Office equipment, furniture and fittings				
ICT Equipment, Software and Other ICT Assets				
Other Machinery and Equipment				
Heritage and cultural assets				
Intangible assets				
Total				

Notes

* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

** The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold.

APPENDICES

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Bank Reconciliations
- iii. Cash Count Certificate
- iv. Special Deposit Account(s) reconciliation statement(s)