

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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REPORT

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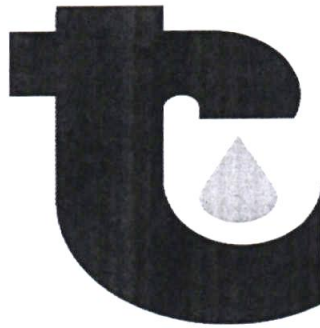
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
TANA AND ATHI RIVERS
DEVELOPMENT AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2014**





TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**

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

Abbreviations

| | | |
|--------------|---|--|
| AIA | - | Appropriation in Aid |
| CEO | - | Chief Executive Officer |
| CSCEC | - | China State Construction Engineering Corporation |
| CSR | - | Corporate Social Responsibilities |
| EU | - | European Union |
| ESP | - | Economic Stimulus Programme |
| GoK | - | Government of Kenya |
| HGF | - | High Grand Falls |
| ICS | - | Internal control Systems |
| IPSAS | - | International Public Sector Accounting Standards |
| JICA | - | Japan International Co-operation Agency |
| LPO | - | Local Purchase Order |
| LSO | - | Local Service Order |
| OECF | - | Overseas Economic Co-operation Fund |
| TARDA | - | Tana and Athi Rivers Development Authority |
| TDIP | - | Tana Delta Irrigation Project |

Table of Content

| | | |
|--------|---|----|
| I. | KEY ENTITY INFORMATION AND MANAGEMENT..... | 3 |
| II. | THE BOARD OF DIRECTORS..... | 8 |
| III. | MANAGEMENT TEAM..... | 12 |
| IV. | CHAIRMAN'S STATEMENT..... | 16 |
| V. | REPORT OF THE CHIEF EXECUTIVE OFFICER..... | 17 |
| VI. | CORPORATE GOVERNANCE STATEMENT..... | 21 |
| VII. | CORPORATE SOCIAL RESPONSIBILITY STATEMENT..... | 26 |
| VIII. | REPORT OF THE DIRECTORS..... | 29 |
| IX. | STATEMENT OF DIRECTORS' RESPONSIBILITIES..... | 30 |
| X. | REPORT OF THE INDEPENDENT AUDITORS ON TARDA..... | 31 |
| XI. | STATEMENT OF FINANCIAL PERFORMANCE..... | 32 |
| XII. | STATEMENT OF FINANCIAL POSITION..... | 33 |
| XIII. | STATEMENT OF CHANGES IN NET ASSETS..... | 34 |
| XIV. | STATEMENT OF CASH FLOWS..... | 35 |
| XV. | STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS..... | 37 |
| XVI. | POLICIES AND DISCLOSURES TO THE FINANCIAL STATEMENTS..... | 39 |
| XVII. | NOTES TO THE FINANCIAL STATEMENTS..... | 44 |
| XVIII. | PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS..... | 55 |

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

1.10 Formation

TARDA was established by an Act of Parliament, Cap. 443 of 1974. It is responsible to the Government of Kenya through the Ministry of Water, Environment and Natural Resources.

The Authority's areas of jurisdiction approximate **coverage** is 138,000km² and includes nineteen (19) current **counties** within the former Nairobi, Central, Eastern and parts of Coast, N/Eastern and Rift Valley provinces. The area has an estimated **population** of 15 million inhabitants based on 2009 census.

1.20 Governance Structure

The Authority has a governance structure consisting of nineteen (19) Board Members, with the Chairman appointed by the President and the MD as the Secretary to the Board. It has five (5) non-civil servants appointed by the parent Minister; others are Alternate Directors to their respective Principal Secretaries.

(b) Principal Activities

1.10 Vision

"To be a world class Regional Development Authority."

1.20 Mission

To undertake integrated regional resources planning, promote and undertake development within the Tana and Athi River Basins, for sustainable socio-economic wellbeing of the people.

1.30 Mandate

The enabling Act specifically mandates the Authority to undertake **integrated planning and development** through maximization and utilization of **water and land based resources** within both the Tana and Athi river basins.

1.40 Key objectives

This includes:

- Sustainable integrated regional planning and development.
- Development of multipurpose water reservoirs along the Tana and Athi rivers.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

- Conservation of water towers, river banks and water reservoirs.
- Community empowerment, support and employment.

1.50 Key Achievements By TARDA

(i) Construction of Integrated & Multi-Purpose Reservoirs

- **Masinga Reservoir (1982)**
- **Kiambere Reservoir (1988)**
- **High Grand Falls Multi-purpose Reservoir (Initial stages of development done).**

The two water reservoirs positively affected the socio-economic development of this country in production of hydroelectric power for national grid and 152 Kms tarmac roads network and water supplies across Counties of Machakos, Murang'a, Kitui and Embu in the region. Additionally, the reservoirs had fundamental positive impact especially in enhancing irrigated agriculture, food security, eco-tourism, fisheries, drought mitigation, river regulations and substantial flood controls along the Tana River system.

(ii) Specific Related projects to our development of Masinga and Kiambere Reservoirs

- **Masinga Tourist Lodge**
- **Kiambere - Mwingi Water Supply**
- **Masinga - Kitui Water Supply**
- **Infrastructure Development**
 - 80km of tarmac road from Kanyonyo to Embu.
 - 60km road from Kamburu to Kiambere market,
 - 12km road from Kaewa to Masinga Dam Resort.
 - Two (2) air strips at Masinga and Kiambere.
 - Two (2) Police station and Staff quarters at MDR.
 - Kiambere school complex (Primary and Secondary)

(iii) Other development Programmes

- **Catchment Conservation Programmes**

The Authority has constructed five (5) check dams, 102 water pans, established over 300 tree nurseries and planted over 10 million seedlings within the Upper and the Middle catchment of the two river basins.

- Tana Delta Irrigation Project – Tana River County
- Kiangurwe Community Mini hydro power station – Kirinyaga County
- Owns (2) two Prime Plots in Nairobi (Upper Hill and Industrial Areas)
- Masinga Irrigation Project - Machakos County.
- Kiambere Irrigation Project – Embu County
- Emali Livestock Multiplication & Breeding Farm – Kajiado County.
- Kibwezi Irrigation Project – Makueni County.
- Kitui Honey Refinery – Kitui County

(c) Key Management:

The Authority's operational affairs and management is under the following key organs:

(i) Cabinet Secretary

Prof. Judi Wangalwa Wakhungu

Ministry of Environment, Water and Natural Resources

(ii) Principal Secretary

Mr. James Teko Lepoyetum

Ministry of Environment, Water and Natural Resources

(iii) Fiduciary Management

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

| NAME | DESIGNATION |
|--------------------------|--|
| 1. Mr. Steven G. Ruimuku | - Ag. Managing Director |
| 2. Mr. Liban R. Duba | - Chief Manager Human Resource & Administration. |
| 3. Mr. John Nyoike | - Ag. Chief Manager Finance and Accounts |
| 4. Eng. Philip Langat | - Chief Manager Technical Services & Operations |
| 5. Mr. Parmenas Mukeku | - Ag. Chief Manager Business Dev/IP |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

- 6. Ms. Beatrice Gichohi - Chief Manager Planning, Research & Development.
- 7. Eng. J. Karanja - Engineering Service Manager
- 8. Ms. Damaris Kiarie - Human Resource Manager
- 9. Mr. Elijah Oyugi - Internal Audit & Risk Manager
- 10. Mr. Wycliffe Sava - Supplies & Procurement Manager
- 11. Ms. Sylvia Ndegwa - Legal Services Manager
- 12. Mr. Samuel Wanyoike - ICT Manager

(d) TARDA Headquarters

Tana and Athi Rivers development Authority
P.O. Box 47309 - 00100
Queensway House 7th Floor-
Kaunda Street
Nairobi, KENYA

(e) Contacts

Telephone: (254) 020 341784/5/6
E-mail: info@tarda.co.ke
Website: www.tarda.co.ke

(f) Bankers

National Bank of Kenya Ltd
Harambee Avenue
P.O. Box 41862 - 00100
NAIROBI

Kenya Commercial Bank Ltd
Moi Avenue
P.O. Box 48400 - 00100
NAIROBI

Consolidated Bank of Kenya Ltd
Koinange Street
P.O. Box 51133-00200
NAIROBI

(g) Independent Auditors

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



(h) Principal Legal Adviser




The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

(i) Lawyers




- Khaemba & Co. Advocate
- Muriuki Njagagua & Associates
- Ogola Okelo & Co. Advocate
- M Mulekyo & Co. Advocate
- Wamalwa & Co. Advocates
- Waweru Gatonye and Co. Advocate
- Kibe & Kinoti Co Advocate

II. THE BOARD OF DIRECTORS

| No | PASSPORT SIZE PHOTO | ACADEMIC & PROFESSIONAL QUALIFICATIONS | DATE OF BIRTH, KEY QUALIFICATIONS & WORK EXPERIENCE |
|----|--|--|---|
| 1. |  <p data-bbox="192 1014 503 1087">Hon. Abdul Bahari Ali Authority Chairman</p> | <p data-bbox="631 401 958 506">EMPPA : (Candidate) Public Policy & Administration</p> <p data-bbox="631 541 989 615">BA (Hons) Economics & Government - 1989</p> | <p data-bbox="1031 401 1208 426">D.o.B: 1963</p> <p data-bbox="1031 432 1266 464">Kenya Airways</p> <ul style="list-style-type: none"> <li data-bbox="1031 470 1423 543">- Industrial Relation Officer (1991-1992) <li data-bbox="1031 550 1506 623">- Chief Industrial Relation Officer (1993-1995) <p data-bbox="1031 625 1182 657">Firestone</p> <ul style="list-style-type: none"> <li data-bbox="1031 663 1506 737">-Manager Industrial Relation and Transport (1996) <li data-bbox="1031 743 1459 816">- Human Resources Manager (1996-2003) <p data-bbox="1031 835 1467 909">Member Budget Committee, PIC (KNA)</p> <p data-bbox="1031 915 1506 1010">Vice Chair Finance and Monetary affairs Committee of Pan African Parliament.</p> <p data-bbox="1031 1016 1467 1058">MP Isiolo South (2003-2013)</p> <p data-bbox="1031 1064 1389 1129">Member Pan African Parliament (2008-2013)</p> |
| 2. |  <p data-bbox="192 1801 534 1875">Mr. Steven G. Ruimuku Managing Director</p> | <p data-bbox="631 1136 1005 1209">Ph.D: (Candidate) Sustainable Development</p> <p data-bbox="631 1245 981 1318">M.A. Economics (Public Finance) - 1984</p> | <p data-bbox="1031 1136 1213 1167">D.o.B: 1958</p> <p data-bbox="1031 1188 1517 1262">Lecturer – International Trade & Economics - USiU (2000 to date)</p> <p data-bbox="1031 1283 1439 1314">Public Finance since 1984</p> <ul style="list-style-type: none"> <li data-bbox="1083 1325 1292 1356">• Economics <li data-bbox="1083 1362 1486 1394">• Public Expenditure Mngt <li data-bbox="1083 1400 1339 1432">• Administration <li data-bbox="1083 1438 1502 1577">• Integrated Dev (Multipurpose Reservoirs, Food Security programmes) <li data-bbox="1083 1583 1502 1656">• Conservation and climate change programmes <p data-bbox="1031 1677 1451 1751">Patron- Education taskforce: Nyeri South District</p> <p data-bbox="1031 1772 1483 1803">Patron-Mahiga Primary school</p> <p data-bbox="1031 1824 1467 1898">Board Member- Mahiga Girls Sec School.</p> |

| | | | |
|-----------|---|---|---|
| <p>3.</p> |  <p>Dr. Luke Musau Vice Chairman</p> | <p>M.B., Ch.B. Masters in Medicine</p> | <p>D.o.B: 1957</p> <ul style="list-style-type: none"> - Member Institute of Governance Directors. - Former Board Member Kenyatta National Hospital in 1995 - 2000, - Director Kinga Ltd, - Chairman Machakos Forensic Centre. - Deputy Chair Machakos Investment and promotion Board. - Experience of over 30 years. |
| <p>4.</p> |  <p>Mr. Solomon Lutta Board Member</p> | <p>EMBA - Strategic Management.</p> <p>BS - International Business Administration (Finance)</p> | <p>D.o.B: 1974</p> <p>Feb 2005 – Oct 2005: Esso & Mobil, Nairobi & Sub-Saharan Africa. Oct 2005 – Sept 2007: Vestegaa Frandsen EA Nairobi. Sept 2007 – Jan 2009: Franchise Johannesburg, South Africa Luand, Angola. Jan 2009 – July 2010: Cocacola Central, East & West Africa. Aug 2012 to Date - Business Development Director East Africa.</p> <p>16 years' experience in Finance, Planning, Sales and Marketing, Strategy, and Customer Service.</p> |
| <p>5.</p> |  <p>Mr. John Nthuku Board Member</p> | <p>Msc in Management, BA Hons, Post Graduate Diploma in Management, CPS(K)</p> | <p>D.o.B: 1946</p> <p>1969: Burieruri Secondary and Mikinduri Secondary School.</p> <p>1972: Deputy Commissioner of Prisons.</p> <p>1997 – 2005: Director Cooperativ Bank.</p> <ul style="list-style-type: none"> - Experience of over 40 years. |




TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)




| | | | |
|-----------|--|--|--|
| <p>6.</p> |  <p>Ms. Halima Shaiyah Board Member</p> | <p>Diploma in Marketing</p> | <p>D.o.B: 1960</p> <ul style="list-style-type: none"> - D.T Dobie -10 years (1998 - 2008) - Business lady from 2008 to 2011 - Chairperson - of ASK Show 2011 to date |
| <p>7.</p> |  <p>Mr. Maro Dhadho Badiribu Board Member</p> | <p>BA & Post graduate , Dip in Education</p> | <p>D.o.B: 1953</p> <p>1978 – 1987: Maumau Memorial Secondary School</p> <p>1995 – 1998: Head teacher Kipini Secondary School</p> <p>1998 – 1999: Provincial Director of Education (Coast Province)</p> <p>1999 – 2001: District Education Officer (Taita Taveta)</p> <p>2001 – 2008: Garissa Teachers Training College</p> <p>2004 to date: KNEC</p> |
| <p>8.</p> |  <p>Mrs. Sarah Mugwanja Board Member</p> | <ul style="list-style-type: none"> - BA- International Relations - Association of Business - Executives Advanced Diploma Tour Travel and Hospitality. | <p>D.o.B: 1981</p> <p>11 years in the airline and hospitality industries</p> |

Alternate Board Members




- | | | |
|--------------------------------|---|---|
| 9. Mr. William Otieno Ogola | - | Ministry of Env, Water & Natural Resources |
| 10. Mr. Wilfred Mwanzia | - | Ministry of Agri. Livestock and Fisheries |
| 11. Mr. Anthony Mugane | - | Ministry of Env, Water & Natural Resources |
| 12. Mr. Joseph Mukui | - | Ministry of Devolution and Planning |
| 13. Ms. Grace Kerubo Nyarango | - | National Treasury |
| 14. Ms. Rosemary Njonge | - | Ministry of Env, Water & Natural Resources |
| 15. Eng. R. K. Gaita | - | Ministry of Env, Water & Natural Resources |
| 16. Mr. Eliazer Ochieng Ochola | - | Board Chairman - Kenya Power |
| 17. Eng. T. Ndonga Gitahi | - | Ministry of Energy and Petroleum |
| 18. Eng. George Odedeh | - | General Manager NIB |
| 19. Ms. Concepta Wasilwa | - | Attorney General |


III. MANAGEMENT TEAM

| NO. | Name | Qualification | Designation / D.O.B |
|-----|---|--|--|
| 1. |  <p>Liban Duba</p> | <p>EMBA - 2009</p> <p>BA (Economics) - 2005</p> <p>Full member – Institute of Human Resource Management (IHRM, (K).</p> <p>Member of the Institute of Directors (K).</p> | <p>D.o.B: 1981</p> <p>Chief Manager Human Resource and Administration</p> |
| 2. |  <p>John Nyoike</p> | <p>MBA (Finance) – 2010</p> <p>BBA (Finance & Accounting) - 2009</p> <p>Ph.D (Candidate) Finance</p> <p>Member of Institute of Certified Public Accountancy of Kenya (ICPAK)</p> | <p>D.o.B: 1964</p> <p>Ag. Chief Manager Finance and Accounts</p> |
| 3. |  <p>Phillip Langat</p> | <p>Msc. Eng.(Agricultural Engineering) - 2007</p> <p>BSc (Agricultural Engineering) - 1996</p> <p>Member - Institute of Engineers Kenya (MIEK).</p> | <p>D.o.B: 1970</p> <p>Chief Manager Technical Services and Operations</p> |

| | | | |
|-----------|---|--|--|
| <p>4.</p> |  <p>Parmenas Mukeku</p> | <p>BSc (Animal Production) - 1992</p> | <p>D.o.B: 1965</p> <p>Ag. Chief Manager Business Development</p> |
| <p>5.</p> |  <p>Beatrice Gichohi</p> | <p>MSc (Statistics) - 2005</p> <p>BEd (Science) - 1994</p> | <p>D.o.B: 1971</p> <p>Chief Manager Planning and Research Development</p> |
| <p>6.</p> |  <p>Damarys Kiarie</p> | <p>BA (Social Sciences) - 1980</p> | <p>D.o.B: 1957</p> <p>Human Resources Manager</p> |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | | |
|-----------|--|--|---|
| <p>7.</p> |  <p>Eng. Joseph Karanja</p> | <p>BSc (Civil Engineering) - 1984</p> <p>Member - Institute of Engineers Kenya (MIEK).</p> | <p>D.o.B: 1959</p> <p>Manager Engineering Services Unit</p> |
| <p>8.</p> |  <p>Elijah Oyugi</p> | <p>B Com (Accounting and Taxation) - 1993</p> | <p>D.o.B: 1969</p> <p>Acting Internal Audit and Risk Manager</p> |
| <p>9.</p> |  <p>Wycliffe Sava</p> | <p>MBA (Pro. & Supplies) - 2013</p> <p>B Com (Marketing) - 2005</p> <p>Member –Kenya Institute of Supplies Management (KISM)</p> | <p>D.o.B: 1979</p> <p>Procurement and Supplies Manager</p> |

| | | | |
|-----|--|---|---|
| 10. |  <p>Sylvia Ndegwa</p> | <p>LLB - 2007</p> <p>(Candidate) - MBA (Project Management)</p> | <p>D.o.B: 1981</p> <p>Acting Legal Services Manager</p> |
|-----|--|---|---|

Senior Managers

- 11. David Kimaiyo - Finance Manager
- 12. Samuel Gitonga - Hydrologist
- 13. Lisa Njururi - Public Relation Manager
- 14. Jackson Muiruri - Monitoring and Evaluation Manager
- 15. Irene Ndavi - Tana Basin Economist
- 16. Bartholomew Kamau - Administration Manager
- 17. Samuel Wanyoike - ICT Manager

IV. CHAIRMAN'S STATEMENT

I am pleased to report that the Authority delivered a good financial performance during the 2013/2014 financial year despite various challenging factors.

TARDA's area of jurisdiction is wide, covering an area of approximately 138,000km². The Region is inhabited by a diversity of communities and is endowed with natural resources and enabling infrastructure; all providing good opportunities for development.

The Constitution of Kenya, 2010 created a decentralized system of government stipulating the dispersal of political power and economic resources from the centre to the grassroots. As a result, 47 county governments were established. TARDA's mandate covers 19 of these counties namely; Nyeri, Kirinyaga, Nyandarua, Murang'a, Embu, Tharaka Nithi, Meru, Isiolo, Kiambu, Nairobi, Machakos, Kajiado, Makueni, Kitui, Garissa, Taita Taveta, Tana River, Lamu and Kilifi.

During the year under review, TARDA engaged our various partners and stakeholders in the Counties in finalization of the regions' integrated development plan and on other activities with positive bearing on social and economical gains in catchment conservation activities, water conservation, and irrigation development among others.

The Kenya Vision 2030; - The board recognizes the central role played by the Authority in achievement of Vision 2030 projects. During this period we have spearheaded the resource mobilization for the following Vision 2030 projects; High Grand Falls Multipurpose Reservoir, Tana Delta Irrigation Project and Upper Tana Catchment conservation.

Board and governance; - TARDA's Board consists of directors who are professionals with diverse experience and skills to support the Authority in delivering its strategies. The Board has focused upon the Authority's strategic direction and performance and spearheaded the development of the 2013-2018 Strategic Plan. The plan focuses on **(i) Customers/stakeholders theme** which is to enhance quality of life through environmental stewardship, **(ii) Internal Processes theme** which will maintain liaison between the two levels of governments and other stakeholders, **(iii) learning and growth people theme** which will attract, develop and retain an effective, motivated and efficient workforce and **(iv) financial theme** on achieving financial stability.

We reaffirm our commitment to our stakeholders to improve the quality of life of the resident communities and the nation at large. The Authority will continue to engage our development and donor communities in utilization of natural resources and promote sustainable social-economic well being of the people in the region.



Hon. Abdul Bahari Ali
AUTHORITY CHAIRMAN

V. MANAGING DIRECTOR'S STATEMENT

During the year under review, the total revenue from exchange transactions (internal sales) increased significantly by 33% from Kshs.69m in 2013 to Kshs.104m in 2014. The other notable progress in the Authority's balance sheet is the deliberate reduction of the current liabilities from Kshs.407m in 2013 to Kshs178m in 2014.

The conservation programmes which are a major core mandate of this Authority include; Water harvesting programmes, soil and water conservation activities, tree planting and seed production within the mandated areas. In the last six (6) months of FY we successfully managed to construct 79 small dams & water pans under National Water Harvesting initiatives mainly for the purpose of harvesting water for domestic and livestock consumption. During this period over 500,000 tree seedlings were planted.

CHALLENGES

Going Concern

Before the power sector reorganization which was completed in the year 2000, the going concern of the Authority was very healthy and encouraging. The Authority did not rely on the exchequer system for its operational sustainability because we had sufficient revenue generated from commercialized projects mainly Masinga & Kiambere multi-purpose reservoirs Kibwezi and Masinga farms and livestock and Honey enterprises among others.

The taking over of our facilitates without recommended compensations has been causing the Authority unnecessary financial constraint to date due to legal claims emerging from land compensation, land rates, outstanding pensions among others which are directly related to reservoir assets and revenues.

Unless these claims are honoured, the going concern and balance sheet accounting of the Authority will continue to be negative and recurring year after year despite the fact that it is not the inefficiency of TARDA but the effect of the power sector restructuring of the late 1990s.

Another area of concern related to the power sector reorganization is the negative impact on our balance sheets which records depreciation factor in tune of Kshs.650m annually on Masinga and Kiambere facilities without the support of revenue streams related to the transferred assets in year 2000 to both KPLC & KENGEN under the same concern the failure of KPLC/KENGEN to pay rent on 193 houses which they have been occupying for the last 24years without paying requisite rent.

Under Funding

During the year under review, the Authority operations continued to be adversely affected due to under funding from the Government.

ON GOING PROGRAMMES AND PROJECTS

a) High Grand Falls

This is the 3rd multipurpose reservoir after Masinga and Kiambere that TARDA plans to develop along the Tana River system. The site of the reservoir was beckoned in 1986 and construction was meant to start in 1992, four years after commission Kiambere reservoirs. We are happy to report that the dream of TARDA on this project is coming to reality. High Grand Falls Multi-purpose reservoir has seven salient benefits to the nation and also the communities within the dam and buffer zone areas and also the Tana Delta communities. Such benefits include;

- Food security enhancement through irrigated agriculture of 100,000ha. particularly in Bura, Hola and Garsen
- Food enhancements within Galana ranch through inter basin water transfer from Tana to Athi (Galana) river.
- Flood and river flow regulation in order to minimize destructive phenomena in the Tana Delta and stop human and livestock displacement.
- Production of hydro energy to national grid
- Provision of water for industrial livestock and human consumption to LAPSSET (Lamu) and Muikuru project in Mwingi basin (Mwingi County).
- Massive employment of skilled and non-skilled labour in support of the above vision 2030 projects.
- Minimize national imbalances for sugar and rice through increased production within the Tana Delta under vision 2030.

HGF is, in itself a vision 2030 project and an enabler facility for other four vision 2030 projects mentioned above.

During the year under review the Managing Director signed the commercial agreement between TARDA as the developing agency and the Chinese contractor (CSCEC) amounting to **\$1.54b** witnessed by His Excellence the President of Kenya and His Excellency the Chinese Premier at State House, Nairobi. The occasion was also witnessed by our Cabinet Secretary, our Permanent Secretary and Our Chairman of the Board among others.

b) TARDA Headquarters

The Authority purchased the Upper Hill Plot in 1987 with the sole purpose of developing a high-rise Office Block. The office Block was to provide a permanent center for integrated resource planning and coordination of developments in the two rivers basins.

The TARDA Plot measures 0.672 Ha (1.7 acres) and is located in the Upper Hill area. The plot's current value is approximately kshs. 600 million. The Plot is bordered on three sides by developed properties, while the fourth border facing the road is fenced in chain link on concrete poles with a steel gate.

We have begun the journey towards implementation of new state of the art twin tower at Upper Hill Nairobi. The resource complex will be used by TARDA as offices and also provide rentable space for income generation on commercial basis. During the year under review quotations to develop concept paper was accomplished.

c) Tana Delta Integrated Project- Rice

TARDA has 31,000Ha in Tana Delta suitable for **sugarcane, rice and soya beans** production.. The ultimate plan is to develop 10,000ha under rice with initial acreage of 4,000ha in 2015/16. The overall goal of the project is devoted towards achieving the National vision 2030 Millennium Development Goals (MDGs) in particular to national food security and improve livelihood through sustainable integrated agribusiness development and management of the Tana Delta area. The preparation to commercialize the 10,000ha under common lease is ongoing.

d) Munyu Dam Integrated Project

This project was identified for implementation as integrated facilities among the major projects for development along the Athi basin are Munyu Multipurpose Reservoir and the Greater Kibwezi Irrigation project with a potential of about 13,000ha. The Project is aimed at:

- Increasing water supply for irrigation, domestic supply and hydropower Generation.
- Production of food crops for food security and high value crops such as cotton, bananas and other horticultural crops as cash crops for poverty alleviation.

The project is also meant to generate cheap hydroelectric power with a capacity of 575 million cubic metres of live storage with three hydro-electric power stations with an aggregated capacity of 40MW.

The Project is geared towards improving economic development in the region and the country as a whole by developing 20,000 hectares for irrigation catchment management and creation of job opportunities. Floatation of quotation to identify a consultant was done during the year under review.

e) Integrated Regional Development Master Plan.

The Authority is finalizing IRDP than would enable coordination monitoring and exploitation of natural resources within the river basins. The process of developing IRDP has been done in consultation with the stakeholders and we intend to launch in this financial year 2014.

f) Integrated Solar Energy Project

TARDA's land in Masinga/Kiambere and TDIP has been identified for green energy production including solar power. The Authority plans to produce 280MW of renewable green energy from its seven (7) sites in Kiambere, Masinga and Tana Delta. Floatation and short listing of prospective investors was done during the year under review.

g) Murang'a Food Security Programme

Murang'a County lies approximately 85 Kms North east of Nairobi, covering 2,558 Km². The County has 7 constituencies, with a population of 942,581 according to the KNBS 2009 National Census Report. The Lower Murang'a Irrigation Scheme will cover around 5,000 ha of Gravity fed irrigation solutions.

Under the presidential initiative TARDA has been identified to undertake the project. The project is geared towards improving economic development in the region and the country as a whole by developing 5,000 hectares for irrigation, catchment management and creation of job opportunities. The Authority has signed a partnership deed with the Murang'a County Government and the shortlisted bidders are to submit Request for Proposal (RFP).

Appreciation

I extend my appreciation to the Government including National Treasury and our Parent Ministry, the Ministry of Environment, Water and Natural Resources, TARDA employees for their continued support and insights. I would also like to thank the TARDA Board of Directors on matters of policy & corporate governance and guidance to the Management.

I cannot forget to pay special tributes to the entire TARDA management and Staff for the support they gave me over the period under review.



Steven G. Ruimuku
MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30TH JUNE 2014

BOARDS AND MANAGEMENT OF STATE CORPORATIONS

The Tana and Athi Rivers Development Authority (TARDA) Act Chapter 443 of the Laws of Kenya is the main guideline on membership and procedure of the Authority. Section 4 (1) of the TARDA Act provides for a Board of 17 members inclusive a Board Chairman and the Managing Director who acts as the secretary to the Board.

OVERVIEW

Corporate governance refers to the principles, processes and practices by which a company is operated, regulated and controlled so that it can set and fulfill its goals and objectives in a manner that adds value for the benefit of all stakeholders and its sustainability. It is concerned with systems and practices and procedures that govern the Authority. Good corporate governance entails provision of structures that establish relationships among company's board, shareholders, management and other stakeholders to ensure the Authority business remains viable and sustainable.

Good Corporate Governance is necessary in order to:

- Attract investors – both local and foreign – and assure them that their investments will be secure and efficiently managed, and in a transparent and accountable process.
- Create competitive and efficient companies and business enterprises.
- Enhance the accountability and performance of those entrusted to manage corporations.
- Promote efficient and effective use of limited resources.

Without efficient companies or business enterprises, the country will not create wealth or employment. Without investment, companies will stagnate and collapse, if business enterprises do not prosper, there will be no economic growth, no employment, no taxes paid and invariably the country will not develop.

The country needs well-governed and managed business enterprises that can attract investments, create jobs and wealth and remain viable, sustainable and competitive in the global market place.

Good corporate governance, therefore, becomes a prerequisite for national economic development.

In Corporate Governance, the above can be summarized into five basic tenets:

- Accountability
- Efficiency and Effectiveness
- Integrity and Fairness
- Responsibility, and
- Transparency

The Authority regards good corporate governance as crucial to the success of the business and is steadfastly committed to practice it so that the Authority remains a sustainable and viable business of global stature. This statement sets out the main corporate governance practices and structures in Tana and Athi Rivers Development Authority.

COMPOSITION OF THE BOARD OF DIRECTORS

1) Membership of the Board

The Board comprises of 18 Directors, executive and non-Executive Directors, seven of the Directors including the Chairman. The composition of the Board of Directors takes into account requirements of the industry, diverse mix of skills, age, gender, qualifications and experience necessary to achieve the Authority's goals and objectives.

2) Functions of the Board are *inter alia*;

- 2.1 Be the policy making organ of TARDA.
- 2.2 Prepare a Board Charter, which will outline Board vision and cover issues of ethics and governance. This charter will ensure that Board members acting on behalf of the corporation are aware of their duties and responsibilities as well as the various legislation and regulations affecting their conduct as Board members.
- 2.3 Approve the TARDA budget, including any readjustments and external borrowing.
- 2.4 Approve the TARDA strategic plan and any other long range plans.
- 2.5 Regularly assess its performance and effectiveness as a whole, including that of individual directors and the CEO.
- 2.6 Advise and determine the Board Procedure and requirements including their alia evaluation of the Board performance at least once in a year as well as an overall evaluation to be undertaken prior to the end of the Board term.

3) Role of the Chairman of the Board of Directors

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and Board committee meetings. The chairman also ensures that the Board is supplied with timely and sufficient information to enable them discharge their duties effectively.

The Managing Director who is the Chief Executive of TARDA is responsible for the day to day management of the Authority.

Each Committee of the Board develops a work plan to guide the activities of the Board at the beginning to every financial year and this should determine the number of meetings; the budget for Board business are adhered to and no over expenditures should be incurred without prior approval: each Board committee should prepare a Board Charter, which will outline Board vision and cover issues of ethics and governance.

The Board must limit their meetings to the very minimum and use the most economical means of transport to travel.

4) Conduct Board Business

The TARDA Act provides for the appointment of committees as is necessary so as to conduct the business of the Authority. However all decisions made by the committee require confirmation by the full Board to have any effect.

The current committees' activities are as follows;

1. Finance and Planning Committee of the Board:

Roles ad Responsibility

The Board as per section 15 of the TARDA Act shall be responsible for the management of the affairs of a state corporation and shall be accountable for the moneys, the financial business and the management of a state corporation e.g. no corporation may incur expenditure for which provision was not made in an annual estimate prepared and submitted on Treasury before the end of February every year. Thus it is important for the Board to formulate work plan and meet regularly to ensure that the estimates are prepared and submitted in time.

This committee constitutes the following;

- | | | | |
|------|---------------------|---|----------|
| i.- | Mr. Solomon Lutta | - | Chairman |
| ii. | Ms. Grace Nyarang'o | - | Member |
| iii. | Ms. Sarah Mugwanja | - | Member |
| iv. | Mr. Joseph Mukui | - | Member |
| v. | Eng. R.K. Gaita | - | Member |

The F & P committee held eight (8) regular meetings in 2013/2014.

2. Human Resource Committee;

Roles and Responsibility:

Its role is to consider all matters associated with the policies and practices of the Authority in relation to its Human Resources and Administration.

- | | | | |
|------|---------------------|---|-------------|
| i. | Ms Halima Shaiyah | - | Chairperson |
| ii. | Dr. Luke Musau | - | Member |
| iii. | Mr. Antony Mugane | - | Member |
| iv. | Mr. Eliazer Ocholla | - | Member |
| v. | Mr. John Nthuku | - | Member |

The HR Committee held four (4) regular meetings in 2013/2014.

3. Audit, Monitoring Committee

Roles and Responsibility;

An Audit committee is responsible for a thorough and detailed review of Audit matters. It enables the non-executive directors to contribute an independent judgment and play a positive role in an area for which they are particularly fitted, and offers the auditors a direct link with the non-executive directors.

- | | | | |
|------|--------------------|---|----------|
| i. | Mr. John Nthuku | - | Chairman |
| ii. | Concepta Wasilwa | - | Member |
| iii. | William Ogolla | - | Member |
| iv. | Wilfred Mwanzia | - | Member |
| v. | Eng. George Odedeh | - | Member |

The Audit committee will;

- i. Review quarterly and annual financial statements before submission to the Board:-
- ii. Consider appointment, remuneration and the resignation or dismissal of external auditors.
- iii. Discuss with external auditors any reservations and problems arising in the course of audit and any audit management letters and management responses prior to the issuance of the audit certificate.

Oversight of effective internal controls, compliance with laws and regulations and oversight on audit issues it is a regulatory committee.

The A & M committee held four (4) regular meetings in 2013/2014.

DIRECTOR'S TRAINING AND DEVELOPMENT

The Authority recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities.

During the year, the chairman of the Board attended training programmes, seminars and conferences. The training programmes attended included: Strategic management workshop in Tanzania. The training not only provided the directors with skills needed but also insight of the emerging business trends internationally.

BOARD WORKPLAN AND MEETINGS

A work plan and schedule of meetings is prepared annually at the beginning of each financial year. The Board meets at least once every three months or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed before the meetings. The full Board held a total of twelve (12) meetings during the year, which were well attended.

Conduct of the Board Members

- (a) **Disclosure-** In the conduct of the Board matters, any member who may have any interests in the matter being discussed is under mandatory obligation to declare such interest. In this case, the Board would decide whether the member may attend the meeting. If he does, then he cannot vote on the matter.
- (b) **Attendance of Board meetings-** Board members shall not absent themselves from three (3) consecutive Board meetings with which they have reasonable notice.
- (c) **Compliance with the constitution** – Each member of the Board to conduct himself in a manner that will not contravene Chapter Six of the Constitution of Kenya, 2010. Each member should ensure policies set by the Board are compliant with the letter and spirit of the Constitution. Members are also charged with monitoring of management to ensure effective institutional frameworks and administrative procedures are in place for the implementation of the Constitution.

NB: TARDA is governed by various circulars that give guidelines on the terms and conditions of service for members:

Members are entitled to a transport allowance where official transport is not provided for them to attend a meeting or an official function, which they are required to attend. The member will be reimbursed on the cost of travel by the most cost effective public transport means on production of receipted bills, or be reimbursed for actual mileage performed on the members or members spouse vehicle at the prevailing Automobile Association rates (in respect to transport from and to cities without an air transport facility).

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

TARDA'S Corporate Social Responsibility (CSR) is an integration of business operations and values, whereby the interests of all stakeholders and the environment are reflected in the company's policies and actions.

TARDA recognizes that our Authority has the potential to make a significant impact on its staff, customers, society and the environment. Our CSR believes in transforming lives. This is achieved by building relationships with customers, giving back to the community and maintaining the company's visibility and reputation.

The outcome of all the Corporate Social Responsibility activities that TARDA has undertaken is meant to create a positive change in society and support improvement in the lives of individuals.

KIVAA ORPHANAGE

TARDA provided support to an orphanage for school going children as part of its CSR initiatives. The school, located in Kivaa, Machakos County was provided with bags of rice worth Kshs. 26,000.



TARDA staff members donating mosquito nets to *pastor Njagi* for the Kivaa Orphanage home.



TARDA organizes purposeful and progressive CSR projects to help the communities we operate in. Every employee should make an effort to participate in CSR activities in order to have a ripple effect that boosts TARDA'S reputation.

OL BOLLOSAT RACE

The Ol Bollosat race was held in Nyandarua County in June, 2014. The theme of the race was "Discover Lake Ol Bollosat". This was to create awareness of the lake as a tourist attraction. TARDA will partner with the county government in rehabilitating the lake by planting trees.

TARDA's sponsorship towards the success of the race was Kshs. 100,000/-.



Nyandarua County Governor flagging off the Lake Ol'BoLOSSat race



And the runners are off...

ELARAI MCK GIRLS SECONDARY SCHOOL – KAJIADO

Education

TARDA is committed to improving education facilities to aid in the creation of a conducive learning environment.

TARDA provided support to the Elarai MCK girl's school in Emali, Kajiado County by contributing Kshs. 150,000/- towards purchase of a school bus.

VIII. REPORT OF THE DIRECTORS

The Directors submitted their report together with the audited financial statements for the year ended June 30, 2014 which show the state of Tana and Athi Rivers Development Authority's affairs.

Principal activities

The principal activities of the of Tana and Athi Rivers Development Authority is to undertake integrated planning and development through maximization and utilization of water and land based resources within the Tana and Athi river basins.

Results

The results of Tana and Athi Rivers Development Authority for the year ended June 30, 2014 are set out on page 32 – 54.

Directors

The members of the Board of Directors who served during the year are shown on page 8 - 11.

Auditors

The Auditor General is responsible for the statutory audit of Tana and Athi Rivers Development Authority in accordance with Section 15(2) of the Public Audit Act, 2003 and submits the audit report in compliance with Article 229(7) of the Constitution of Kenya

IX. STATEMENT OF DIRECTORS RESPONSIBILITIES

The State Corporation Act, require the Directors to prepare financial statements in respect to Tana and Athi Rivers Development Authority, which give a true and fair view of the state of affairs of TARDA at the end of the financial year and the operating results of TARDA for the year. The Directors are also required to ensure that TARDA keeps proper accounting records which disclose with reasonable accuracy the financial position of TARDA .The Directors are also responsible for safeguarding the assets of TARDA.

The Directors are responsible for the preparation and presentation of Authority's financial statements, which give a true and fair view of the state of affairs TARDA for and as at the end of the financial year ended June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of Tana and Athi Rivers Development Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensure that they are free from material misstatement, whether due to error or fraud; (iv) safeguarding the assets of Tana and Athi Rivers Development Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility TARDA's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the State Corporations Act. The Directors are of the opinion that TARDA's financial statements give a true and fair view of the state of TARDA's transactions during the financial year ended June 30, 2014, and TARDA's financial position as at June 30, 2014. The Directors further confirm the completeness of the accounting records maintained for TARDA, which have been relied upon in the preparation of TARDA's financial statements as well as the adequacy of the systems of financial internal controls.

Nothing has come to the attention of the Directors to indicate that Tana and Athi Rivers Development Authority will not remain a going concern for at least the next twelve months from the date of this statement.

X. REPORT OF THE INDEPENDENT AUDITORS ON TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY

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

Management's responsibility for the financial statement

The TARDA's Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting standards, and for such internal controls as the management deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal controls relevant to TARDA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness TARDA's internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Auditor General

REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tana and Athi Rivers Development Authority set out at pages 32 to 54, which comprise the statement of financial position as at 30 June 2014 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, together with a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement

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

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

Basis for Qualified Opinion

1. Going concern

As reported in year 2013/2014, the Authority recorded a loss of Kshs.717,088,891 (2012/2013-Kshs.797,665,454) which brought its cumulative deficit to Kshs. 11,487,852,926 as at 30th June 2014. The deficit has mainly been attributed to depreciation charges of Kshs.387,984,972 on Masinga and Kiambere hydro power facilities and non remittance of accrued revenue due from Kenya Power and Lighting Company, following a Government directive that all revenue from hydro electric power facilities be remitted to the National Treasury.

In view of the foregoing, going concern status of the Authority is dependent on continued financial support from the Government, bankers and its creditors.

2. Property, Plant and Equipment

The property, plant and equipment balance of Kshs.11,661,262,601 as at 30 June 2014 includes an amount of Kshs.22,674,600 representing the value of three (3) parcels of land located at Kibwezi, Kitui and Emali Measuring 924.83 hectares whose ownership documents have not been availed for audit verification.

In the circumstances, it was not possible to confirm the ownership status of the three (3) parcels of land and that the property, plant and equipment balance of Kshs. 11,661,262,601 is fairly stated as at 30 June 2014.

3. Capital Work In Progress

As reported in the previous year, the capital work-in-progress balance of Kshs.235,449,689 comprises work-in-progress in respect of staff houses, a construction project that commenced in 1990 at Tana Delta Irrigation Project (TDIP) in Garsen valued at Kshs.234,152,289 and work-in-progress at Emali in respect of construction of Bore hole which started in 2010 valued at Kshs.1,297,400 which has continued to be carried forward. However, no document was available for audit verification to support the work-in-progress balance of Kshs 235,449,689.

In the circumstances, it has not been possible to confirm the accuracy of the work-in-progress balance of Kshs.235,449,689 as at 30 June 2014.

4. Trade and Other Receivables

The trade and other receivables balance of Kshs. 60,262,030 as at 30 June 2014 (2012/2013 - Kshs.58,785,623) is net of the Kenya Power and Lighting Company debtor account of Kshs.1,267,783,057 and which is fully provided for. According to note 18, the account relates to bulk power sales amounting to Kshs.1,179,215,376 for the period prior to 1988 and which has been under dispute.

Further, the balance of Kshs.60,262,030 includes debtors account – car loan balance of Kshs.259,396 which the Authority stated that it is historical and cannot be supported and debtor account-Freshco Kenya Limited of Kshs.7,576,126 which is not properly supported by contract documents.

In the circumstances, it has not been possible to confirm the correctness and recoverability of the trade and other receivables balance of Kshs.60,262,030 as at 30 June 2014.

5. Revaluation Reserve

As disclosed in note 22 to the financial statements, the figure for revaluation reserve of Kshs.19,697,833,221 as at 30 June 2014 could not be verified as no documentary evidence was availed to support any revaluation of assets that may have been done. In the circumstances, it has not been possible to confirm the accuracy of the revaluation reserve balance of Kshs.19,697,833,221 as at 30 June 2014.

6. Trade and Other Payables

Included in the figure for trade and other payables of Kshs.177,503,864 as at 30 June 2014 is Kshs. 51,120,723 in respect of statutory deductions and withheld VAT which have been outstanding for long period of time some dating back to 2010.

Further, it was noted that the Authority does not reconcile reported amounts of arrears and penalties owed to NSSF to confirm the authenticity of the payments made and outstanding balances which is an indication of poor internal control systems. The Authority is likely to suffer heavy penalties if the trend is not reversed. Consequently, it has not been possible to confirm the accuracy and completeness of the trade and other payables balance of Kshs.177,503,864 as at 30 June 2014.

7 Assets held by Former Managing Directors

As previously reported, the Authority incurred expenditure totalling Kshs. 422,500 on purchase of various mobile phones and iPads which were issued to a former Managing Director between July 2012 and February 2013. In addition, available

records indicate that another former Managing Director was issued with Laptop, camera and mobile phones which had not been surrendered to the Authority as at 30 June 2014. The management has not satisfactorily explained why these assets were not recovered from the Managing Directors after their tenure.

In the circumstances, it has not been possible to confirm the propriety of Kshs.422,500 included in property, plant and equipment balance of Kshs.12,287,988,609 as at 30 June 2014.

8. European Union Fund

As reported in 2012/2013, included in the statement of financial position is Kshs. 30,714,048.00 in respect of grant received from European Union (EU) for implementation of community based mini-hydropower development in upper Tana basin for poverty alleviation project. However, the funds have remained unutilized for a period of over four years. Available information indicates that the EU has since recalled the funds in the financial year 2013/2014 and advised TARDA to come up with a new proposal for another grant. The management has not explained why the funds were not put to intended use resulting to withdrawal of the same by the Donor. In the circumstances, the Authority seems not to be focused on achievements of its strategic goals.

9. Illegal and Irregular Employment Contracts

9.1 Illegal Employment Contract by Acting Managing Director

The acting Managing Director has changed his name from what is in the national Identity Card as confirmed by the National Registration Bureau to a different one which is in his passport No. A1593455 acquired on 02 February 2011. Further, he has changed his date of birth from 1953 to 1958 a date he now uses on most of his official documents.

Accordingly, his true age is 62 years and as such he ought to have retired in 2008, one year before the Government enhanced retirement age to 60 years. This amounts to criminal action on the part of the acting Managing Director of cheating on his age by 5 years. An analysis of the extra basic salary which he ought not to have earned totals Kshs.10,765,464 as analysed below;

| Period | Months | Basic Pay per Month | Total Basic pay | Remarks |
|--------------------------|---------------|----------------------------|------------------------|--|
| January 2009 – June 2009 | 6 | 200,000 | 1,200,000 | By then he was Deputy Managing Director which was scrapped |
| July 2009 – June 2011 | 24 | 150,000 | 3,600,000 | On Interdiction |
| July 2011 – Feb 2012 | | 75,000 | 225,000 | |

| | | | |
|-------------------------|----|---------|-------------------|
| March 2012 – Feb 2014 | 24 | 150,000 | 3,600,000 |
| March 2014 – June 2014 | 4 | 156,000 | 624,000 |
| July 2014 – August 2014 | 2 | 162,240 | 324,000 |
| Sept 2014 – March 2015 | 7 | 170,352 | <u>1,192,464</u> |
| | | | 10,765,464 |

=====

Consequently, Kshs.10,765,464 basic pay besides other allowances was illegally earned and amounts to fraud by the officer.

9.2 Irregular Staff Recruitment

The Acting Managing Director approved recruitment and signed appointment letters for 37 employees from the date of his appointment in April 2013 up to the time of reporting without seeking the Board approval in view of the fact that he is not substantively confirmed to a position of the Managing Director. The total basic pay for the 37 employees for the period under review amounted to Kshs.13,787,412. A scrutiny of those appointed revealed that 17 out of the 37 were from one region. Further, the positions were not advertised in order to satisfy conditions for competitive recruitment. In addition, the Authority did not get any enhanced recurrent expenditure provision for the year under review and no approved staff establishment was availed for audit verification. This is an indication that the Authority could be using development funds to meet its recurrent expenditure including the salaries for the new employees.

Consequently, the acting Managing Director was in breach of Treasury Circular No. 9/2013 of 26 July 2013 on freezing of all new recruitment unless with express authority from National Treasury and was an abuse of the office besides being against the principles and values of public service as stipulated in Article 232 of the Constitution of Kenya. The amount of Kshs.13,787,412 is hence illegal charge to public funds.

10. Procurement of Various Goods and Services

The Authority made procurement of goods and services to firms which were not pre-qualified, contrary to Public Procurement and Disposal Act, 2005 as listed below;

| Item | Amount (Kshs) |
|------------------|-------------------------|
| Legal Services | 1,839,315 |
| Consumable items | 185,770 |
| Motor Vehicles | <u>1,396,320</u> |
| Total | <u>3,421,405</u> |

=====

Consequently, it has not been possible to confirm the propriety of the expenditure of Kshs.3,421,405 as a proper charge to public funds.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Tana and Athi Rivers Development Authority Act, Cap 443 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR- GENERAL

Nairobi

24 April 2015

XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

| | | JUNE '2014 | JUNE '2013 |
|---|-------------|-----------------------------|-----------------------------|
| Revenue from non-Exchange transactions | NOTE | KSHS | KSHS |
| Transfers/Grants from Government | 3 | 352,910,228 | 164,215,156 |
| Revenue from exchange transactions | 4 | | |
| External AIA-KenGen | | 62,000,000 | 62,000,000 |
| Sale of Farm Produce | | 68,748,499 | 35,552,435 |
| Sale of Tree Seedlings | | 3,097,607 | 2,262,909 |
| Rendering of Services | | 32,401,753 | 29,004,423 |
| Sale of Tender documents | | <u>43,000</u> | <u>2,743,150</u> |
| TOTAL REVENUE | | <u>519,201,087</u> | <u>295,778,074</u> |
| EXPENSES | | | |
| Cost of sales from exchange transactions | 5 | 175,053,571 | 156,769,064 |
| Operation and Maintenance | 6 | 72,742,474 | 51,866,338 |
| Administrative Expenses | 7 | 9,197,675 | 8,957,208 |
| Other Operating Expenses | 8 | 21,712,354 | 12,053,578 |
| Directors Expenses | 9 | 7,663,059 | 13,134,344 |
| Finance Costs | 10 | 565,454 | 632,042 |
| Special Projects Expenses | 11 | 86,368,408 | - |
| Depreciation and Amortization | 12 | 633,339,906 | 637,094,583 |
| Employees Costs | 13 | <u>227,351,847</u> | <u>212,936,372</u> |
| TOTAL EXPENSES | | <u>1,233,994,747</u> | <u>1,093,443,528</u> |
| Other gains /Losses | 14 | | |
| Gain on Disposal of assets | | 238,175 | - |
| Loss on foreign exchange transactions | | <u>2,533,407</u> | <u>-</u> |
| Net Deficit | | <u>(717,088,891)</u> | <u>(797,665,454)</u> |

XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

| | NOTE | JUNE '2014 KSHS | JUNE '2013 KSHS |
|---------------------------------------|------|------------------------------|------------------------------|
| <u>NON CURRENT ASSETS</u> | | | |
| Property, Plant and Equipment | 15 | 11,661,262,601 | 12,287,988,609 |
| Work- In - Progress | 16 | 235,449,689 | 235,449,689 |
| Investments-Portfolio | 17 | <u>24,500,000</u> | <u>24,500,000</u> |
| | | <u>11,921,212,290</u> | <u>12,547,938,298</u> |
| <u>CURRENT ASSETS</u> | | | |
| Inventories | 18 | 27,901,154 | 87,857,725 |
| Biological Assets | 19 | 11,681,155 | 12,298,485 |
| Trade and Other receivables | 20 | 60,262,030 | 58,785,623 |
| Cash and Cash Equivalents | 21 | 113,131,578 | 53,227,404 |
| | | <u>212,975,917</u> | <u>212,169,237</u> |
| Total assets | | <u>12,134,188,207</u> | <u>12,760,107,535</u> |
| <u>NON CURRENT LIABILITIES</u> | | | |
| <u>FUND AND LIABILITIES</u> | | | |
| O.E.C.F (Japan) loan | 22 | 1,525,489,349 | 2,057,160,000 |
| Capital fund | 23 | 2,220,490,409 | 1,575,675,941 |
| Accumulated Deficit | | (11,487,852,926) | (11,008,565,545) |
| Revaluation Reserve | 24 | 19,697,833,221 | 19,697,833,221 |
| Tourism Trust Fund | 25 | 28,114 | 28,114 |
| EU Fund | 26 | - | <u>30,714,048</u> |
| | | <u>11,995,988,167</u> | <u>12,352,845,779</u> |
| <u>CURRENT LIABILITIES</u> | | | |
| Trade and Other payables | 27 | 177,503,864 | 407,261,757 |
| Provisions | 27 | 696,000 | |
| Bank Overdraft | 28 | 177 | - |
| | | <u>178,200,041</u> | <u>407,261,757</u> |
| Total Fund and Liabilities | | <u>12,134,188,207</u> | <u>12,760,107,535</u> |

The financial statements set out on pages 32 – 38 were signed on behalf of the Board of Directors by:

AG. MANAGING DIRECTOR

CHAIRMAN

DATE: _____

DATE: _____

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

| | Loan Capital | Capital Fund | Accumulated Deficit | Revaluation Reserve | Tourism Trust Fund | EU Fund | Total |
|-----------------------------------|----------------------|----------------------|-------------------------|-----------------------|--------------------|-------------------|-----------------------|
| At 1st July 2012 | 2,508,154,778 | 1,020,374,606 | (10,210,804,089) | 19,697,833,221 | 28,114 | 30,722,348 | 13,046,308,978 |
| Govt Grants | | 104,306,557 | | | | | 104,306,557 |
| Audit fees(2009/10) | | | (96,000) | | | | (96,000) |
| Payments | -450,994,778 | 450,994,778.00 | | | | | - |
| Payments | | | | | | (8,300) | (8,300) |
| Deficit for the year | | | (797,665,454) | | | | (797,665,454) |
| At 30th June 2013 | 2,057,160,000 | 1,575,675,941 | (11,008,565,543) | 19,697,833,221 | 28,114 | 30,714,048 | 12,352,845,781 |
| At 1st July 2013 | 2,057,160,000 | 1,575,675,941 | (11,008,565,543) | 19,697,833,221 | 28,114 | 30,714,048 | 12,352,845,781 |
| Overstated Inventory in 2012/2013 | | | 2,680,178 | | | | 2,680,178 |
| Govt Grants | | 113,143,817 | | | | | 113,143,817 |
| W/off of inter projects.debt | | | 443,700 | | | | 443,700 |
| Tarda expense in EU Masinga | | | (2,974) | | | (2,974) | (5,948) |
| Compensation debt W/off | | | 239,030,317 | | | | 239,030,317 |
| Staff Salaries Understate | | | (4,349,712) | | | | (4,349,712) |
| Payments | (531,670,651) | 531,670,651 | | | | (90,000) | (90,000) |
| Refund to EU | | | | | | (30,621,074) | (30,621,074) |
| Deficit for the year | | | (717,088,892) | | | | (717,088,892) |
| At 30th June 2014 | 1,525,489,349 | 2,220,490,409 | (11,487,852,926) | 19,697,833,221 | 28,114 | 0 | 11,955,988,167 |

XIV. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2014

| | JUNE-'2014 | JUNE-'2013 |
|--|---------------------|----------------------|
| Net Cash flow from Operating Activities | (717,088,892) | (797,665,454) |
| <u>ADJUSTMENTS</u> | | |
| Depreciation and Amortization | 633,339,906 | 637,094,583 |
| prior Year Adjustments | 237,801,509 | (96,000) |
| Operating Income before working capital changes | 154,052,523 | (160,666,871) |
| | | 7,660,585 |
| Decrease in Biological Assets | 617,330 | |
| Decrease in Inventory | 59,956,571 | 18,867,986 |
| Increase in Debtors | (1,476,407) | 8,584,996 |
| Decrease in Creditors | (229,061,892) | 12,276,435 |
| Proceeds from sale of Property Plant and Equipment | 821,325 | |
| Cash generated from operations | (15,090,550) | (113,276,869) |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Purchases of Fixed Assets | (7,435,223) | (8,514,050) |
| Decrease in Work In Progress | | |
| Net cash from Investing activities | (7,435,223) | (8,514,048) |
| CASH FROM FINANCING ACTIVITIES: | | |
| Gok Grants-Development Funds | 113,143,817 | 104,306,557 |
| EU Fund | (30,714,048) | (8,300) |
| Net cash from financing activities | 82,429,769 | 104,298,257 |
| Net increase/decrease in cash & cash equivalent | 59,903,996 | (17,492,662) |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | |
|---|--------------------|-------------------|
| Cash & Cash equivalent at 1st July 2013 | 53,227,405 | 70,720,067 |
| Cash & Cash equivalent at 30 June 2014 | 113,131,400 | 53,227,405 |

The difference in Cash and cash equivalents as at 30 June 2014 is as result of a bank Overdraft of Kshs.177.00

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
(ACTIVITY BASED)**

| | PRINTED ANNUAL BUDGET | ADJUSTMENTS | FINAL ANNUAL BUDGET | ACTUAL EXPENDITURE | PERFORMANCE |
|---|-----------------------------|-------------------|---------------------------|-----------------------|-------------------|
| (A) BUDGETS | 2013/2014 | 2013/2014 | | 2013/2014 | 2013/2014 |
| | Kshs | Kshs | | | Kshs |
| 1 RECURRENT VOTE | | | | | |
| Bank balances | | 708,034 | 708,034 | | |
| GoK (Normal) | 147,573,200 | | 147,573,200 | 139,221,953 | 9,059,281 |
| Sub-total | 147,573,200 | 708,034 | 148,281,234 | 139,221,953 | 9,059,281 |
| 2 DEVELOPMENT | | | | | - |
| Bank balances | | 6,099,252 | 6,099,252 | | |
| (a) GoK (Normal) | 134,750,000 | | 134,750,000 | 112,862,537 | 27,986,715 |
| Late Disbursement of GoK (Normal) - 2012/13Fy | | 34,768,853 | 34,768,853 | 34,768,853 | - |
| (b) GoK (ESP) | 29,949,750 | | 29,949,750 | 22,534,231 | 7,415,519 |
| Late Disbursement of GoK (ESP) - 2012/13Fy | | 13,600,000 | 13,600,000 | 13,600,000 | - |
| (c) KenGen | 62,000,000 | | 62,000,000 | 62,000,000 | - |
| * (d) AIA Project | 95,000,000 | 9,242,547 | 104,242,547 | 133,690,357 | (29,447,810) |
| Sub-total (Dev Vote) | 321,699,750 | 63,710,652 | 385,410,402 | 379,455,979 | 5,954,423 |
| Total Inflows (R + D) | 469,272,950 | 64,418,686 | 533,691,636 | 518,677,932 | 15,013,704 |
| (B) BUDGETS OUTFLOWS | | | | | |
| RECURRENT VOTE | | | | | |
| 1 Salaries | 110,250,000 | | 110,250,000 | 103,067,794 | 7,182,206 |
| 2 Operations & Maintenance | 37,323,200 | 708,034 | 38,031,234 | 36,154,158 | 1,877,076 |
| Sub-total Recurrent | 147,573,200 | 708,034 | 148,281,234 | 139,221,952 | 9,059,282 |
| DEVELOPMENT VOTE | | | | | |
| 3 Performance Contracting Activities | | | | | |
| (a) Redemption of Debts | 12,000,000 | | 12,000,000 | 3,634,120 | 8,365,880 |
| (b) Service Delivery Activities | 970,000 | | 970,000 | 830,591 | 139,409 |
| (c) Non-financial Activities | 13,820,000 | | 13,820,000 | 11,294,926 | 2,525,074 |
| (d) Operational Activities | 6,150,000 | | 6,150,000 | 5,292,953 | 857,047 |
| (e) Dynamic Activities | 3,430,000 | | 3,430,000 | 2,490,008 | 939,992 |
| (f) Corruption Eradication Activities | 485,000 | | 485,000 | 472,008 | 12,992 |
| Sub-total activities (a to f) | 36,855,000 | - | 36,855,000 | 24,014,606 | 12,840,394 |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | | | | | |
|---|---|--------------------|-------------------|--------------------|--------------------|---------------------|
| 4 | Catchment & Other Development Activities | | | | | |
| | Tana Basin | 142,741,200 | 28,061,965 | 170,803,165 | 179,430,763 | (8,627,598) |
| | Athi Basin | 112,153,800 | 22,048,687 | 134,202,487 | 139,876,378 | (5,673,891) |
| | Sub-total activities (a to f) | 254,895,000 | 50,110,652 | 305,005,652 | 319,307,141 | (14,301,489) |
| 5 | E.S.P Programmes | | | | | |
| | (a)TDIP Farm - Rice | 20,199,750 | 8,000,000 | 28,199,750 | 25,256,239 | 2,943,511 |
| | (b)TDIP Rice Mill Complex - Rehabilitation | 4,000,000 | 2,000,000 | 6,000,000 | 4,892,524 | 1,107,476 |
| | (c) TDIP Farm - Rehabilitation | 4,000,000 | 2,000,000 | 6,000,000 | 4,085,540 | 1,914,460 |
| | (d)Tana Delta Resort - Rehabilitation | 1,750,000 | 1,600,000 | 3,350,000 | 1,899,928 | 1,450,072 |
| | Sub-total activities (a to d) | 29,949,750 | 13,600,000 | 43,549,750 | 36,134,231 | 7,415,519 |
| | Total Development Outflows | 321,699,750 | 63,710,652 | 385,410,402 | 379,455,979 | 5,954,423 |
| | Total Outflows (R + D) | 469,272,950 | 64,418,686 | 533,691,636 | 518,677,931 | 15,013,705 |

1. MATERIAL VARIANCES BETWEEN THE BUDGET AND ACTUAL

| Appendix 1 | | | | | | |
|--------------------|-----------------------------|-------------------------|-----------------------------|--------------------------------|----------------------|------------|
| VOTE R HEAD 707 NO | DETAILS | APPROVED BUDGET 2013/14 | APPROVED BUDGET 4th Quarter | ACTUAL EXPENDITURE 4th Quarter | VARIANCE EXPENDITURE | %age |
| | Salaries and Wages | | | | | |
| 211010100 | Staff Salaries | 261,389,385 | 261,389,385 | 194,113,700 | 67,275,685 | 74% |
| 211010101 | N.S.S.F | 1,102,400 | 1,102,400 | 949,004 | 153,396 | 86% |
| | Medical Expenses | 9,098,096 | 9,098,096 | 7,322,416 | 1,775,680 | 80% |
| 212010202 | Pension | 19,425,260 | 19,425,260 | 19,200,000 | 225,260 | 99% |
| 211010202 | Casual wages | 7,432,000 | 7,432,000 | 7,454,422 | (22,422) | 100% |
| | Sub - Total | 298,447,141 | 298,447,141 | 229,039,542 | 69,407,599 | 77% |
| | O & M Activities | | | | | |
| 2210800 | Staff Welfare | 3,000,000 | 3,000,000 | 2,747,280 | 252,720 | 92% |
| 2211200 | Motor Running | 3,300,000 | 3,300,000 | 3,247,700 | 52,300 | 98% |
| 2220101 | Motor vehicle maintenance | 2,200,000 | 2,200,000 | 2,505,540 | (305,540) | 114% |
| 2210701 | Travelling & Accommodation | 13,000,000 | 13,000,000 | 13,319,674 | (319,674) | 102% |
| 2211317 | Postage & Telegram | 150,000 | 150,000 | 30,000 | 120,000 | 20% |
| 2210201 | Telephone & Internet | 2,200,000 | 2,200,000 | 1,874,687 | 325,313 | 85% |
| 2210809 | Official Entertainment | 800,000 | 800,000 | 415,600 | 384,400 | 52% |
| 2210800 | Board Expenses | 9,000,000 | 9,000,000 | 9,787,008 | (787,008) | 109% |
| 2211319 | Electricity & Water Exp. | 1,000,000 | 1,000,000 | 804,139 | 195,861 | 80% |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | | | | | |
|------------------------|--|-------------------|-------------------|-------------------|-------------------|------------|
| 2211320 | Printing & Publishing | 700,000 | 700,000 | 219,194 | 480,806 | 3 |
| 2211016 | Uniform & Clothing's | 400,000 | 400,000 | 20,800 | 379,200 | 5% |
| 2211321 | Library Expenses | 200,000 | 200,000 | 55,410 | 144,590 | 28% |
| 2211100 | Stationery Expenses | 2,600,000 | 2,600,000 | 2,437,903 | 162,097 | 94% |
| 2211322 | Advertisement & Publicity | 3,200,000 | 3,200,000 | 3,052,310 | 147,690 | 95% |
| 2211323 | Office Rent | 13,500,000 | 13,500,000 | 12,657,821 | 842,179 | 94% |
| 2211324 | Land Rates | 4,759,341 | 4,759,341 | 3,829,589 | 929,752 | 80% |
| 2211102 | Computer expenses | 1,000,000 | 1,000,000 | 440,600 | 559,400 | 44% |
| 2210604 | Hire of Transport | 1,500,000 | 1,500,000 | 1,213,300 | 286,700 | 81% |
| 2211313 | Security Expenses | 900,000 | 900,000 | 880,328 | 19,672 | 98% |
| 2211308 | Legal Fees & Commission | 5,161,690 | 5,161,690 | 5,211,015 | (49,325) | 101% |
| 2210700 | Staff Training | 2,600,000 | 2,600,000 | 2,417,390 | 182,611 | 93% |
| 2211309 | Audit Fees & Expenses. | 700,000 | 700,000 | 696,000 | 4,000 | 99% |
| 2210900 | Insurance Expenses | 5,800,000 | 5,800,000 | 5,294,955 | 505,045 | 91% |
| 2220202 | Maintenance of office Equipment | 1,200,000 | 1,200,000 | 590,053 | 609,947 | 49% |
| 2220205 | Maintenance of Station | 1,500,000 | 1,500,000 | 1,015,156 | 484,844 | 68% |
| 2220206 | Minor Alteration & Maintenance Works | 1,800,000 | 1,800,000 | 1,290,541 | 509,459 | 72% |
| 3111005 | Purchases of Office Computers | 1,800,000 | 1,800,000 | 1,214,580 | 585,420 | 67% |
| 3111001 | Furniture & Fittings | 1,150,000 | 1,150,000 | 428,800 | 721,200 | 37% |
| 3111005 | Purchase of office Equipment | 500,000 | 500,000 | 428,874 | 71,126 | 86% |
| 3111006 | Shows and Exhibition | 1,000,000 | 1,000,000 | 891,136 | 108,864 | 89% |
| 3111009 | Stock Taking exercise | 700,000 | 700,000 | 860,550 | (160,550) | 123% |
| 3111010 | Bank Charges | 1,300,000 | 1,300,000 | 438,643 | 861,357 | 34% |
| 3111011 | Donations | 400,000 | 400,000 | 26,000 | 374,000 | 7% |
| | Sub - Total | 89,021,031 | 89,021,031 | 80,342,574 | 8,678,457 | 90% |
| VOTE D | | | | | | |
| PC Activities | (a) Redemption of Debts | 12,000,000 | 12,000,000 | 3,634,120 | 8,365,880 | 30% |
| | (b) Service Delivery Activities | 970,000 | 970,000 | 830,591 | 139,409 | 86% |
| | (c) Non-financial Activities | 13,820,000 | 13,820,000 | 11,294,926 | 2,525,074 | 82% |
| | (d) Operational Activities | 6,150,000 | 6,150,000 | 5,292,953 | 857,047 | 86% |
| | (e) Dynamic Activities | 3,430,000 | 3,430,000 | 2,490,008 | 939,992 | 73% |
| | (f) Corruption Eradication Activities | 485,000 | 485,000 | 472,008 | 12,992 | 97% |
| | Sub - Total | 36,855,000 | 6,855,000 | 24,014,606 | 12,840,394 | 65% |
| Development Activities | (a) Upper Hill Feasibility Studies & Designs | 2,000,000 | 2,000,000 | 325,000 | 1,675,000 | 16% |
| | (b) MDR Refurbishment and expansion. | 2,000,000 | 2,000,000 | 5,113,557 | (3,113,557) | 256% |
| | (d) Projects Rehabilitation | - | - | - | - | - |
| | - Kibwezi Project | 2,000,000 | 2,000,000 | 1,509,683 | 490,317 | 75% |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | | | | | |
|----------------|---|--------------------|--------------------|--------------------|--------------------|-------------|
| | - Kitui Project | 2,000,000 | 2,000,000 | 1,576,860 | 423,140 | 79% |
| | - Kiambere Farm | 2,000,000 | 2,000,000 | 2,683,200 | (683,200) | 134% |
| | - Emali Farm | 2,000,000 | 2,000,000 | 1,788,290 | 211,710 | 89% |
| | - Masinga Farm | 2,000,000 | 2,000,000 | 2,122,530 | (122,530) | 106% |
| | (e) High gland falls | 1,000,000 | 1,000,000 | 337,500 | 662,500 | 34% |
| | Sub - Total | 15,000,000 | 15,000,000 | 15,456,620 | (456,620) | 103% |
| ESP Activities | (a) TDIP Farm - rice | 20,199,750 | 20,199,750 | 25,256,239 | (5,056,489) | 125% |
| | (b) TDIP Rice mill complex Rehabilitation | 4,000,000 | 4,000,000 | 4,892,524 | (892,524) | 122% |
| | (c) TDIP Farm - Rehabilitation | 4,000,000 | 4,000,000 | 4,085,540 | (85,540) | 102% |
| | (d) Tana Delta Resort - Rehabilitation | 1,750,000 | 1,750,000 | 1,899,928 | (149,928) | 109% |
| | Sub - Total | 29,949,750 | 29,949,750 | 36,134,231 | (6,184,481) | 121% |
| | Grand - Total | 469,272,922 | 469,272,922 | 384,987,574 | 84,285,348 | 82% |

NB:

Explanations of materials variances between budget and actual

- (a) **Staff Salaries**
This is due to lack of adapting the salary structure as recommended by the (SRC) Serem Commission
- (b) **Motor vehicle maintenance**
This is due to many activities at the project thus increasing the cost
- (c) **MDR Refurbishment and expansion.**
There were major renovations that took place during the year and also the purchase of capital items like boats.
- (d) **ESP Activities**
There were some funds from the previous FY i.e 2012/13 that were utilized in the year 2013/14 thus increasing the amount spent.

An income or expenditure which has a difference of over 10% is termed as material variance.

2. Changes from the original budget to final budget

There was no original budget. This was the printed estimates for the financial year 2013-2014 in relation to Recurrent and Development votes.

The final budget was the Authority Activity based budget which was presented to the Board for approval and implementation.

XV1. POLICIES AND DISCLOSURES TO THE FINANCIAL STATEMENTS

Pronouncements from the Public Sector Accounting Standards Board (PSASB)

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the entity has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

1. Statement of compliance and basis of preparation

TARDA has adopted the international Public Sector Accounting Standards for the first time in June 2014 and the financial statements have been prepared in accordance with and comply with IPSAS. The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of TARDA.

The financial statements have been prepared on the basis of historical cost.

2. Summary of significant accounting Policies.

a) Revenue recognition

i) Revenue from non –exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

• Sale of goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

There is also other revenue which comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of TARDA's activities.

- **Rendering of Services**

Revenue from rendering of services is recognized by reference to the stage of completion when the outcome of the transaction can be estimated reliably and this is also in accordance with the terms specified by the management of TARDA (prevailing rates at that particular time).

- **Receivables from exchange transactions**

Receivables from exchange transactions are recognized initially at fair value. They are then valued less any provision made. A provision for impairment of receivables is established when there is objective evidence that TARDA will not be able to collect all amounts due according to the original terms of the receivables.

- **Payables under exchange transaction**

Payables are recognized initially at fair value.

Financial instruments

a) Equity

TARDA's equity comprises of cash contributed by the government and grants etc. All subsequent receipts of the same are recognized as revenues in the statement of financial performance.

b) Budget information

TARDA budget is prepared on accrual basis using a classification based on the nature of expenses and cover the financial year as the financial statements. The budgets are approved by the Board of Directors.

c) Property, Plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation. Costs include expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, TARDA recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation of other assets is calculated using the straight line method to write down their cost or revalued amount to their residual values over their estimated useful life using the following annual rates.

| | Rates |
|---|----------|
| i) Masinga Dam & Kiambere power Station; | % |
| a) Civil Engineering works | 2.50 |
| b) Electro-mechanical works | 12.50 |
| ii) Motor vehicles: | |
| a) Saloons and Light trucks | 25.00 |
| b) Lorries and Tractors | 33.30 |
| iii) Equipment | 10.00 |
| IV) Computers | 20.00 |
| v) Furniture and fittings | 7.50 |
| vi) Buildings | 2.50 |

Other revenue

Other revenue consists of gains/losses on disposal of motor vehicles plant and equipment. Any gain or loss on disposal is recognized immediately on sale and is determined after deducting from the proceeds the value of the asset at that time.

TARDA derecognizes items of property, plant and equipment upon disposal or if there are no significant future economic benefits is expected from its continuity.

The asset's useful lives are reviewed and adjusted prospectively if appropriate at the end of 5 years as a requirement of IPSAS 17.

Gains or losses arising from derecognition of these asset are measured as the difference between the net disposal and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized. All repairs and maintenance of the assets are charged to the statement of financial performance during the period it is incurred.

Rent and rates

They are expensed under operation and maintenance.

Intangible Assets

Intangible assets acquired separately are initially recognized at cost. They are carried at cost less any accumulated amortization and any impairment losses. Amortization is provided over the estimated useful life using the straight line method.

Software is amortized over a useful life of three years.

Intangible assets are derecognized if there is no any future benefit that will arise from its continuity.

d) Inventories

Inventory is measured at cost upon initial recognition. After initial recognition, inventory is measured at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale.

The annual physical inventory is conducted annually of all stocks. At the end of the year any stock that is obsolete is taken out of the inventory and their values are written down to zero.

e) Provisions

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

f) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and cash at bank.

g) Cash flow Statement

The preparation of cash flow statement has been prepared in accordance and complies with the international Public Sector Reporting Standards .Cash flow identifies

- i) Sources of cash flows
- ii) Items on which cash was expended during the reporting period and
- iii) Cash balance as at the Reporting date.

h) Agriculture

The entity prepares and presents financial statements under accrual basis of accounting and applies this standard for the following:

- i) Biological assets and
- ii) Agricultural produce.

The entity recognizes a biological or agricultural produce when it is probable that future economic benefits or service potential associated with the asset will flow to the entity and that fair value or cost of the asset can be measured reliably.

A biological asset is measured on initial recognition and at each reporting date at its fair value less costs to sell.

Employee benefit/Pension Obligations

TARDA has post employee benefit whereby it makes pension contributions on behalf of its staff in accordance with the laws established by the Parent Ministry. The contributions are treated as payments to a defined contribution Pension plan.

A defined contribution is a pension plan under which fixed contributions are paid into a separate pension and entity fund. The contributions are recognized as employee benefit expense when they are due.

TARDA also has short term employee benefits such as wages and salaries, leave allowance sick offs and medical allowance.

Salary advances to employees

Salary advances are provided to assist with school fees support and other requirements. Salary advances are repayable in 12 monthly installments.

Accounting Policies on borrowing costs

TARDA capitalizes these costs.

Nature and purpose of reserves

The entity creates and maintains reserves in terms of specific requirements

Significant judgments and sources of estimation uncertainty

Agricultural products prices such as sale of rice, mangoes, milk are determined based on the prevailing market prices.

TARDA management also determines the amount to be paid on court cases.

Financial Risk Management

TARDA is exposed to credit risks on its debtor Accounts. However it seeks to reduce the credit risk by setting credit limits for debtors and monitoring the existing debts.(Rice ,salary advances and Pledges).

Foreign exchange transactions

All transactions occurring in other currencies are translated into Kenya shillings using the central bank of Kenya exchange rates prevailing at the date of the transaction.

Any realized and unrealized gain/loss resulting from settlement of such transactions are recognized in the statement of financial performance.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

Writing off of inter-Projects Debts

TARDA considers writing off inter project debts if there is some degree of uncertainty over the recovery.

Significant judgments and sources of estimation uncertainty

- a) Estimation of value for the Authority's Biological assets is purely based on the market value of the asset on where it is basis during sale and this also becomes the carrying amount of the asset.
- b) Stocks are valued at cost price.
- c) Cost of rice is a management decision.

XVII. NOTES TO FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

REVENUE FROM NON EXCHANGE TRANSACTIONS

| | JUNE '2014 KShs | JUNE '2013 KShs |
|---------------------------------------|---------------------------|---------------------------|
| GoK Grants - Recurrent | 153,870,941 | 131,965,156 |
| Gok Grants-ESP | 28,574,375 | 32,250,000 |
| GoK Grants-Water Harvesting Programme | <u>170,464,912</u> | - |
| | <u>352,910,228</u> | <u>164,215,156</u> |

GoK Grants-ESP relates to funds received from the Government for rehabilitation and food production under Economic Stimulus Programme at Tana Delta Irrigation Project.

Water Harvesting Programme relates to grants from the government to promote food security in the country.

REVENUE FROM EXCHANGE TRANSACTIONS

| | JUNE '2014 KShs | JUNE '2013 KShs |
|--|--------------------|--------------------|
| External A I A - KenGen | 62,000,000 | 62,000,000 |
| Sale of farm Produce-Kibwezi Farm | 3,582,295 | 1,113,539 |
| Sale of Farm Produce-Emali Farm | 1,514,242 | 1,047,994 |
| Sale of Rice-Tana Delta Irrigation Project | 62,988,132 | 30,975,100 |
| Rendering of Services-Masinga Dam Resort | 32,401,753 | 29,004,423 |

| | | |
|--|---------------------------|---------------------------|
| Sale of farm Produce-Kitui Honey Refinery | 179,587 | 170,129 |
| Sale of farm Produce-Kiambere Irrigation Project | 398,252 | 560,053 |
| Sale of Seedlings-Lower Athi Region | - | 500 |
| Sale of Seedlings-Upper Athi Region | 596,665 | 1,647,096 |
| Sale of Farm Produce-Masinga Irrigation Project | 85,991 | 1,685,620 |
| Sale of Seedlings-Masinga Kiambere Complex | | 4,000 |
| Sale of Seedlings-Masinga Afforestation | 1,192,098 | 346,912 |
| Sale of Seedlings-Tana Bridge | 263,129 | 44,538 |
| Sale of Seedlings-Machakos Tree Nursery | 1,024,730 | 168,555 |
| Sale of Seedlings-Wote Tree Nursery | 20,000 | 38,575 |
| Sale of Seedlings-Tana Region | 985 | 12,733 |
| Other income-Sale of tenders | 43,000 | 2,743,150 |
| | <u>166,290,859</u> | <u>131,562,918</u> |

External AIA KenGen relates to the compensation for transfer of Generation and Transmission assets by TARDA to KenGen.

Sale of Farm Produce relates to Sale of milk and cows in Emali, Sale of Rice in TDIP, Sale of Honey in Kitui, sale of Mangoes, tomatoes in Kibwezi, Kiambere Farm and Masinga Farm.

| 5 COST OF SALES | JUNE '2014 Kshs | JUNE '2013 KShs |
|-------------------------------|----------------------------|----------------------------|
| Tana Delta Irrigation Project | 120,424,338 | 106,881,983 |
| Kibwezi Farm Expenses | 4,617,221 | 2,622,954 |
| Emali Farm Expenses | 3,465,996 | 1,559,987 |
| Kiambere Farm Expenses | 2,062,347 | 2,943,420 |
| Masinga Dam Resort | 34,507,238 | 30,191,487 |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | |
|----------------------------|---------------------------|---------------------------|
| Lower Athi Region | 1,307,385 | 810,000 |
| Kitui Honey Refinery | 2,118,862 | 2,564,905 |
| Tana Region | 778,530 | 612,011 |
| Upper Athi Region | 1,007,025 | 1,032,924 |
| Masinga Kiambere Complex | | 1,100 |
| Masinga Irrigation Project | 2,104,393 | 2,662,891 |
| Masinga Afforestation | 906,763 | 2,472,902 |
| Tana Bridge | 457,283 | 846,581 |
| Machakos Tree Nursery | 988,050 | 568,611 |
| Wote Tree Nursery | <u>308,140</u> | <u>997,308</u> |
| | <u>175,053,570</u> | <u>156,769,064</u> |

OPERATION AND MAINTENANCE

| | JUNE '2014 KShs | JUNE '2013 KShs |
|--------------------------------------|----------------------------|----------------------------|
| Computer Expenses | 389,121 | 650,893 |
| General Insurances | 7,037,253 | 2,601,247 |
| Legal Fees and Contracted Services | 7,005,596 | 9,515,677 |
| Motor Maintenance | 3,206,813 | 786,538 |
| Motor Running | 3,500,721 | 1,980,315 |
| Office and Equipment Maintenance | 1,137,872 | 665,408 |
| Maintenance of Building and Stations | 875,985 | 1,105,406 |
| Rent and Rates | 16,535,175 | 9,815,325 |
| Water and Electricity | 800,080 | 781,029 |
| Security Expenses | 860,023 | 693,328 |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | |
|-------------------------------|--------------------------|--------------------------|
| Stationery Expenses | 2,312,258 | 1,643,988 |
| Printing and Publishing | 449,262 | 814,250 |
| Advertising and Publicity | 2,669,408 | 3,370,228 |
| Telephone and Internet | 1,868,826 | 1,488,603 |
| Postage Expenses | 68,231 | 56,520 |
| Hire of Transport | 4,529,715 | 1,413,825 |
| Subsistence and Accommodation | 19,371,565 | 14,053,839 |
| Public Relations | 124,570 | 429,920 |
| | <u>72,742,474</u> | <u>51,866,338</u> |

Authority as a lessee

a) TARDA has entered into contract with Gimco for the lease of one floor (7th) at Queensway House. This is renewable after every one year. The lease payments are recognized as an expense in the income statement over the lease term on a straight line basis.

b) **Land Rates:** Land rates are payable on a yearly basis on all TARDA plots.

| 7 ADMINISTRATION EXPENSES | JUNE '2014 KShs | JUNE '2013 KShs |
|----------------------------------|----------------------------|----------------------------|
| Casual Wages | 2,081,325 | 817,596 |
| Uniform and Clothing | 11,998 | |
| Training | 1,296,240 | 2,274,439 |
| Staff Welfare | 2,656,809 | 2,117,181 |
| Official Entertainment | 1,233,423 | 359,322 |
| Stock Taking | 703,000 | 693,000 |
| Workman Compensation | 518,880 | 1,999,670 |
| Audit Fees | <u>696,000</u> | <u>696,000</u> |
| | <u>9,197,675</u> | <u>8,957,208</u> |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| 8 OTHER OPERATING EXPENSES | JUNE '2014 KShs | JUNE '2013 KShs |
|---|--------------------------|--------------------------|
| Library Expenses | 85,360 | |
| Shows and Exhibitions | 938,951 | 3,289,564 |
| Sundry Expenses | 59,000 | 132,650 |
| Stake holders Meetings | | 3,039,343 |
| Private and Public Partnerships | | 174,810 |
| Pre-visibility Studies | | 145,000 |
| Resource Mobilization | | 1,575,836 |
| Risk and Assurance | | 105,800 |
| Performance Contract-Non Financial Indicators | 14,031,846 | 1,045,923 |
| Formulation of Strategic Plan | | 2,015,440 |
| Climate Change Adoption | | 48,000 |
| Investment Promotion | | 253,132 |
| Catchment Rehabilitation | | 106,980 |
| Minor Alterations | 1,229,941 | |
| Gikwa Expenses | 675,476 | |
| Strategic Objectives-Other Devt. Activities | 1,100,370 | |
| Performance Contract-Operational Indicators | 3,441,410 | |
| Donations | <u>150,000</u> | <u>121,100</u> |
| | <u>21,712,354</u> | <u>12,053,578</u> |

| 9 | BOARD EXPENSES | JUNE '2014 KShs | JUNE '2013 KShs |
|-----------|--|----------------------------|----------------------------|
| | Sitting allowance | 3,408,254 | 3,655,000 |
| | Travelling and Accommodation | 2,742,639 | 4,234,647 |
| | Mileage | 403,579 | 4,101,126 |
| | Training | 110,200 | |
| | Printing and Publishing | 24,000 | |
| | Medical allowance | 64,064 | 123,571 |
| | Honoraria | <u>910,323</u> | <u>1,020,000</u> |
| | | <u>7,663,059</u> | <u>13,134,344</u> |
| 10 | FINANCE COSTS | JUNE '2014 KShs | JUNE '2013 KShs |
| | Bank Charges | 565,454 | 632,042 |
| | | <u>565,454</u> | <u>632,042</u> |
| 11 | SPECIAL PROJECTS EXPENSES | JUNE '2014 | JUNE '2013 |
| | Water Harvesting Programme | 86,368,408 | - |
| | | <u>86,368,408</u> | - |
| 12 | DEPRECIATION & AMORTIZATION | JUNE '2014 | JUNE '2013 |
| | Property Plant and Equipment | 631,577,337 | 635,826,174 |
| | Computer Software | 1,762,569 | 1,268,409 |
| | | <u>633,339,906</u> | <u>637,094,583</u> |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

EMPLOYEES COST

| | | |
|----------------------|---------------------------|---------------------------|
| Medical Expenses | 8,942,708 | 8,619,093 |
| Leave Allowance | 2,060,000 | 1,884,000 |
| Salaries | 198,844,070 | 186,626,722 |
| Pension and Gratuity | 17,505,069 | 15,806,557 |
| | <u>227,351,847</u> | <u>212,936,372</u> |

Other gains/Losses

| | | |
|---------------------------------------|-------------------------|---|
| Gain on sale of asset | 17,750 | - |
| Unrealized gain on sale of asset | 220,425 | - |
| Loss on foreign exchange transactions | <u>2,533,407</u> | |
| | <u>2,771,582</u> | |

Gain on sale of asset relates to sale of a Motorbike while the unrealized gain on sale of asset relates to assets owed by former staff transferred to debtors at cost.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| NOTE 15 PROPERTY PLANT AND EQUIPMENT | | | | | | | | | | |
|--|----------------|----------------|------------------|---------------|---------------|------------|---------------|-------------------|---------------|----------------|
| DETAILS | MOTOR VEHICLES | PLANT & EQUIP. | FURN. & FITTINGS | LAND | BUILDINGS | COMPUTERS | MASINGA HEP | COMPUTER SOFTWARE | KIAMBERE HEP | TOTAL |
| At 1st July 2012 | 324,444,156 | 1,918,111,080 | 60,971,593 | 1,264,135,430 | 1,766,771,058 | 21,008,383 | 6,134,385,600 | - | 9,385,013,300 | 20,874,840,600 |
| Additions | 71,000 | | 1,869,072 | - | 2,504,250 | 264,500 | - | 3,805,226 | - | 8,514,048 |
| At 30th June 2013 | 324,515,156 | 1,918,111,080 | 62,840,665 | 1,264,135,430 | 1,769,275,308 | 21,272,883 | 6,134,385,600 | 3,805,226 | 9,385,013,300 | 20,883,354,648 |
| Accumulated Depreciation | | | | | | | | | | |
| At 1st July 2012 | 317,965,308 | 1,525,826,385 | 43,021,254 | - | 1,009,913,279 | 17,740,591 | 1,993,675,320 | | 3,050,129,319 | 7,958,271,456 |
| Charge For the Year | 5,176,522 | 191,811,108 | 4,637,702 | - | 44,231,833 | 1,983,987 | 153,359,640 | 1,268,409 | 234,625,332 | 637,094,583 |
| At 30th June 2013 | 323,141,830 | 1,717,637,493 | 47,658,956 | - | 1,054,145,162 | 19,724,578 | 2,147,034,960 | 1,268,409 | 3,284,754,651 | 8,595,366,039 |
| Net Book Value As | | | | | | | | | | |
| At 30.6.2013 | 1,373,326 | 200,473,587 | 15,181,709 | 1,264,135,430 | 715,130,146 | 1,548,305 | 3,987,350,640 | 2,536,817 | 6,100,258,649 | 12,287,988,609 |
| At 1st July 2013 | 324,515,156 | 1,918,111,080 | 62,840,665 | 1,264,135,430 | 1,769,275,308 | 21,272,883 | 6,134,385,600 | 3,805,226 | 9,385,013,300 | 20,883,354,648 |
| Disposal | (71,000) | | (988,500) | | | | | | | (1,059,500) |
| Additions | 597,001 | 125,071 | 1,751,471 | | 2,331,150 | 1,148,050 | | 1,482,480 | | 7,435,223 |
| At 30th June 2014 | 325,041,157 | 1,918,236,151 | 63,603,636 | 1,264,135,430 | 1,771,606,458 | 22,420,933 | 6,134,385,600 | 5,287,706 | 9,385,013,300 | 20,889,730,371 |
| Accumulated Depreciation | | | | | | | | | | |
| At 1st July 2013 | 323,141,830 | 1,717,637,493 | 47,658,956 | - | 1,054,145,162 | 19,724,578 | 2,147,034,960 | 1,268,409 | 3,284,754,651 | 8,595,366,039 |
| Accumulated Depreciation on Disposal | (17,750) | | (220,425) | | | | | | | (238,175) |
| Charge For the Year | 1,469,328 | 191,823,615 | 4,769,062 | | 44,290,161 | 1,240,199 | 153,359,640 | 1,762,569 | 234,625,332 | 633,339,906 |
| At 30th June 2014 | 324,593,408 | 1,909,461,108 | 52,207,593 | - | 1,098,435,323 | 20,964,777 | 2,300,394,600 | 3,030,978 | 3,519,379,983 | 9,228,467,770 |
| Net Book Value As | | | | | | | | | | |
| At 30.6.2014 | 447,749 | 8,775,043 | 11,396,043 | 1,264,135,430 | 673,171,135 | 1,456,156 | 3,833,991,000 | 2,256,728 | 5,865,633,317 | 11,661,262,601 |
| Motor vehicles, Plant and Equipment have depreciated almost to zero. | | | | | | | | | | |
| Total Acreage of Land is 62250 hectares | | | | | | | | | | |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| 16 WORK IN PROGRESS | JUNE '2014 KShs | JUNE '2013 KShs |
|---------------------------------|----------------------------|----------------------------|
| Tana Delta Irr. Project (TDIP) | 234,152,289 | 234,152,289 |
| Bore Hole - Emali | <u>1,297,400</u> | <u>1,297,400</u> |
| | <u>235,449,689</u> | <u>235,449,689</u> |

The Work in Progress relates to Projects which were destroyed by 1997 El Nino. The houses were neither commissioned nor certificate of completion issued to TARDA.

Plans are underway to rehabilitate some of these houses and convert them into guest houses. The borehole in Emali is set to be completed during the Financial year 2014/2015

17 INVESTMENTS

These are shares held in Consolidated Bank of Kenya as numerated below :-

| | KShs | KShs |
|---|--------------------------|--------------------------|
| 265,000 Ordinary Shares @ 20.00 each | | |
| = | 5,300,000 | 5,300,000 |
| 960,000 4% Preference Shares @ 20.00 each = | <u>19,200,000</u> | <u>19,200,000</u> |
| | <u>24,500,000</u> | <u>24,500,000</u> |

These shares do not earn dividend, however listing of the bank at Nairobi Stock Exchange is at advance stage.

18 INVENTORIES

| STOCK VALUATION 2013/2014 | KShs | KShs |
|----------------------------------|-------------|-------------|
| Stationary | 1,494,661 | 4,528,946 |
| Packaging Materials | 248,000 | |
| raw materials | | 75,060 |
| Fertilizers | 909,100 | 5,098,750 |
| Spare parts | 9,270,038 | 12,391,209 |
| Construction materials | 9,270 | |
| Refreshments & Beverages | 645,747 | 462,824 |
| Farm inputs-Chemicals | 3,087,450 | 7,157,160 |
| Fuel & lubricants | 2,707,231 | 2,647,036 |
| Sorghum | | 38,160 |

| | | |
|----------------|--------------------------|--------------------------|
| Honey | 1,428,448 | |
| Rice and Paddy | 6,638,700 | 54,212,900 |
| Food | 88,149 | |
| Hay | <u>1,374,360</u> | <u>1,245,680</u> |
| | <u>27,901,154</u> | <u>87,857,725</u> |

The stock represents Machinery / Motor vehicle spare parts, Stores and Farm produce.

-

19 BIOLOGICAL ASSETS

| | | |
|-----------------------------------|--------------------------|--------------------------|
| Emali /Masinga/Kiambere Livestock | 6,624,375 | 1,962,500 |
| Seedlings, farm produce | <u>5,056,780</u> | <u>10,335,985</u> |
| | <u>11,681,155</u> | <u>12,298,485</u> |

| | JUNE '2014 Kshs. | JUNE '2013 Kshs |
|---|-----------------------------|----------------------------|
| 20 Trade and Other Receivables | | |
| Staff advances | 8,086,856 | 12,505,158 |
| Trade Receivables | 1,289,325,913 | 1,291,222,390 |
| Other Receivables | <u>25,632,318</u> | <u>17,841,120</u> |
| | <u>1,323,045,087</u> | <u>1,321,568,68</u> |
| Provision for Bad Debts (Debtors Account) | (1,262,783,057) | (1,262,783,057) |
| | <u>60,262,030</u> | <u>58,785,62</u> |

Nature of KPLC debt

This debt relates to sale of bulk power to KPLC for periods prior to April 1988. The matter is being handled by Parliamentary Investigation Committee (PIC).

Court Guarantee of Kshs.10 million relate to money deposited with the Court in relation to Masinga compensation case.

Our lawyers are due to receive the money from the Judiciary.

Financial Risk management disclosures

Credit Risk-Failure by KPLC/KenGen to repay the long outstanding debt which they owe the Authority and subsequent non repayments of revenues generated through Masinga and Kiambere Dams has negatively affected the financial position of the Authority.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

TARDA is exposed to credit risks on its debtor Accounts as most of its debtors are external. However it seeks to reduce the credit risk through setting credit limits for debtors and monitoring the existing debts.

TARDA is also exposed to credit risk since its operating budget is financed by the government. Cash and bank equivalent are held in banks with sovereign risks which is very minimal.

| | June 2014 | June 2013 |
|--------------------------|------------------|------------------|
| Amounts due from KPLC | 1,289,325,913 | 1,291,222,396 |
| Other external debtors | 25,632,318 | 17,841,126 |
| Cash and Cash equivalent | 113,131,578 | 53,227,404 |

Liquidity Risk

The Authority has significant exposure to liquidity risk as it depends mostly on the Parent Ministry for both Development and Recurrent .The parent Ministry does not remit funds in time.

Any cash from its operations is restricted and banked intact hence liquidity risk.

| | June 2014 | June 2013 |
|--------------------------|------------------|------------------|
| Trade and other Payables | 178,199,864 | 407,261,757 |

Market Risk-A fall in prices in the market in relation to the prices of Biological assets will reflect negatively on our sales and reports.

| | JUNE '2014 | JUNE '2013 |
|--------------------------------------|---------------------------|--------------------------|
| 21 Cash & cash equivalent | | |
| Cash at hand | 549,303 | 796,622 |
| Cash at bank | <u>112,582,275</u> | <u>52,430,782</u> |
| | <u>113,131,578</u> | <u>53,227,404</u> |

| | JUNE '2014 | JUNE '2013 |
|------------------------|-----------------------------|-----------------------------|
| 22 LOANS | | |
| O.E.C.F.(JAPAN) | <u>1,525,489,349</u> | <u>2,057,160,000</u> |
| | <u>1,525,489,349</u> | <u>2,057,160,000</u> |

TOTAL O/S LOANS AS AT 30.06.2014

Loan Capital - 2.5 Billion

(a) O E C F Loan (JAPAN) - T ana Delta Irrigation Project

This was a loan taken from JICA for the construction of TDIP.

A process has been initiated to ensure the GOK assumes loan repayment responsibility, since the project cannot sustain itself or break-even due to massive destruction by the 1997 El-Nino rains.

23 CAPITAL FUND

The capital fund represents the resources that were availed in the inception of the Authority and also loans paid on TARDA's behalf by the Government.

24 REVALUATION RESERVE

This represents capital reserve that arose as a result of revaluation of TARDA's assets in 1996 and in 2006 amounting to a total of Kshs.19,697,833,221.00

This represents the increase in value of assets after valuation.

25 This is a balance from Tourism Trust Fund Promotion in Masinga Dam Resort.

26 TARDA received Kshs.33.30 million from European Union to construct Gikwa Mini Hydro Power. The amount has since been refunded to EU.

| 27 TRADE AND OTHER PAYABLES | JUNE '2014 Kshs. | JUNE '2013 Kshs. |
|------------------------------------|-----------------------------|-----------------------------|
| Creditors account | 124,652,581 | 330,414,920 |
| Audit fees provision | 696,000 | 2,088,000 |
| Sundry | | |
| Creditors & Statutory Deductions | 52,851,283 | 74,758,837 |
| | <u>178,199,864</u> | <u>407,261,757</u> |

Court's ruling in favour of TARDA (Masinga Compensation case) has reduced our creditors by Kshs.239 million.

Contingent Liabilities or Assets

At the end of the financial year 2013-2014 none of the contingent Liabilities or Assets existed

Subsequent events

At the end of the financial year 2013-2014 there were no evident subsequent events.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| | | | |
|-----------|-----------------------|--------------|--------------|
| 28 | BANK OVERDRAFT | Kshs. | Kshs. |
| | Kenya Commercial Bank | <u>177</u> | |
| | | <u>177</u> | - |

This is a cashbook balance and not a secured bank draft.

This is the accumulation of undistributed profit mainly for strengthening the financial position and meeting future contingencies.

Our Reserve is a deficit which has highly been contributed by depreciation of assets without commensurate revenue stream.

XVIII. PROGRESS ON FOLLOW-UP OF AUDITORS RECOMMENDATIONS

MANAGEMENT RESPONSE: SYSTEMS AUDIT (KENYA NATIONAL AUDIT OFFICE) FINANCIAL YEAR 2013- 2014

A. HUMAN RESOURCES

- (i) The Authority's human resources policies and procedures manual were last updated in 1987 and the Authority has not seen the need to revise it.

Current Status

The management has reviewed human resources policies and manual and now it is still in draft form.

- (ii) The Authority does not have an approved organizational structure and staff establishment and therefore the placement and staffing of the senior management positions of Chief Managers and Managers could not be verified or confirmed.

The authority had embarked on a restructuring exercise initiated by the former Ministry of Regional Development Authorities (MORDA) which never finalized and stalled in mid-way process. The management and Board of the Authority have completed a Strategic Plan and initiated a Job Evaluation exercise that will among other issues comprehensively conclude the issue of the Organizational structure including staff establishment. The consultancy is at an advanced procurement stage.

- (iii) Irregular recruitment of chief managers salaries-according to the payroll, eight (8) officers in the positions of Chief Managers are earning salaries that are not within the approved salary scales of Grade 15. The approved scale has a maximum point being Kshs.47,185.00 and the officers are earning Kshs.100,620.00 and Kshs.110,244 as tabulated below;

| CODE | NAME | BASIC SALARY | MAXIMUM POINT |
|------|--------------------------|--------------|---------------|
| 142 | KARANJA JOSEPH MBUTHIA | 100,620.00 | 47,185.00 |
| 179 | NYOIKE JOHN GITAU | 100,620.00 | 47,185.00 |
| 264 | KIARIE DAMARIS WANGUI | 100,620.00 | 47,185.00 |
| 525 | MUKEKU PARMENAS MUOKI | 100,620.00 | 47,185.00 |
| 852 | DUBA ROBA LIBAN | 110,244.00 | 47,185.00 |
| 853 | LANGAT PHILIP KIBET | 110,244.00 | 47,185.00 |
| 856 | GICHOHI BEATRICE WANJIKU | 110,244.00 | 47,185.00 |
| 849 | SAVA WYCLIFF IMBAYI | 100,620.00 | 47,185.00 |

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

Current Status

The Authority has a Board approved salary structure guided by advice from the Salaries and Remuneration Commission (SRC) vide their letter dated 5th November, 2013; Ref: SRC/TS/RA/3/1 (50).

The issue at hand has been lack of sufficient funding to rationalize salaries for all staff forcing the Authority to adopt a staggered approach hence the officers mentioned. A copy of the approval is available for audit verification.

- (iv) The Authority has three (3) Officers acting in various positions for over 12 months without substantively filling the said posts.**

Current Status

The management concurs with the auditors that filling of the positions of the Managing Director, Chief Manager Finance & Accounts and Chief Manager Business Development & Investments Promotion has been long overdue.

The matter is in the purview of TARDA Board. The relevant Committee of TARDA Board had embarked on exercise to competitively fill the positions as required. Earlier attempts by the Board to fill the positions of Chief Manager Finance & Accounts and Chief Manager Business Development & Investments Promotion failed to attract any candidate owing to the low package offered to these positions due the Authority's poor financial situation.

The Taskforce on Parastatal Reforms appointed by President in 23rd July 2013 came up with array of reform recommendations that were forwarded to All Accounting Officers Ref. No. OP/CAB 9/1/5 dated 20th December, 2013. Among these were to put on hold actions related to recruitment of senior staff (including those of Chief Executive Officers), filling of vacancies in Boards and review of terms and conditions of service for staff except with prior consultations with the Chief of Staff and Head of Public Service or the salary commission.

Currently, the management is in the process of seeking Boards' consent and approval to confirm the officers to substantive holders of the positions internally competitively.

- (v) Some employees had more than 15 days carried forward from leave year 2012/2013 without the necessary approvals as per the human resource manual.**

Current Status

The matter has since been rectified via a management memo issued to all the Heads of Departments (HoD's) to instruct their officers who have not been proceeding on their annual leave to do so. Those without necessary approvals had had to forfeit their leave days beyond the stipulated days one is allowed to carry forward.

B) PROCUREMENT DEPARTMENT

- i. The management made procurement of goods and services to the following firms which have not been pre-qualified.

Current Status

The management at the end of each and every financial year carries out pre-qualifications exercise and at the end of it all; each department is issued with an approved list of pre-qualified suppliers for reference purposes.

1. Legal Services

The suppliers listed below provide legal services and have carried forward cases from previous years and did not offer themselves for prequalification. Since they are in possession of our crucial files and the cases were not concluded in the previous years, we are forced to engage them. These suppliers are competent and are among the best law firms in the country.

| Payee | Description | Amount |
|------------------------------|----------------|--------------|
| Anthony M. Mulekye Advocates | Legal services | 53,000.00 |
| B. M. Musyoki Advocates | Legal services | 85,000.00 |
| Mutiso Ngugi Advocates | Legal services | 70,315.00 |
| Waweru Gatonye co-advocates | Legal services | 1,412,000.00 |
| Kinoti and Kibe Advocates | Legal services | 219,000.00 |

However, the management will in future include them in the list of pre-qualified suppliers after encouraging them to apply.

2. Security Services

Lavington Security Ltd offers security services at the MD's residence whereby one security officer guards during the day and another at night at a cost of Kshs.36,000 per month. The suppliers we prequalified in that category were not willing to offer the security services due to accrued debts and this led to awarding Lavington for the services.

3. Consumable Items

The suppliers listed below are the Authority's traditional suppliers for high perishable goods. They are strategically positioned near our offices and they offer competitive prices. Due to their past good record, fair prices, proximity to the office, the nature of goods and the procurement threshold it has been difficult to change them.

However, the management will prepare framework contracts for them:

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

| Payee | Description | Amount |
|---------------------|---------------------|---------------|
| Cosmet florist | Flowers | 27,000.00 |
| Cosmet florist | Flowers | 10,500.00 |
| Peter Irungu Muigai | Tea ingredients | 12,670.00 |
| Peter Irungu Muigai | Tea ingredients | 11,840.00 |
| Peter Irungu Muigai | Tea ingredients | 11,600.00 |
| The candy man shop | Kitchen ingredients | 38,980.00 |
| The candy man shop | Tea ingredients | 34,200.00 |
| The candy man shop | Tea ingredients | 38,980.00 |

4. Motor Vehicles

The suppliers listed below are the Kenyan registered sole dealers of motor vehicles who did not offer themselves for prequalification. Though not prequalified they offer the best prices and quality. The management has always resulted to them on urgent procurement/services.

| Payee | Description | Amount |
|---------------|---------------------------------------|---------------|
| Sameer Africa | Purchase of Tyres | 229,543.00 |
| Sameer Africa | 5 New tubeless Tyres | 183,632.00 |
| Sameer Africa | Tubes for KAH156F & KAB6 tubeless 56Z | 173,557.00 |
| Simba colt | Service KBL 426G | 18,900.00 |
| Simba colt | Service and repairs KBL 426G | 48,120.00 |
| Total Kenya | repairs | 57,730.00 |
| Toyota Kenya | Service KBL372G | 112,812.00 |
| Toyota Kenya | Repairs KBG923C | 407,232.00 |
| Toyota Kenya | Repair tyres KBL 830G | 56,861.00 |
| Toyota Kenya | Services and spare wheel | 93,707.00 |
| Toyota Kenya | Services to KBL 372G | 14,226.00 |

As part of adhering to procurement laws and regulations, the management will in future encourage them to participate in prequalification processes.

- ii. **Direct procurement of air travel services from Travel Mart Company Ltd without following the procurement process.**

Current Status

The management procured Travel Mart Company to offer air travel because it was the only reliable prequalified air travels that could accept credit period of more than sixty days. This has been necessitated by the delay of disbursements from the Ministry. The management has noted the anomaly and will in future source for air travels competitively.

C) FINANCE DEPARTMENT

- (i) **The finance department is issuing imprests to do purchases of items which ordinarily are supposed to go through the procurement process.**

Current Status

The management concurs with the Auditors that in some instances, procurement of some items were bought in cash as highlighted below. The anomaly has since been rectified and in future and more so at the start of this financial year, there will be no procurement that will be done on imprest. The management will strictly abide by the circulars on control of imprest.

a) Samsung TV – Kshs. 79,995.00

The Television Set was urgently required to be installed at our facility in Masinga because the Cabinet Secretary was visiting our Resort. The time given for the visit was too short and the management thought it wise to purchase the television set from the supermarket which is regarded as a competitive supplier. However, measures are being taken to ensure leading supermarkets form part of our prequalified suppliers.

b) Purchase of Seedlings Kshs. 50,000.00

The above seedlings were required to be planted in a function presided over by the President and thus required different types of seedlings and was only possible to meet the demand by engaging different farmers in the region to supply.

Repairs at Go-Down Kshs. 82,000.00 and Kshs.46,650.00

The repairs in Go-down were necessitated by a court order issued without our knowledge requiring that our Go-down be refurbished and painted. The purchases were done in bits and in small quantities and within the allowed procurement threshold of Kshs.30,000. The amount of Kshs. 82,000 is accumulated figure of the petty purchases.

c) Food Purchases Kshs. 32,815.00 and Kshs. 31,250.00 (Masinga Dam Resort)

The existing procurement framework at Masinga Dam Resort has several draw backs due to low working capital. This has led to haphazard cash food purchases and this is expected to end once the head office injects more funds to improve the stock levels as well as the working capital.

1.1 Internal Controls

Internal Auditors have the tasks of checking from time to time the soundness of internal controls systems. Where they find the system is weak they will usually advise the MD and the respective department to ensure value received or issued is properly authorized and supported.

The management has now taken immediate corrective measures on internal controls by strengthening the examination unit and the Internal Audit in order to ensure that the ICS is in place.

(i) Unsupported payment vouchers- the payment vouchers do not have copies of LSO's, LPO's, inspection reports, goods received notes, tender and procurement minutes, quotations of bidders yet they have been paid.

Current Status

The unsupported payment vouchers have since been supported with LPO's, LSO's, Goods Received Notes, tender and procurement minutes and inspection reports as required and they are now available for audit verification

(ii) Payment of suppliers through the pro-forma invoices and copies of invoices

Current Status

The following suppliers paid through pro-forma invoices and copies of invoices have been fully supported with invoices.

a) Sameer Africa Ltd Kshs. 173,557.00

The procurement of tubes for KAH 156F and KAB 656Z were fully authorized and goods received. The invoice is attached to the payment voucher and it is now available for audit verification.

b) Amboni Travel Tours Kshs 70,000.00

The hire of a bus was fully authorized and services received. The invoice is now attached to the payment voucher and is now available for audit verification.

c) Sameer Africa Kshs 183,632.00

The procurement of four (4) new tubeless tyres was fully authorized and goods received. The invoice is now attached to the payment voucher and now available for audit verification.

d) Matuh Auto Garage Kshs 139,370.00

The invoices for the repair of motor vehicle were misplaced and the certified copies were used to settle the supplier. However, it is ascertained that repairs were adequately done.

(iii) Payment vouchers that have not been stamped paid upon payment

Current Status

The following payment vouchers were erroneously not stamped but have since been stamped paid and now available for audit verification:

| | | | |
|--------|-------------------------|-----------------------|------------|
| 012184 | KPLC | Supply of electricity | 7,872.00 |
| 012184 | KPLC | Supply of electricity | 46,278.00 |
| 012250 | Ministry of Lands | Rent for LR NO/28026 | 790,288.00 |
| 012185 | Sameer Africa | 4 new tyres tubeless | 182,632.00 |
| 012105 | Amboni Tours and Travel | Hire of seater | 70,000.00 |

BOARD MATTERS

a) The scope of work, annual work plan, entitlement, and rules and regulations of the Board as sighted severally in the management letter.

The current TARDA Board being a new Board with the current new chairman appointed on 10th January 2014 started working immediately to recover the time lost and finish up with the back log of work left when the old Board was dissolved. This hurry to work without being inducted has contributed to the Board working outside the set rules and regulations governing the Board.

Nevertheless, the management through the Legal department has put plans to ensure that the new Board is inducted properly through a workshop as it has always been the case with new Board members. The Board members will be given general briefing on their entitlements, development of annual work plans, information on existing laws and regulations and other matters of mutual interest.

TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY (TARDA)

The Legal department will ensure that all circulars from the head of public service, State corporations and other commissions are brought to the attention of the Board.

- b) The Board minutes of the five (5) meetings of the full Board and 12 meetings of various committees for the Board have not been availed.**

Current Status

The following Board minutes have been availed and are now available for auditing:

| Date of Meeting | Type of Meeting |
|-----------------|--------------------------------|
| 13-Aug-13 | Full Board |
| 21-Nov-13 | |
| 9-May-14 | |
| 10-Jun-14 | |
| 7-Nov-13 | |
| 25-Feb-14 | |
| 28-Feb-14 | |
| 19-Nov-13 | Finance and Planning Committee |
| 28-Feb-14 | |
| 11-Mar-14 | |
| 17-Mar-14 | |
| 6-Jun-14 | |
| 26-Feb-14 | Marketing Committee |
| 24-Feb-14 | Audit Committee |
| 28-May-14 | |

- c) We observed that four (4) members of the Board are representing the Permanent Secretary of Environment, Water and Natural Resources namely; Mr. William O. Ogolla, Antony N. Mugane, Eng. Robinson Gaita and Rosemary Njonge.**

Current Status

The management concurs with the auditors on the issue of 4 alternate Board members representing the Principal Secretary Ministry of Environment, Water and Natural Resources. This is because the current Board was inaugurated before the merging of the Ministries. The same shall be communicated to the Cabinet Secretary for further action.