

REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY
OFFICE OF THE AUDITOR GENERAL

DATE: 07 MAR 2019		DAY: THURSDAY
TABLED BY:	Hon. Aden Duale	
CLERK-AT THE TABLE:	Moses Lemuno	

REPORT

OF

THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 07 MAR 2019	
TABLED BY:	DAY:
CLERK-AT THE TABLE:	

ON

PARLIAMENT
OF KENYA
LIBRARY

THE FINANCIAL STATEMENTS OF
TANA AND ATHI RIVERS
DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2018



TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR
THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

*Prepared in accordance with the Accrual Basis 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

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for the Year Ended June 30, 2018*

KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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 Devolution and Planning State Department of Planning and Statistics.

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.

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 Cabinet Secretary; others are Alternate Directors to their respective Principal Secretaries.

(b) Principal Activities

Vision

"To be a world class Regional Development Authority."

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.

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.

Key objectives

This includes:

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

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

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 152Kms 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:

(a) Catchment Conservation Programmes

Over the years 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.

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(b) Other Projects

- *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 Area)*
- *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

Hon. Mwangi Kiunjuri

Ministry of Devolution and Planning

(ii) Principal Secretary

Mr. Torome Saitoti

Ministry of Devolution and Planning

(iii) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

NAME	DESIGNATION
1. Mr. Steven G. Ruimuku	- Managing Director
2. Mr. David Kimaiyo	- Chief Manager Finance and Accounts
3. Mr. Samuel Gitonga	- Chief Manager Technical Services & Operations
4. Ms. Damaris Kiarie	- Ag. Chief Manager Human Resource & Administration.

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- | | | |
|-------------------------|---|--|
| 5. Mr. Parmenas Mukeku | - | Ag. Chief Manager Athi Basin |
| 6. Ms. Irene Ndavi | - | Ag. Chief Manager Planning, Research & Development |
| 7. Eng. J. Karanja | - | Ag. Chief Manager Tana Basin |
| 8. Mr. James Osano | - | Internal Audit & Risk Manager |
| 9. Mr. Wycliffe Sava | - | Supplies & Procurement Manager |
| 10. Ms. Sylvia Ndegwa | - | Ag. Legal Services Manager |
| 11. 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

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(g) Independent Auditors

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

(h) Principal Legal Advisor

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

(i) Lawyers

- M Mulekyo & Co. Advocate
- Waweru Gatonye and Co. Advocate
- Kibe & Kinoti Co Advocate
- Muchoki Kangata Njenga & Co. Advocate
- Nguli & Company Advocate
- Mulwa Isika & Mutia Advocates
- Kithure Kindiki & Associates

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

i) THE BOARD OF DIRECTORS

No	PASSPORT SIZE PHOTO	ACADEMIC & PROFESSIONAL QUALIFICATIONS	DATE OF BIRTH, KEY QUALIFICATIONS & WORK EXPERIENCE
1.	 Ms. Halima Shaiyah Authority Chairperson	Diploma in Marketing BA ED (Candidate)	D.o.B: 1960 - D.T Dobie -10 years (1988 - 1998) - Business lady from 1988 to Date - Chairperson - of ASK Show 2011 to 2013
2.	 Mr. Steven G. Ruimuku Managing Director	Ph.D: (Candidate) Sustainable Development M.A. Economics (Public Finance) - 1984	D.o.B: 1958 Lecturer – International Trade & Economics - USiU (2000 to date) Public Finance since 1984 • Economics • Public Expenditure Mgt. • Administration • Integrated Dev (Multipurpose Reservoirs, Food Security programmes) • Conservation and climate change programmes Patron- Education taskforce: Nyeri South District Patron-Mahiga Primary school Board Member- Mahiga Girls Sec School.

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3.	 Mr. Stanley Gikandi Board member	Bachelor in Economics (UON)	D.o.B: 1969 - Chartered Insurance Institute (ACII London)
4.	 Mr. John Nthuku Board Member	Msc in Management, BA Hons, Post Graduate Diploma in Management, CPS(K)	D.o.B: 1946 1969: Burieruri Secondary and Mikinduri Secondary School. 1972: Deputy Commissioner of Prisons. 1997 – 2005: Director Cooperative Bank. - Experience of over 40 years.
5.	 Mr. Michael Wawire Board Member	Bsc, Msc, PhD	D.o.B: 1976
6.		- BA- International Relations	D.o.B: 1981

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	- Association of Business - Executives Advanced Diploma Tour Travel and Hospitality.	11 years in the airline and hospitality industries
Mrs. Sarah Mugwanja Board Member		

ALTERNATE BOARD MEMBERS

- | | | |
|-----------------------------|---|--|
| 7. Mr. David Oyosi | - | State Department of RDA's
Ministry of Devolution and Planning |
| 8. Mr. Anthony Mugane | - | Alternative Director to Principal Secretary
Ministry of Forestry and Wildlife |
| 9. Mr. Joseph Mukui | - | Ministry of Devolution and Planning |
| 10. Eng. R. K. Gaita | - | Alternative Director to Principal Secretary
Ministry of Water and Irrigation |
| 11. Mr. Kenneth Marende | - | Board Chairman - Kenya Power |
| 12. Mr. Jeremiah O. Onchiri | - | National Treasury |
| 13. Eng. Benson Mwakina | - | Alternative Director to Principal Secretary
Ministry of Energy and Petroleum |
| 14. Eng. John K. Kibe | - | Alternative Director to Principal Secretary
Ministry of Agr. Livestock & Fisheries
(State Department of Agriculture) |
| 15. Mr. Alexander Kuria | - | Alternative Director to the General Manager
National Irrigation Board |
| 16. Ms. Felister Nyacuru | - | Alternative Director
Attorney General Chambers |

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

ii) **MANAGEMENT TEAM**

NO.	Name	Qualification	Designation / D.O.B
1.	 Mr. Steven G. Ruimuku	Ph.D: (Candidate) Sustainable Development M.A. Economics (Public Finance) - 1984	D.o.B: 1958 Managing Director
2.	 David Kimaiyo	MBA (Finance Option) – 2010 BBA (Finance & Accounts Option) – 2008	D.o.B: 1975 Ag. Chief Manager Finance and Accounts

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3.	 Samuel Gitonga	Msc. (Water Resources Survey & Management) – 1999 MBA (Strategic Management) 2014 BSc. (Geology) - 1989 Member-Institute of Environmental Assessment Kenya (EIK) Hydrological Society of Kenya (HSK)	D.o.B: 1962 Chief Manager Technical Services
4.	 Parmenas Mukeku	BSc (Animal Production) - 1992	D.o.B: 1965 Ag. Chief Manager Athi Basin
5.	 Irene Ndavi	MSC International Development Studies BA (Agricultural Education)	D.o.B: 1977 Ag. Chief Manager Planning and Research Development

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6.	 Damarys Kiarie	BA (Social Sciences) - 1980	D.o.B: 1957 Ag. Chief Manager Human Resource & Administration.
7.	 Eng. Joseph Karanja	BSc (Civil Engineering) - 1984 Member - Institute of Engineers Kenya (MIEK).	D.o.B: 1959 Ag. Chief Manager Tana Basin
8.	 James A. Osano	MBA (Finance Option) – 2010 B Com (Accounting Option) – 2006 CPA (K) -1997 CPS (K) - 2007	D.o.B: 1962 Internal Audit and Risk Manager

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9.	 Wycliffe Sava	MBA (Pro. & Supplies) - 2013 B Com (Marketing) - 2005 Member –Kenya Institute of Supplies Management (KISM)	D.o.B: 1979 Procurement and Supplies Manager
10.	 Sylvia Ndegwa	LLB - 2007 (Candidate) - MBA (Project Management)	D.o.B: 1981 Acting Legal Services Manager

SENIOR MANAGERS

- | | |
|-----------------------|-------------------------------------|
| 11. Beth Wanyoike | - Finance Manager |
| 12. Lisa Njururi | - Public Relation Manager |
| 13. Jackson Muiruri | - Monitoring and Evaluation Manager |
| 14. Bartholomew Kamau | - Administration Manager |
| 15. Samuel Wanyoike | - ICT Manager |

iii) CHAIRPERSON'S STATEMENT

TARDA's overall goal as a Regional Development Authority is to achieve equitable and sustainable development through implementation of integrated and multi-purpose programs and projects and promotion of resource based investments in the Basins.

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, forty-seven (47) County governments were established. TARDA's mandate covers nineteen (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.

The Tana and Athi Rivers Basin is endowed with an enormous resource base. However, its regional economy and social services remain undeveloped, characterized by high levels of unemployment, poverty, food shortage, and environmental degradation. Wealth creation, environmental sustainability, food security, agro-processing, technology and innovation and institutional linkages are some of the key initiatives identified for implementation by the Authority.

Performance Highlights:

During the year under review, TARDA engaged our partners and stakeholders in the Counties in activities with positive bearing on social and economic gains in catchment conservation activities, water conservation, and irrigation development among others.

Customer Service

TARDA is focused towards providing excellent customer service through all delivery channels and has been making continuous efforts for enhancing the level of customer satisfaction. The varied interests and expectations of customers are taken care of by improving upon various processes and procedures.

Acknowledgement

In conclusion, I would like to thank the Members of the Board for their valuable guidance, support and prudent counsel.

I also place on record our appreciation for the support from our customers, stakeholders, investors and most importantly, the dedicated employees for their consistent support and commitment to the Authority during the financial year.



Ms. Halima Shaiyah
Aq. BOARD CHAIRPERSON

iv) MANAGING DIRECTOR'S STATEMENT

I am delighted to report the 2017/18 Financial Statements of Tana and Athi Rivers Development Authority. During the year under review, the Authority total revenue reflect a decline change of 58% from Kshs.762 million in 2017 to Kshs.447 million in 2018 mainly due to non-disbursement of funds in development activities.

In the statement of changes in equity the capital fund in the year 2018 witnessed a 9% growth in capital to Kshs.3.7billion in 2018 from Kshs.3.5billion in 2017.

CHALLENGE

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 facilities 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.

ON GOING PROGRAMMES AND PROJECTS

1. TANA DELTA IRRIGATION PROJECT (TDIP)

The Authority continues to manage the Initial 2,000ha (TDIP Phase I) under estate management. The project continues to suffer successive crop failures as the farm does not get water during low flows.

The management has been struggling to get a solution to this water problem by seeking to carry out works on the Kitere short cut channel intake to resolve water supply fluctuations to the farm. The proposed permanent solution is construction of a weir across Tana River at Kitere at a cost of approximately 400 million shillings. Availability of funds to finance this solution is a major impediment.

The management decided to seek alternative affordable solutions to fix the problem. The following proposed two solutions have been investigated:

1. Construction of a temporary weir using containers filled with Concrete
2. Construction of a new open channel intake 400m upstream of the current one

3. De-silting of the whole delivery system from Kitere to Sailoni. The system comprises of Kitere short cut channel – 2.5 kilometers long and 34 kilometers of old Tana River Channel.

After evaluating the three options, option No. 3 - de-silting of the whole delivery system from Kitere to Sailoni was preferred. TARDA engaged the services of National Irrigation Board (NIB) to undertake a preliminary study for the feasibility of the desilting solution and the estimate cost for the works. The study revealed the work could be done at a cost estimate of 150 million shillings

Owing to budgetary constraints de-silting work is still pending. The management is seeking funds to undertake de-silting of the Canal under food security Program.

2. WORK PROGRESS ON KITERE TEMPORARY WEIR

Faced with a huge challenge to raise the required Kshs.400 million in the short term and need to keep the farm on production; the management requested the technical department to seek a temporary solution to save the TDIP project from total failure. An option of building a temporary diversion half weir using 10, 12-meter containers filled with concrete was proposed after evaluation of various options. The scope of works envisaged is:

1. Dredge the initial 100 meters length of the Kitere shortcut channel to eliminate a 0.7m raise on bed owing to siltation and attain a gradient commensurate with the overall gradient of short cut channel which is about 1 meter in 2700m length.
2. The Left bank of Tana river at Kitere must be protected using gabions for a length of 100 meters to avoid further erosion and widening of the channel (see figure 6 below)
3. Building of temporary weir by placing 10 No. 40 foot containers (76.4 cubic meters) filled with concrete.

Owing to complexities and risks of working in deep water and loose soils, it is advisable that TARDA hires a contractor experienced in such works to undertake the works.

Work in Progress:

- A temporary road has been constructed across Kitere short cut channel to facilitate delivery of materials to site:
- The following inputs have been delivered:
 - ✓ 4 No. 76.4 - Cubic Meters containers
 - ✓ Total requisitioned sand and ballast
 - ✓ 1200 bags of cement

Challenge

The biggest challenge encountered is availability of a crane to lift and place the concrete filled containers on the rivers. A container filled with concrete will weigh about 150 tons.

So far no institution with a crane is capable of lifting and placing the filled containers about 20 meters into the river while position on the river embankment has been identified.

3. TARDA UPPERHILL DEVELOPMENT

The project cost is estimated at Kshs.4.3 billion

The proposed agreement will be a Joint Venture (JV) to ensure better risk management and collective economic use of aligned state agencies.

The cost will be supported by both land, equity contributions and debt to be borne by the aligned state agencies, namely; TARDA, Kenya National Bureau of Statistics (KNBS), National Council for Population and Development (NCPD), New Partnership for Africa's Development (NEPAD) all under the State Department of Planning and Devolution.

TARDA's contribution to the JV will be its Upper Hill Plot. So far the aligned SAGAs contributions will be as:

- KNBS – Kshs.1.1Bn
- NCBD – Kshs.0.2Bn

TARDA is progressing as follows:

- a) Commencing engagement of aligned state agencies to participate in the proposed JV
- b) Hiring process of a Transaction Advisor through a competitive process under the Public Procurement and Disposal Act (PPDA) 2015
- c) Seeking approval of the National Treasury to borrow from commercial banks the balance of funds required to complete the project.

4. KIENI INTEGRATED IRRIGATION PROJECT

The project was a product of an earlier feasibility study done in 2013 by the Ministry of Water and Irrigation jointly with the National Irrigation Board to identify Irrigation potential in Kieni East and West in Nyeri County. The project covers seven (7) dams identified and out of these, two dams (Karemenu and Narumoru) and their irrigation infrastructures had been recommended to implement in Phase I under Engineering Procurement Contract-Finance (EPC-F) model through the Expression of Interest (EOI).

The Contractor has indicated availability of financing through China Development Bank to the tune of Kshs.30billion, which could be proposed for this Project. Negotiations through Treasury are still on-going.

5. LOWER MURANG'A INTEGRATED IRRIGATION PROJECT

The Lower Murang'a Integrated Irrigation Project is being implemented as part of 1 million acres and funded through Ministry of Environment, Water and Natural Resources - State Department of Water under "Water Use for Enhanced National Food and Water Security Project".

The project area covers 3 sub-counties of Murang'a namely, Kiharu, Maragua and Gatanga sub-counties. The following location will be targeted within the project area:

- i) Mirira location in Kiharu Sub-County;
- ii) Maragua Ridge Location, Kamahuha Location, Kambiti location and Makuyu location in Maragua sub-county;
- iii) Ithanga Location and Kakuzi Location in Gatanga Sub-County.

The Authority and County Government of Murang'a commissioned project feasibility study and design for the development of 5,000ha irrigation scheme in the Lower Murang'a and a Mini-hydro power generation.

6. INTEGRATED SOLAR POWER DEVELOPMENT IN TARDA

TARDA offered land for Solar Energy development under a competitive bidding in a two phase process. The phase I was through RFP offering intended to select qualified developers under a selection criterion. Responsive proposals that met minimum criteria, a land use license would be offered to allow the developer access and develop rights to the parcel(s). Phase II of the RFP process would be to undertake a detailed feasibility study and a bankable proposal, confirmation of funding to secure a PPA from State Department of Energy.

Upon completion of the elements of all RFP phases, including approval of an environmental review through the Environmental Impact Assessment (EIA) process, a common lease will be offered to the developer.

7. THE HIGH GRANDFALLS MULTI-PURPOSE RESERVOIR

TARDA has formulated a proposal for the development of High Grand Falls Multi-Purpose Reservoir on River Tana. The project site is located 50 km downstream of the Kiambere Hydro Power Station along the River Tana in Kitui, Embu and Tharaka Nithi Counties.

The project objectives are:

- To develop Inter basin water transfer system
- To develop River navigation system
- To improve on downstream ecosystem sustenance
- To regulate River Flows of River Tana
- To increase water supply for domestic/Industrial use
- To develop irrigation system for improved agricultural production
- To generate Hydropower
- To promote Sports Tourism
- To promote Fisheries
- To reduce Silt load

The Expected Outputs are:

- 5.5 billion M³ Water storage
- Hydro Power generation of 500 MW
- Up to 200,000 ha irrigation potential
- Increased Food Security
- 20,000 ha land conserved
- Improved Transport

Proposed Project Implementation Model

The HGF multipurpose reservoir is planned to be an integrated project involving energy, agriculture, environment, water, fisheries, transport and tourism. Government contribution is to support resettlement action in order to make provision for the dam area. To actualize the project, the Authority has already secured Partner and/or Consortium to jointly develop the project under the Build-Operate-Transfer (BOT) model of Public Private Partnerships (PPP). This will involve signing a BOT Contract/Agreement between the Authority and a Private party/Consortium, in which the private party/Consortium will assume substantial financial, technical and operational risk while TARDA input will be provision of land for the project.

It is envisaged that the PPP will involve Equity and Debt financing by the parties. The cost of repaying the loans will be borne exclusively from levies to be charged on under the Power Purchase Agreement (PPA) to supply power to Kenya Power (KP&LC).

The project cost is estimated at USD 1.54 Billion

8. EMALI

The Authority Diversified Basin based programs at Emali Livestock Multiplication Project to improve capacity and income generation for sustainability of the project/program by:

i) Increasing Dairy Herd

The Authority procured 20 No. In-Calf Ayrshire Heifers, assorted infrastructure and dairy inputs

ii) Poultry

During the year under review, the Authority developed a 4000 bird's capacity poultry house, procured 2000 birds and corresponding poultry inputs.

Appreciation

I extend my appreciation to the Government including National Treasury and our Parent Ministry, the Ministry of East African Community and Regional Development, TARDA Management and 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.

Steven G. Ruimuku
MANAGING DIRECTOR

v) CORPORATE GOVERNANCE STATEMENT

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 of 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 operations of 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 17 Directors. Seven (7) of the members are Principal Secretaries or the alternate appointees, the others who are not members of the Government service (non-official members) including the Chairman are provided in the schedule of the enabling Act.

Functions of the Board are *inter alia*:

- 1) Be the policy making organ of TARDA.
- 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.
- 3) Approve the TARDA budget, including any readjustments and external borrowing.
- 4) Approve the TARDA strategic plan and any other long range plans.
- 5) Regularly assess its performance and effectiveness as a whole, including that of individual directors and the CEO.
- 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.

2) Role of the Chairman of the Board of Directors

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

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

Each Committee of the Board develops a work plan to guide the activities of the Board at the beginning of every financial year and this should determine the number of meetings; ensure 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.

3) Conduct of Board's Business

The TARDA Act provides for the appointment of sub-committees whose main responsibilities are to engage management in providing detailed information and disclosure in readiness for subsequent full Board meetings. However, all decisions made by the sub-committees require confirmation and/or modifications during full Board meetings.

The current sub-committees' activities and their responsibilities are as follows;

1. Finance, procurement and Strategy Sub-Committee of the Board

Roles and 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. Stanley Gikandi | - | Chairman |
| ii. | Ms. Sarah Mugwanja | - | Member |
| iii. | Mr. Ronald Inyangala | - | Member |
| iv. | Mr. William Ogola | - | Member |
| v. | Ms. Halima Shaiyah | - | Member |
| vi. | Eng. John Kibe | - | Member |

The F & P committee held four (4) regular meetings in 2017/2018

2. Human Resource and Governance Sub-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 Sara Mugwanja | - | Chairperson |
| ii. | Ms Halima Shaiyah | - | Member |
| iii. | Mr. John Nthuku | - | Member |
| iv. | Mr. Anthony Mugane | - | Member |
| v. | Mr. Alexander Wainaina | - | Member |
| vi. | Mr. William Ogola | - | Member |

The HR Sub-Committee held five (5) regular meetings in 2017/2018.

3. Audit, Risk Management and Compliance Sub-Committees

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. | Mr. Anthony Mugane | - | Member |
| iii. | Eng. Alexander Wainaina | - | Member |
| iv. | Ms. Felistus Nyacuru | - | Member |
| v. | Dr. Wawire M. Michael | - | Member |
| vi. | Mr. James Muturi | - | 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.

The Audit, Risk Management and Compliance Sub-Committee held Four (4) regular meetings in 2017/2018.

4. Planning Research and Development Sub-Committees

- | | | | |
|------|--------------------------------|---|----------|
| i. | Dr. Wawire M. Michael | - | Chairman |
| ii. | Amb. (Eng.) Mahboub M. Mohamed | - | Member |
| iii. | Eng. John Kibe | - | Member |
| iv. | Ms. Felister Nyacuru | - | Member |
| v. | Mr. Peter Nyutu Mwangi | - | Member |
| vi. | Mr. Stanley Gikandi | - | Member |

Roles and Responsibility

The Planning Research and Development committee will:

- i) Formulate and oversee implementation of projects plans, research and development policies.
- ii) Advise the Board on the overall strategy, directions and effectiveness of the Authority's planning, research and development programmes.
- iii) Evaluate the Authority progress and success in achieving its planning development.

The Planning Research and Development Sub-Committee held four (4) regular meetings in 2017/2018.

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 director 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 five (5) 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. A 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 by the member or members spouse vehicle at the prevailing Automobile Association rates (in respect to transport from and to cities without an air transport facility).

vi) CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

TARDA recognizes that it has the potential to make significant impact on its staff, customers and business partners, the communities around it and largely on the environment. Our CSR programs are hinged on the belief that we can transform lives by supporting various programs and creating positive change in the community. This is achieved by building and maintaining strong relationships with our stakeholders, giving back to the communities within our jurisdiction and partnering with other likeminded organizations that strive to impact positively on their environment.

During the year under review, the Authority reached out to the communities in Garsen, Tana River County. The people were driven from their homes by the flood waters that were witnessed following the heavy rain falls early in the year. The authority made available to the communities one (1) of its boats from Masinga Dam to provide the much needed means of transport for persons stuck in areas that are inaccessible by road. The authority also donated 505 bales of maize flour to feed the communities in their make shift camps. The handing over of the boat and presentation of the bales of flour was witnessed by CS. Eugene Wamalwa and the Governor of Tana River County, Hon. Dhadho Godhana and the MD, TARDA Mr. Steven Ruimuku.



Figure 1: CS. Eugene Wamalwa, MD TARDA Mr. Steven Ruimuku handing over the boat to the community.



Figure 2: CS. Eugene Wamalwa, Tana River County Governor Hon Dhadho Godhana and the MD TARDA, Mr. Steven Ruimuku donating the bales of maize flour.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

vii) REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 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, 2018 are set out on page 1 – 55.

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.

"By order of the Board"



**Corporate Secretary
Nairobi**

Date.....

18/2/2019

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tana and Athi Rivers Development Authority set out on pages 30 to 55, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Tana and Athi Rivers Development Authority as at 30 June, 2018, and (of) its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the enabling Act, Cap. 443 of 1974.

Basis for Qualified Opinion

1. Going Concern

A review of the statement of financial performance for the year ended 30 June 2018 showed that the Authority recorded a net deficit of Kshs.595,600,710 which when added to the deficit of previous financial years results to a cumulative deficit of Kshs.13,981,252,947. Further, the total revenue realized in the year under review was Kshs.447,213,121 which was a decline from the Kshs.761,857,897 realized in 2016/2017 representing a Kshs.314,644,776 or about 42% decrease.

The management has attributed this negative trend to lost revenue arising from transfer of power generating and transmission assets to KPLC and KENGEN in 1987/1988 without commensurate compensation to the Authority. Before the transfer of the assets, the Authority had signed a commercial lease agreement with KPLC whereby Kshs.258,000,000 was to be paid annually for bulk power sales. Based on the commercial agreement, a total of Kshs.3,996,000,000 should have been paid to the Authority between 1987/88 and 1998/1999 before KENGEN took over power

Report of the Auditor-General on the Financial Statements of Tana and Athi Rivers Development Authority for the year ended 30 June 2018

generation role from KPLC. However, total payments received from KPLC for the same period amounted to Kshs.238,333,000 leaving an outstanding balance of Kshs.3,757,667,000 as shown in Appendix I.

Price Water House Coopers (PWHC) Report -1999

PWHC was in June 1999 contracted by the Ministry of Energy (MoE) to value the power assets owned by TARDA and KVDA and provide advice on compensation for the loss of their generating and transmission assets. The total investments in Masinga and Kiambere projects by TARDA reportedly stood at Kshs.31.140 billion in 1999/2000. In their report, PWHC recommended compensation to TARDA of USD 6.54 million (Kshs.533 million) per annum.

Inter-Governmental Sector Group (ISG) Recommendations

In August 1999, the Ministry of Energy appointed an Inter-Governmental Sector Group (ISG) to review the recommendations of PWHC and came up with USD 5.46 million (Kshs.420 million) per annum as fair compensation for the transferred assets. From the year 1999/2000 when KENGEN took over power generation from KPLC to the year under audit (2017/2018) an amount of Kshs.8,080,000,000 was supposed to have been paid to the Authority based on the ISG recommendations. However, total payments for this period amounted to Kshs.1,095,900,000 leaving unpaid balance of Kshs.6,984,100,000 as shown in Appendix II.

Public Investments Committee (PIC) Recommendations

In their 19th and 21st reports, the Public Investments Committee (PIC) recommended that the Ministry of Energy and Petroleum, KENGEN and KPLC should honour the sales and lease agreements and pay debts owed to TARDA in accordance with the Head of Public Service letter dated 1 August 1988. It was however noted that in spite of the repeated PIC recommendations, the two had neither settled nor acknowledged these debts. This was even after the Government had allowed KPLC to increase tariffs to enable compliance with the lease agreement.

In view of the foregoing, to enable the Authority to sustain its operations in the foreseeable future, KENGEN and KPLC should honour the sales and lease agreements with TARDA and address with finality the long outstanding debts which had accumulated to Kshs.10,741,767,000 as at 30 June 2018.

2. Trade and Other Payables

As previously reported, the statement of financial position for the year ended 30 June 2018 reflects a balance of Kshs.342,384,404 (Kshs. 238,092,491 in 2017) comprising of; Kshs.140,235,546.67 for sundry creditors, Kshs.76,143,705.70 for unremitted statutory deductions, Kshs.84,156,974.35 for unpaid pensions and Kshs.41,848,175 for other unpaid payroll deductions. A review of the schedules and other documents made available in support of the sundry creditors balance of Kshs.140,235,546.67 showed some amounts have remained unpaid for a long time with some dating back

to 1999. Similarly, some payroll deductions have remained unremitted for long dating back to 2014 while some VAT deductions have been outstanding since 2004.

The management has attributed the failure to settle the creditors dues to inadequate funding and has stated that a request has been made to the National Treasury to provide the required funds. However, the unremitted statutory and other deductions are likely to attract interest and penalties and the Authority also risks legal action from the other creditors.

In consequence, it has not been possible to confirm the accuracy of the trade and other payables balance of Kshs.342,384,404.00 as at 30 June 2018

3. Revaluation of Assets

As previously reported, the statement of financial position as at 30 June 2018 reflects a balance of Kshs.19,697,833,221 in respect of revaluation reserve which could not be verified as no documentary evidence was presented to show when and how it arose. Further, the balance has remained unchanged over the years meaning that the element of asset depreciation relating to the revalued amounts has not been charged to the revaluation reserves as required by International Public Sector Accounting Standard (IPSAS) No.17. In addition, the last revaluation of the Authority's assets was done in 2006 which is 12 years ago contrary to the provisions of IPSAS 17 which requires revaluations to be made with sufficient regularity to ensure that the carrying amount of the assets does not differ materially from that which would be determined using fair value at the reporting date.

In the circumstances, it has not been possible to confirm whether the revaluation reserve balance of Kshs.19,697,833,221 as at 30 June 2018 is fairly stated.

4. Land without Ownership Documents

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.9,941,903,951 (2017: Kshs10,379,031,923) in respect of property, plant and equipment which includes Kshs.1,264,135,430 for land. As previously reported, included in the land balance is Kshs.90,903,600 representing the value of three parcels of land located at Kibwezi, Kitui and Emali measuring 17,745.73 hectares whose title documents have not been produced for audit verification. The management has however explained that the Emali land lease had expired and the County Government of Kajiado has expressed unwillingness to renew the same.

Under the circumstances, it has not been possible to confirm TARDA's ownership of these land parcels as well as the accuracy of Kshs.1,264,135,430 for land included in the Property, Plant and Equipment balance of Kshs.9,941,903,951 as at 30 June 2018.

5. Fully Depreciated Assets

Similarly, as reported in the previous year, included in the property, plant and equipment balance of Kshs.9,941,903,951 as at 30 June 2018 (Kshs.10,379,031,923

in 2017) are fully depreciated assets with original costs totalling Kshs.1,942,275,373. However, these assets have not been adjusted for; in determining the depreciable amounts leading to overstatement of depreciation charges by an unknown amount over the years. Further, the management has not put in place any policy on revaluation of fully depreciated assets and is not adhering to IPSAS's requirements.

In the circumstances, the accuracy and completeness of the depreciation charge for the year amounting to Kshs.438,651,616 and also the accuracy of the property, plant and equipment balance of Kshs.9,941,903,951 could not be confirmed.

6. Understatement of Building's Value

Included in the property, plant and equipment balance as at 30 June 2018 of Kshs.9,941,903,951 is Kshs.503,030,491 relating to net book value for the Authority's buildings. However, a review of the assets register showed a negative entry of Kshs.752,944,634 posted as the opening balance for buildings. Management has explained that the details of these adjustments could not be obtained as the original assets register was destroyed in the 1998 bomb blast. However, this entry has in-effect understated the value of buildings reflected in the property, plant and equipment schedule by a similar amount.

As a result, it was not possible to confirm the accuracy and completeness of Kshs.9,941,903,951 in respect of the property, plant and equipment balance as at 30 June 2018.

7. Biological Assets

The statement of financial position as 30 June 2018 reflects a biological assets balance of Kshs.15,352,050 (2017: Kshs.14,360,177). As mentioned previously, the biological assets balance excluded unvalued fruit bearing trees in the Authority's farm at Kibwezi.

8. Work in Progress

As previously reported, the statement of financial position reflects works in progress balance of Kshs.257,273,943 (Kshs. 252,001,275 in 2017) comprising of Kshs.234,152,289 and Kshs.23,121,654 for Tana Delta Irrigation Project and Masinga Dam Resort respectively. The works in progress in Tana Delta Irrigation Project were in respect of construction of staff houses, a school, a dispensary and a supermarket in Garsen which commenced in 1990 but later stalled. The facilities are in dilapidated state and their current value is far below the disclosed amounts. In addition, relevant supporting documents for procurement and construction of the said facilities were not made available for audit verification.

Consequently, the accuracy and propriety of the work in progress of Kshs.257,273,943 could not be ascertained.

9. Trade and Other Receivables

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.130,882,120 (Kshs.140,401,502 in 2017) for trade and other receivables. As previously reported, this amount is net of provision for bad debts amounting to Kshs.1,261,117,834 out of which Kshs.1,179,215,376 is in respect of bulk power sales to KPLC for the period prior to 1988 which is under dispute. The balance of the provisions totalling Kshs.81,902,458 has not been explained or analyzed. Further, the trade and other receivables balance of Kshs.130,882,120 includes amount totalling Kshs.9,996,292 owed by former staff and other long outstanding debtors dating back to 1997 whose recoverability is in doubt.

In the circumstances, it has not been possible to confirm the accuracy and recoverability of the trade and other receivables balance of Kshs.130,882,120.00 as at 30 June 2018.

10. Investments

As previously reported, the statement of financial position as at 30 June 2018 reflects investments-portfolio balance of Kshs.24,500,000 representing historical cost of shares purchased from the Consolidated Bank over twenty years ago. Although the Share Certificates have been seen, there was no evidence of benefits accruing from this investment.

Under the circumstance, it has not been possible to confirm the value and benefits earned from the investment over the years upto 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tana and Athi Rivers Development Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Performance

1.1 Revenue

The Authority had budgeted for revenue totalling Kshs.866,231,458 but actual amount realized was Kshs.535,472,572 resulting to a shortfall of Kshs.330,758,886 or 38% as follows.

Revenue Head	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Variance %
Recurrent				
GoK (Normal)	345,000,000	316,991,041	(28,008,959)	8
KenGen	65,972,000	65,544,632	(427,368)	1
AIA (Upper Hill Parking)	12,000,000	10,080,000	(1,920,000)	16
AIA-Projects	0	47,326,809	47,326,809	100
Miscellaneous Income	0	7,270,632	7,270,632	100
Development				
GoK (Normal)	355,000,000	0	(355,000,000)	100
B/F	88,259,458	88,259,458	0	
Total	866,231,458	535,472,572	(330,758,886)	38

1.2 Expenditure

The Authority had an expenditure budget of Kshs.866,231,458 against actual expenditure for the year totalling Kshs.555,974,904 resulting to under expenditure of Kshs.310,256,554 or 36% as follows:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Variance %
Salaries/Wages	345,432,000	345,122,946	(309,054)	0
Operations & Maintenance	84,705,400	77,791,606	(6,913,794)	8
Performance Contract Activities				
Redemption of debts	7,204,450	4,040,804	(3,163,646)	44
Non-financing Activities	4,055,000	3,197,582	(857,418)	21
Strategic Objectives	18,000,000	11,467,139	(6,532,861)	36
Dynamic Activities	150,000	0	(150,000)	100
Corruption Eradication & Governance	40,000,000	0	(40,000,000)	100
Sub-Total	29,449,450	18,705,525	(10,743,925)	36
Non-Performance Contract Activities				
Masinga Dam Resort-Renovation	25,500,000	3,371,675	(22,128,325)	87
Kieni Integrated Project	192,950,000	2,788,598	(190,161,402)	99
Murang'a Feasibility Studies	57,800,000	0	(57,800,000)	100
Tana Delta Irrigation Project	25,500,000	7,430,120	(18,069,880)	71
GOK Special Project	104,894,608	100,764,434	(4,130,174)	4

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Variance %
Sub-Total	406,644,608	114,354,827	(292,289,781)	71
Grand Total	866,231,458	555,974,904	(310,256,554)	36

The under expenditure implies that the Authority's planned activities as well as Agenda 4 on food security for the year were not achieved.

Unresolved Prior Year Audit Matter

1. European Union Fund Grant

As similarly reported the Authority received Kshs.30,714,048 in respect of a grant from the European Union (EU) for implementation of Community Based Mini-hydropower Electric Power Development-Project in Upper Tana Basin for poverty alleviation. However, these funds remained unutilized for a period of over four years and the donor recalled the funds in the financial year 2013/2014 and advised the Authority to prepare a new proposal for another grant. However, no evidence has been provided to show whether the management subsequently prepared another proposal.

2. Lease Income

As previously reported, the statement of financial performance for the year ended 30 June 2017 reflected other income of Kshs.168,049,484 (2016: Kshs.247,572,911) which included an amount of Kshs.30,000,000 for lease income from Braken Agricultural Limited for the lease of 10,000 hectares of land for the production of rice.

A review of the matter in the year under audit showed that the Authority through a letter Ref.No.TARDA/TDIP/48/1 dated 31 October 2017 and addressed to the lessee advocates, Albert Kamunde Advocates, terminated the lease agreement for failure to commence farming activities on the leased land since 10 September, 2015 when the contract was signed. By the time of the lease termination, Braken Agricultural Limited had paid a total of Kshs.30,000,000 leaving an outstanding balance of Kshs.60,000,000.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the

financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

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

Basis for Conclusion

Manual Accounting Records

A review of the accounting system in place revealed that the Authority's financial records are mainly in manual form with ledgers maintained in excel work sheets in spite of the expansive operations of the Authority both in Tana and Athi Rivers Basins. Maintenance of manual records means it is not possible to monitor the operations on real-time basis and transactions are also prone to errors and manipulation or even use of non-official records especially for receipt records. In addition, project field receipts and cashbooks do not show any evidence of independent checks to guarantee their accuracy in recording and summations. Further, excel ledgers availed for audit mainly had monthly totals but lacked individual transactions details required to validate the amounts. Excel worksheets are also subject to manipulation without any audit trail.

In the circumstances, lack of automation of the Authority's operation is an indicator of weaknesses in the internal controls system which may be exploited leading to loss of public resources entrusted to the Authority.

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

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the National Government either intends to liquidate the Authority or to cease its operations, or has no realistic alternative but to do so. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material

weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

21 February 2019

Appendix 1

Amount Owed by KPLC

S/No.	Year	Annual amount Payable Kshs.'000'	Amount Paid Kshs.'000'	Outstanding Kshs.'000'
1	1987/88 (Test run)	900,000		900,000
2	1987/88	258,000	-	258,000
3	1988/89	258,000	-	258,000
4	1989/90	258,000	-	258,000
5	1990/91	258,000	-	258,000
6	1991/92	258,000	-	258,000
7	1992/93	258,000	-	258,000
8	1993/94	258,000	-	258,000
9	1994/95	258,000	45,833	212,167
10	1995/96	258,000	27,500	230,500
11	1996/97	258,000	55,000	203,000
12	1997/98	258,000	55,000	203,000
13	1998/99	258,000	55,000	203,000
	Total	3,996,000	238,333	3,757,667

Appendix II

Amount Owed by KENGEN

S/No.	Year	Annual amount payable (Kshs.'000')	Amount Paid (Kshs.'000')	Outstanding (Kshs.'000')
1	1999/00	940,000	55,000	885,000
2	2000/01	420,000	55,000	365,000
3	2001/02	420,000	55,000	365,000
4	2002/03	420,000	55,000	365,000
5	2003/04	420,000	69,900	350,100
6	2004/05	420,000	62,000	358,000
7	2005/06	420,000	62,000	358,000
8	2006/07	420,000	62,000	358,000
9	2007/08	420,000	62,000	358,000
10	2008/09	420,000	62,000	358,000
11	2009/10	420,000	62,000	358,000
12	2010/11	420,000	62,000	358,000
13	2012/13	420,000	62,000	358,000
14	2013/14	420,000	62,000	358,000
15	2014/15	420,000	62,000	358,000
16	2015/16	420,000	62,000	358,000
17	2016/17	420,000	62,000	358,000
18	2017/18	420,000	62,000	358,000
Total		8,080,000	1,095,900	6,984,100

Summary

	Kshs.
KPLC	3,757,667,000
KENGEN	6,984,100,000
TOTAL	10,741,767,000

x) STATEMENT OF FINANCIAL PERFORMANCE

		Jun-18	Jun-17 (Restated)
REVENUE	NOTE	KSHS	KSHS
Revenue from non-Exchange transactions	4	316,991,041	593,808,413
Revenue from Exchange transactions	5	<u>130,222,079</u>	<u>168,049,484</u>
Total		<u>447,213,121</u>	<u>761,857,897</u>
EXPENSES			
Cost of sales	6	59,289,636	108,323,556
Operation and Maintenance	7	71,801,900	147,553,094
Administrative Expenses	8	3,502,337	8,584,487
Directors expenses	9	6,003,007	15,092,480
Special projects expenses	10	103,553,032	300,179,679
Depreciation and Amortization	11	438,883,617	440,573,881
Employee costs	12	<u>359,780,302</u>	<u>319,868,773</u>
Total		<u>1,042,813,830</u>	<u>1,340,175,949</u>
Net Deficit		<u>(595,600,710)</u>	<u>(578,318,053)</u>

NB: The Audited balances for the year 2016/17 have been restated as follows:

- Correction of errors/omission in cost of sales from exchange transactions, operations & maintenance and director expenses that were incurred under the special projects.
- Correction of errors/omission in under-provision of depreciation expenses.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

xi) **STATEMENT OF FINANCIAL POSITION**

	NOTE	Jun-18 KSHS	Jun-17 (Restated) KSHS
NON CURRENT ASSETS			
Property Plant and Equipment	13a	9,941,903,951	10,379,858,869
Intangible Assets	13b	-	232,000
Work in progress	14	257,273,943	253,902,269
Investments	15	24,500,000	24,500,000
		<u>10,223,677,894</u>	<u>10,658,493,138</u>
CURRENT ASSETS			
Inventories	16	22,962,133	21,843,297
Biological Assets	17	15,352,050	14,360,177
Trade and Other receivables	18	130,882,120	124,910,645
Cash and cash equivalents	19	4,208,571	88,259,459
Bank-Climate Change	19a	21,884,899	59,468,843
		<u>195,289,775</u>	<u>308,842,421</u>
Total Assets		<u>10,418,967,669</u>	<u>10,967,335,559</u>
NON CURRENT LIABILITIES			
O.E.C.F (Japan)	20	544,172,400	816,258,600
Capital Fund	21	3,793,917,578	3,521,831,378
Accumulated Deficit		(13,981,252,947)	(13,385,652,237)
Revaluation Reserve	22	19,697,833,221	19,697,833,221
Tourism Trust Fund	23	28,114	28,114
Climate Change Fund	23a	21,884,899	59,468,844
		<u>10,076,583,265</u>	<u>10,709,767,919</u>
CURRENT LIABILITIES			
Trade and other Payables	24	342,384,404	257,567,640
		<u>342,384,404</u>	<u>257,567,640</u>
Total Funds and Liabilities		<u>10,418,967,669</u>	<u>10,967,335,559</u>

NB:

The accumulated deficit has been restated to correct errors in PPE, work in progress, trade and other receivables and trade and other payables and net financial performance in 2016/17.

The financial statements set out on pages 1 – 55 were signed on behalf of the Board of Directors by:

MANAGING DIRECTOR

CHAIRPERSON

DATE:

18/2/2019

DATE:

18/2/2019

xii) STATEMENT OF CHANGES IN EQUITY

	Loan Capital	Capital Fund	Accumulated Deficit	Revaluation Reserve	Tourism Trust Fund	Climate Change	Total
AS AT 1ST JULY 2016	<u>1,151,186,736</u>	<u>2,987,903,242</u>	<u>(12,799,944,915)</u>	<u>19,697,833,221</u>	<u>28,114</u>	<u>2,820,352</u>	<u>11,039,826,750</u>
Government Capital Grants		199,000,000					199,000,000
Amounts Received From NEMA						106,419,432	106,419,432
Expenses to the Community			-			(49,770,940)	(49,770,940)
Loan Repayments Prior Adjustments & others	(334,928,136)	334,928,136	(7,389,269.11)				(7,389,269)
Deficit for the year			(578,318,052.85)				(578,318,053)
AS AT 1ST JULY 2017 – (Restated)	<u>816,258,600</u>	<u>3,521,831,378</u>	<u>(13,385,652,237)</u>	<u>19,697,833,221</u>	<u>28,114</u>	<u>59,468,844</u>	<u>10,709,767,920</u>
Loan Repayments	(272,086,200)	272,086,200					-
Deficit for the year	-		(595,600,710)				(595,600,710)
Climate Change Expenses						(37,583,945)	(37,583,945)
As At 30th June 2018	<u>544,172,400</u>	<u>3,793,917,578</u>	<u>(13,981,252,947)</u>	<u>19,697,833,221</u>	<u>28,114</u>	<u>21,884,899</u>	<u>10,076,583,265</u>

NB: The accumulated deficit brought forward has been restated to correct errors in cost of sales, operations and maintenance, directors expenses, Special Projects and depreciation expenses in 2016/17.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

xiii) STATEMENT OF CASHFLOWS

	Note	Jun-18	Jun-17 (Restated)
Cash flows from operating activities			
Receipts			
Revenue From Non -Exchange Transactions	4	316,991,041	593,808,413
Revenue From Exchange Transactions	5	130,222,079	168,049,484
		447,213,121	761,857,897
Payments			
Cost of Sale From exchange transaction	6	59,289,636	108,323,556
Operation and Maintenance	7	71,801,900	147,553,094
Administrative Expenses	8	3,502,337	8,584,487
Directors expenses	9	6,003,007	15,092,480
Special projects expenses	10	103,553,032	300,179,679
Employee costs	12	359,780,302	319,868,773
		603,930,214	899,602,069
Net cash flows from operating activities		(156,717,093)	- 137,744,172
Prior Year Adjustments		0	(7,389,269)
Cash flows from investing activities			
MDR -Constructions(work in progress)	14	(3,371,675)	(19,749,980)
Purchase of Furniture, fittings and office Equipment	13a	(696,698)	(20,238,039)
Increase in inventory	16	(1,118,836)	470,279
increase in Biological Asset	17	(991,873)	29,831,311
Increase in debtors	18	(5,971,476)	(31,993,865)
Increase in Creditors	24	84,816,764	27,035,208
Net cash flows used in investing activities		72,666,206	- 14,645,086
Cash flows from financing activities			
GOK Grants-Development Funds			199,000,000
Net cash flows used in financing activities		-	199,000,000
Net increase/(decrease) in cash and cash equivalents		(84,050,887)	39,221,473
Cash and cash equivalents at the beginning of the year		88,259,458	49,037,984
Cash and cash equivalents at 30 June 2018	19	4,208,571	88,259,457
Climate Change -BANK	19a	21,884,899	59,468,844

- Cash flows from Operating and investing activities in the year ended 30th June, 2017 has been restated to correct errors.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

xv) SOURCES AND DISBURSEMENT OF FUNDS

SOURCES AND DISBURSEMENT OF FUNDS					
		ANNUAL BUDGET	ACTUAL RECEIPT	BUDGET VARIANCE	% VARIANCE
(A) BUDGETS		2017/2018	2017/2018	2017/2018	
		Kshs	Kshs	Kshs	
1. RECURRENT VOTE					
a) GoK (Normal)		345,000,000	316,991,041	-28,008,959	-8.12%
b) AIA KenGen		65,972,000	65,544,632	-427,368	-0.65%
c) AIA Upper hill Parking		12,000,000	10,080,000	-1,920,000	-16.00%
d) AIA-Projects		0	47,326,809	47,326,809	100%
d) Miscellaneous Income		0	7,270,632	7,270,632	100%
Sub-total		422,972,000	447,213,114	24,241,114	5.73%
2. DEVELOPMENT					
B/F		88,259,458	88,259,458	-	0.00%
(a) GoK (Normal)		355,000,000	0	-355,000,000	-100.00%
Sub-total (Dev Vote)		443,259,458	88,259,458	-355,000,000	-80.09%
Total Inflows (R + D)		866,231,458	535,472,572	-330,758,886	-38.18%

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

xvi) STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

VOTE R HEAD 707	DETAILS	APPROVED BUGDET	ACTUAL EXPENDITURE as at JUNE 2018	EXPENDITURE VARIANCE	% VARIANCE
FINANCIAL YEAR		2017 /2018	2017 /2018	2017 /2018	
Salaries and Wages					
211010100	Staff Salaries	297,449,890	297,287,892	161,998	0.05%
211010101	N.S.S.F	1,015,200	877,200	138,000	13.59%
212010202	Pension	32,966,910	32,917,854	49,056	0.15%
212010203	Casual wages	14,000,000	14,040,000	-40,000	-0.29%
	Sub - Total	345,432,000	345,122,946	309,054	0.09%
O & M Activities					
2210800	Staff Welfare	2,336,200	2,338,081	-1,881	-0.08%
2211200	Motor Running	2,569,200	2,559,702	9,498	0.37%
2210701	Travelling & Accommodation	17,300,000	17,244,918	55,082	0.32%
2211317	Postage & Telegram	50,000	46,722	3,278	6.56%
2210201	Telephone & Internet	1,500,000	1,443,158	56,842	3.79%
2210809	Official Entertainment	500,000	443,774	56,226	11.25%
2210800	Board Expenses	6,000,000	6,003,007	-3,007	-0.05%
2211319	Electricity & Water Exp.	700,000	637,060	62,940	8.99%
2211320	Printing & Publishing	200,000	109,796	90,204	45.10%
2211100	Stationery Expenses	1,450,000	1,431,892	18,108	1.25%
2211322	Advertisement & Publicity	2,500,000	2,389,469	110,531	4.42%
2211323	Office Rent	16,000,000	15,830,704	169,296	1.06%
2211324	Land Rates	2,300,000	2,103,308	196,692	8.55%
2210604	Hire of Transport	800,000	784,780	15,220	1.90%
2211308	Legal Fees & Commission	4,000,000	3,720,678	279,322	6.98%
2210700	Staff Training	1,000,000	1,009,446	-9,446	-0.94%
2211309	Audit Fees & Expenses.	700,000	696,000	4,000	0.57%
2210900	Insurance Expenses	3,200,000	3,216,537	-16,537	-0.52%
2210901	Medical cover	18,000,000	12,319,275	5,680,725	31.56%
2220202	Maintenance of office Equipment	500,000	492,330	7,670	1.53%
2220205	Maintenance of Station	1,000,000	921,154	78,846	7.88%
3111001	Purchase of Furniture & Fittings	700,000	696,698	3,302	0.47%
3111009	Stock Taking exercise	800,000	760,100	39,900	4.99%
3111010	Bank Charges	600,000	593,017	6,983	1.16%
	Sub - Total	84,705,400	77,791,606	6,913,794	8.16%
	Total - Vote R	430,137,400	422,914,552	7,222,848	1.68%

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

PC ACTIVITIES					
1102000401	(a) Redemption of Debts (Financial Stewardship)	7,204,450	4,040,804	3,163,646	43.91%
1102000403	(c) Non-financial Activities,	4,055,000	3,197,582	857,418	21.14%
1102000404	(d) Strategic Objectives	18,000,000	11,467,139	6,532,861	36.29%
1102000405	(e) Dynamic Activities	150,000	0	150,000	100.00%
1102000406	(f) Corruption Eradication & Governance	40,000	0	40,000	100.00%
	Sub - Total	29,449,450	18,705,525	10,743,925	36.48%
NON PC - VOTE D					
1102000408	(b) Masinga Dam Resort - Renovation	25,500,000	3,371,675	22,128,325	86.78%
1102000411	(e) Kieni Integrated Project	192,950,000	2,788,598	190,161,402	98.55%
1102000412	(f) Muranga Feasibility Studies	57,800,000	0	57,800,000	100.00%
1102000413	(q) Tana Delta Irrigation Project (TDIP)	25,500,000	7,430,120	18,069,880	70.86%
	GOK-Special Projects	104,894,608	100,764,434	4,130,174	3.94%
	Sub - Totals Non PC	406,644,608	114,354,827	292,289,781	71.88%
	Sub - Total Vote - D	436,094,058	133,060,352	303,033,706	69.49%
	Grand - Total	866,231,458	555,974,904	310,256,554	35.82%

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

MATERIAL VARIANCE EXPLANATIONS

Sources of Funds

At the end of the reporting period the Authority had the following variances in its Revenue streams.

The G.O.K funds for the recurrent vote have a variance of Kshs.28 Million. This represents funds for the month of June that were yet to be disbursed by the Exchequer

AIA- Upper Hill Parking has a positive variance of Kshs.1.9 Million that is as a result of an overestimation of the contract value that was yet to be signed during budgeting.

The Authority's Appropriations in Aid are gross proceeds from commercial Projects.

The Authority Expected funding from the GOK for its Development vote to the tune of Kshs.355Million. These funds were not disbursed from the Exchequer resulting in an adverse variance of 100%

Miscellaneous income largely comprises payments by Shamba Ltd for Lease of land in Kiambere. This income had not been anticipated during budgeting.

Statement of Budget and Actual Amounts

- The Authority recorded a positive variance on N.S.S.F item as a result of over provision in the budget estimate.
- Official Entertainment: The Authority also recorded positive variance of in Official Entertainment and Printing and Publishing as a result of austerity measures by the management in a bid maximize efficiency of its dwindling revenues.
- Medical Cover: The Variance of 31% on this item is because the authority had an outstanding payment to the Insurance provider that was paid in the following financial year.
- Due to the reduction of the Authority's Development funding to nil by the Exchequer, it was not able to Carry out its non-performance contracting activities(Development) resulting in positive variances in all the items in the Development Vote as listed:
 - a) Redemption of debts
 - b) Non-Financial Activities
 - c) Strategic Objectives
 - d) Dynamic Activities
 - e) Corruption Eradication and Governance
 - f) Masinga Dam Resort
 - g) Kieni Integrated Irrigation Project
 - h) Muranga Integrated Irrigation project
 - i) Tana Delta Irrigation Project

xvii) NOTES TO THE FINANCIAL STATEMENTS

1. 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.

2. 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.

3. 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 are transferred to the buyer, usually on delivery of 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.

Revenue also comprises of the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of TARDA's activities.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

- **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 a particular time.)

- **Exchange transactions**

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.

- **Other Revenue**

Other revenue consists of gains on disposal of property plant and equipment. Any gain on disposal is recognized immediately on sale and is determined by deducting the proceeds from the sale of the value of the asset.

b) Financial instruments

Equity

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

c) Budget information

TARDA's budget is prepared on accrual basis using line based budget which capitalizes operation and maintenance, to underlying assets. The budgets are approved by the board of Directors on an annual basis.

d) 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 require replacement at intervals, TARDA recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

TARDA recognizes items of property plant and Equipment upon disposal or if there are no significant future economic benefits expected from its continuity. The assets useful lives are reviewed and adjusted prospectively if appropriate at the end of 5 years.

Gains or losses arising from de-recognition of these assets are measured as the difference between the net disposal and the carrying amount of the asset and are recognized as surplus or deficit. All repairs and maintenance of the assets are expensed during the period incurred.

e) 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 de-recognized if there is no future benefit that will arise from its continuity.

f) Inventory

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 stocktaking is conducted at every end of financial year. Any obsolete stock values are deducted from the inventory total since they have a zero value.

g) 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 benefit or service potential required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

- **Contingent Liabilities**

TARDA does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements.

- **Contingent Asset**

At the end of the financial year 2017/18 TARDA had no contingent asset existing.

h) Nature and purpose of Reserves

TARDA creates and maintains reserves in terms of specific requirements.

- **Loan Capital**

This was loan taken for JICA for the construction of TDIP. The government of Kenya assumes loan repayment responsibility since the project cannot sustain itself or breakeven due to massive destruction by the 1997 El-Nino Rains.

- **Capital fund**

The capital fund represents the resources that were availed in the inception of the Authority and also the loans paid on TARDAS behalf by the Government. GoK disbursement in respect of development outlay is also captured under the fund.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

- **Revaluation Reserve**

This represents capital reserves that arise as a result of Revaluation of TARDA's Assets.

- **Revenue Reserve**

This is the accumulation of undistributed profit mainly for strengthening the financial position of TARDA and meeting future contingencies. The Reserve can be either a surplus or deficit depending on losses or profits carried over.

- **Tourism Trust Fund**

This is a balance from tourism trust fund promotion in MDR. The fund has since been wound up.

- **Climate Change Adaptation Programme**

The National Government through MWENR, NEMA and TARDA is implementing the Climate Change Adaptation programme.

i) Employee Benefits

TARDA employs staff under three categories:

- Those who are on permanent employment, earn monthly salary till their exit from TARDA.
- Those on temporary basis earn salaries up to the end of their contracts.
- Those under casual employment earn casual wages for the agreed period.

Permanent employees also enjoy a yearly leave allowance, monthly medical allowance and sick offs.

- **Salary Advance**

Salary Advances are provided to assist staff settle personal commitments. They are repayable within a period of 12 months and also adhering to the 1/3rd rule.

- **Pension Obligation**

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.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

j) Cash and Cash equivalents

Cash and Cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various commercial banks at the end of the financial year. Cash on hand is mainly petty cash and unbanked sales at the end of the financial year.

k) Related Parties

TARDA regards a related party as a person or entity with the ability to exert control individually or jointly, or to exercise significant influence over TARDA. Members of key management are regarded as related parties and comprise of the Board of Directors, Chief Executive officer and the Chief Managers.

	2018	2017 (Restated)
Directors Allowances	6,003,007	15,092,480
CEO and senior Management salaries	22,394,416	34,147,446
Senior Management outstanding Debts	647,667	737,952

l) Financial Risk Management Disclosures

- **Credit Risk**-Failure by KPLC/KenGen to repay the long outstanding debt which they owe TARDA, and subsequent nonpayment of Revenues generated through Masinga and Kiambere dams has negatively affected the financial position of the Authority.

TARDA is also exposed to credit risks on its debtor's accounts as most of its customers are external. However, it seeks to reduce the credit risk through setting limits for debtors and monitoring the existing ones.

Cash and bank Equivalents are held in banks with sovereign risks.

	Jun-18	Jun-17 (Restated)
Amount due from KPLC(1988)	1,179,215,376	1,179,215,376
Other Debtors	210,385,136	206,8133,103
Cash at Bank	4,208,571	88,259,459
Cash at Bank – Climate Change Programme	21,884,898	59,468,844

NB: Debtors account has been restated after correction of errors in 2016/17

- **Liquidity Risk**-TARDA has significant exposure to liquidity risk as it relies mostly on the Parent Ministry for both its development and Recurrent funds. The parent Ministry is not timely on its remittances and at times funds are remitted partly hence TARDA is not in a position to meet its obligations as they fall due.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

Period	FY 2017-2018	FY 2016-2017 (Restated)
Over 30 days	4,205,156	5,658,125
Over 60 days	26,154,123	14,154,653
Over 90 days	62,132,157	32,124,458
Over 120 days	249,892,968	205,630,404
Total	342,384,404	257,567,640

- **Market Risk**

Any fall in prices in the market in relation to prices of Biological assets negatively affect our revenue of the Authority.

- **Forex exchange Risk**

TARDA is exposed to Forex exchange risk if the exchange risk is adjusted upwards against the shilling when dealing with issues such as overseas procurements like spare parts, exchange of money for inland expenses while staffs are officially travelling overseas.

m) Significant judgments and sources of estimation and uncertainty.

The Management of TARDA, makes judgments, estimates and assumptions that affect the reported amounts of Revenues, expenses, Assets and Liabilities at the end of the reporting period.

- **Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following pre-determined depreciation rates.

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

Assets	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 and intangibles	20.00
v Furniture and Fittings	7.50
vi Buildings	2.50
Vii Intangible	33.0

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

- **Biological Assets**

Estimation of value for TARDA's Biological Assets is purely based on the market value of the asset during sale and this also becomes the carrying amount of the asset.

- **Inventory**

Stocks are valued at cost price. Prices for Agricultural produce are determined based on the prevailing market prices.

n) Subsequent events

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

4	REVENUE FROM NON EXCHANGE TRANSACTIONS	Jun-18	Jun-17
		Kshs	Kshs
	Gok Grants-Recurrent	316,991,041	191,808,413
	GoK Grants-Special Programmes	0	402,000,000
		<u>316,991,041</u>	<u>593,808,413</u>
5	REVENUE FROM EXCHANGE TRANSACTIONS	Jun-18	Jun-17
	External AIA-Kengen	62,000,006	67,166,640
	Sale of produce	11,922,021	11,309,657
	Sale of tree seedlings	7,705,533	6,227,936
	Sale of sand & honey	8,145,840	8,312,620
	Miscellaneous income	20,895,264	9,600,440
	Training Levy	-	245,722
	TDIP Lease	-	30,000,000
	Rendering of Services	<u>19,553,415</u>	<u>35,186,469</u>
		<u>130,222,079</u>	<u>168,049,484</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 and rental income from housing in Kiambere, TDIP Lease income though earned has not been received.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

6 COST OF SALES	Jun-18	Jun-17 (Restated)
Tana Delta Irrigation Farm	3,225,150	28,839,644
Tana Delta Resort	3,528,063	6,059,366
Kibwezi farm	3,113,019	4,194,969
Emali Farm	7,959,413	4,964,145
Kiambere Farm	537,562	1,263,997
Masinga Dam Resort	17,876,577	26,834,094
Lower Athi Region	4,886,740	7,548,388
Kitui Honey Refinery and Guest House	259,755	1,729,048
Buffer zone Conservation-Sand Harvesting	9,586,450	9,533,126
Tana Region	682,366	200,739
UpperAthi Region	1,569,988	4,449,542
Masinga Irrigation Project	4,119,005	5,619,165
Masinga Afforestation	814,742	5,503,152
Tana Bridge	352,080	451,976
Machakos Tree Nursery	448,950	907,245
Wote Tree Nursery	329,776	224,960
	<u>59,289,636</u>	<u>108,323,556</u>
7 OPERATION AND MAINTENANCE	Jun-18	Jun-17 (Restated)
Computer Expenses	1,202,212	342,090
General Insurances	3,216,537	4,680,900
Legal fees, Licenses and Subscriptions	3,720,678	3,133,559
Motor Maintenance	1,341,710	2,389,614
Motor Running	2,559,702	2,470,825
Office Equipment maintenance	492,330	656,153
Maintenance of Building and Stations	921,154	1,496,205
Rent and Rates	17,934,012	15,043,978
Water and Electricity	637,060	1,081,075
Security Expenses	653,660	727,270
Stationery Expenses	1,431,892	70,995
Printing and Publishing	109,796	315,489
Advertising and Publicity	2,389,469	509,336
Telephone and Internet	1,443,158	2,448,496
Postage Expenses	46,722	6,475
Hire of Transport	784,780	3,517,921
Subsistence and Accommodation	17,244,919	41,218,239
Library Expenses	-	41,175
Minor Alterations	-	148,640
Strategic Objectives-Other development Activities	11,467,139	61,319,619
Corporate Social Responsibility (Donation)	-	60,000
TDIP-Operation Expenses	4,204,970	5,875,040
	<u>71,801,900</u>	<u>147,553,094</u>

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

Authority as a lessee

- a) TARDA has entered into contract with Gimco Ltd 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 project.

8	ADMINISTRATIVE EXPENSES	Jun-18	Jun-17 (Restated)
	Uniform and clothing	-	117,422
	Training	1,009,446	4,172,958
	Official Entertainment	443,774	1,714,415
	Stock Taking	760,100	1,223,200
	Bank Charges	593,017	660,492
	Audit Fees	696,000	696,000
		<u>3,502,337</u>	<u>8,584,487</u>
9	DIRECTORS EXPENSES	Jun-18	Jun-17 (Restated)
	Sitting Allowance	3,647,800	5,738,665
	Travelling and Accommodation	810,800	6,923,699
	Mileage	524,780	978,152
	Printing and Publishing	513,990	537,474
	Medical Allowance	505,637	497,990
	Honoraria	-	416,500
		<u>6,003,007</u>	<u>15,092,480</u>
10	SPECIAL PROJECT EXPENSES	Jun-18	Jun-17 (Restated)
	NIFS-Muranga Feasibility study	-	6,172,232
	Kieni Integrated Projects Expenses	2,788,598	2,883,700
	GOK-Special Programmes	100,764,434	291,123,747
		<u>103,553,032</u>	<u>300,179,679</u>

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

11	DEPRECIATION AND AMORTIZATION	Jun-18	Jun-17 (Restated)
	Property Plant and Equipment	438,651,617	440,341,881
	Computer Software	<u>232,000</u>	<u>232,000</u>
		<u>438,883,617</u>	<u>440,573,881</u>
12	EMPLOYEE COSTS	Jun-18	Jun-17
	Medical Expenses	12,319,275	22,046,356
	Leave Allowance	2,262,000	2,098,000
	Salaries	307,421,838	265,061,741
	Staff Welfare	2,338,081	3,222,785
	Pension and Gratuity	32,917,854	25,301,717
	Casual Wages	<u>2,521,254</u>	<u>2,138,174</u>
		<u>359,780,302</u>	<u>319,868,773</u>

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

NOTE 13a: PROPERTY, PLANT AND EQUIPMENT

DETAILS	MOTOR VEHICLES	PLANT & EQUIP.	FURN. & FITTINGS	LAND	BUILDINGS	COMPUTERS	MASINGA HEP	KIAMBERE HEP	TOTAL
At 1st July 2016	322,913,349	1,919,412,995	67,955,525	1,264,135,430	1,779,406,458	24,566,941	6,134,385,600	9,385,013,300	20,897,789,598
Additions	12,615,000	6,794,090	1,591,365	-	-	534,984	-	-	21,535,439
At 30th June 2017	335,528,349	1,926,207,085	69,546,890	1,264,135,430	1,779,406,458	25,101,925	6,134,385,600	9,385,013,300	20,919,325,037
Depreciation and Impairment as at 1st July 2016	312,898,261	1,917,522,584	62,261,774	-	1,187,405,645	23,291,496	2,607,113,880	3,988,630,647	10,099,124,287
Charge for the Year	4,272,148	906,431	2,069,220	-	44,485,161	623,949	153,359,640	234,625,332	440,341,881
Accumulated depreciation as at 30th June 2017	<u>317,170,409</u>	<u>1,918,429,015</u>	<u>64,330,994</u>	-	<u>1,231,890,806</u>	<u>23,915,445</u>	<u>2,760,473,520</u>	<u>4,223,255,979</u>	<u>10,539,466,168</u>
Net Book As At 30th June 2017	18,357,940	7,778,070	5,215,896	1,264,135,430	547,515,652	1,186,480	3,373,912,080	5,161,757,321	10,379,858,869
As At 1st July 2017(Restated)	335,528,349	1,926,207,085	69,546,890	1,264,135,430	1,779,406,458	25,101,925	6,134,385,600	9,385,013,300	20,919,325,037
Additions For the Year	-	-	696,698	-	-	-	-	-	696,698
As At 30th June 2018	<u>335,528,349</u>	<u>1,926,207,085</u>	<u>70,243,588</u>	<u>1,264,135,430</u>	<u>1,779,406,458</u>	<u>25,101,925</u>	<u>6,134,385,600</u>	<u>9,385,013,300</u>	<u>20,920,021,735</u>
Accumulated depreciation as at 30th June 2017	317,170,409	1,918,429,015	64,330,994	-	1,231,890,806	23,915,445	2,760,473,520	4,223,255,979	10,539,466,168
Charge for the Year	4,122,898	906,431	528,205	-	44,485,161	623,949	153,359,640	234,625,333	438,651,616
At 30th June 2018	<u>321,293,307</u>	<u>1,919,335,446</u>	<u>64,859,199</u>	-	<u>1,276,375,967</u>	<u>24,539,394</u>	<u>2,913,833,160</u>	<u>4,457,881,312</u>	<u>10,978,117,784</u>
Net Book Value As At 30th June 2018	14,235,042	6,871,639	5,384,389	1,264,135,430	503,030,491	562,531	3,220,552,440	4,927,131,989	9,941,903,951
Net Book As At 30th June 2017	18,357,940	7,778,070	5,215,896	1,264,135,430	547,515,652	1,186,480	3,373,912,080	5,161,757,321	10,379,858,869

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

xviii) NOTES TO THE FINANCIAL STATEMENTS

NOTE 13b: INTANGIBLE ASSETS

DETAILS	COMPUTER SOFTWARE	TOTAL
1st July 2016	5,983,706	5,983,706
30th June 2017	<u>5,983,706</u>	<u>5,983,706</u>
30th June 2018	<u>5,983,706</u>	<u>5,983,706</u>
Amortization and impairment		-
1st July 2016	5,519,706	5,519,706
Charge For the Year	232,000	232,000
Accumulated Amortization as at 30th June 2017	5,751,706	5,751,706
Charge For the Year 2018	232,000	232,000
Accumulated Amortization as at 30th June 2018	5,983,706	5,983,706
Net Book Value As At 30.6.2018	-	-
Net Book Value As At 30.6.2017	<u>232,000</u>	<u>232,000</u>

14	WORK IN PROGRESS	Jun-18	Jun-17 (Restated)
	Tana Delta Irrigation Project	234,152,289	234,152,289
	Masinga Dam Resort	<u>23,121,654</u>	<u>19,749,980</u>
		<u>257,273,943</u>	<u>253,902,269</u>

NB: Work in Progress in Masinga Dam Resort was restated for correction of an error in 2016/17.

The Work in Progress in Tana Delta Project relates to Structures 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.

Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements for the Year Ended June 30, 2018

15	INVESTMENTS	Jun-18	Jun-17
	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 advanced stage.

16	INVENTORIES	Jun-18	Jun-17
	Stationery	830,159	1,118,987
	Household Goods	12,190	76,685
	Fertilizers	3,406,800	65,110
	Spare Parts	9,030,798	8,922,617
	Construction Materials	4,723,865	4,575,899
	Refreshment and Beverages	152,525	173,929
	Farm inputs-Chemicals, Animal feed	3,535,490	5,689,520
	Fuel and Lubricants	623,520	487,580
	Seeds	111,700	20,400
	Honey	133,000	276,000
	Rice and Paddy	-	197,540
	Food	153,082	194,831
	Packaging Materials	69,004	44,199
	Hay	180,000	-
		<u>22,962,133</u>	<u>21,843,297</u>

The stock represents machinery/motor vehicle spare parts, stores and farm produce.

17	BIOLOGICAL ASSETS	Jun-18	Jun-17
	Emali/Kiambere/Masinga Livestock	6,679,250	7,978,000
	Seedlings/Farm Produce	<u>8,672,800</u>	<u>6,382,177</u>
		<u>15,352,050</u>	<u>14,360,177</u>

*Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements
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18 TRADE AND OTHER RECEIVABLES

	Jun-18	Jun-17 (Restated)
Staff Advances	2,973,238	3,152,742
Trade Receivables	1,378,761,716	1,372,610,737
Other Receivables	10,265,000	10,265,000
	1,391,999,954	1,386,028,479
Provision for bad debts	<u>(1,261,117,834)</u>	<u>(1,261,117,834)</u>
	<u>130,882,120</u>	<u>124,910,645</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 Public Investment 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.

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 2018	June 2017 (Restated)
Amounts due from KPLC	1,179,215,376	1,179,215,376
Other receivables	212,784,578	206,813,103

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.

*Tana and Athi Rivers Development Authority (TARDA) Reports and Financial Statements
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	June 2018	June 2017 (Restated)
Trade and other Payables	342,384,404	257,567,640

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

19	CASH AND CASH EQUIVALENTS	Jun-18	Jun-17
	Cash at Hand	277,563	88,522
	Cash at Bank	3,931,008	88,170,937
		4,208,571	88,259,459
19a	Climate Change Programme-BANK	<u>21,884,899</u>	<u>59,468,843</u>
20	O.E.C.F.(Japan)	Jun-18	Jun-17
	B/F	816,258,600	1,151,186,736
	Loan Repayments	(272,086,200)	(334,928,136)
		<u>544,172,400</u>	<u>816,258,600</u>
21	CAPITAL FUND	Jun-18	Jun-17
	Capital Fund b/f	3,521,831,378	2,987,903,242
	GOK Grants for the year	0	199,000,000
	Loan Repayment	272,086,200	334,928,136
		<u>3,793,917,578</u>	<u>3,521,831,378</u>
22	REVALUATION RESERVE	Jun-18	Jun-17
	Balance B/F	19,697,833,221	19,697,833,221
		<u>19,697,833,221</u>	<u>19,697,833,221</u>
23	TOURISM TRUST FUND	Jun-18	Jun-17
	Balance c/f	28,114	28,114
		<u>28,114</u>	<u>28,114</u>
23a	Climate Change Fund	<u>21,884,899</u>	<u>59,468,844</u>
24	TRADE AND OTHER PAYABLES	Jun-18	Jun-17 (Restated)
	Creditors Account	121,078,134	104,823,628
	Sundry creditors and Statutory Deductions	197,292,497	130,376,464
		<u>318,370,631</u>	<u>235,200,092</u>
	Retention account	21,229,773	20,279,548
	Audit fees Provision	2,784,000	2,088,000
		<u>342,384,404</u>	<u>257,567,640</u>

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xix) PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Going Concern	TARDA has been insolvent since the day the generating and transmission assets were transferred to KENGEN and unless the claims are honoured, the going concern and balance sheet accounting of the Authority will continue to be negative and recurring year after year.	Steven Ruimuku MD	Not resolved	Continuous
2	Property Plant and Equipment	The acquisition of the title deeds for Kibwezi, Emali and Kitui projects is in process.	Steven Ruimuku MD	Not resolved	June 2019
3	Capital work in progress TDIP Houses (234,152,289)	Plans are underway to rehabilitate some of these houses and convert them into guest houses.	Steven Ruimuku MD	Not resolved	Continuous
4	Trade and other receivables	KPLC payment of Kshs. 1,179,215,376.30 debt as at 30 th June 2014 ended up in Parliamentary Investment Committee (PIC) where it remains undetermined to date.	Steven Ruimuku MD	Not resolved	Continuous
5	Trade and other payables Un-remitted Statutory Deductions	These are statutory deductions comprising of outstanding VAT, Pension, and PAYE. The amount will be paid once the financial position of the Authority	Steven Ruimuku MD	Not resolved	June 2019

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		improves. (A payment plan is already in place on how to clear the balances)			
6	Assets held by former Managing Directors	The Management undertakes to pursue the concerned former Managing Directors with a view of recovering the Authority's assets in their possession.	Steven Ruimuku MD	Not Resolved	Continuous
7	Biological Assets	The Management will incorporate the revaluation of the biological assets in the plan revaluation of assets in the next financial year	Steven Ruimuku MD	Not Resolved	Continuous
8	Lease Income	The Management will develop the pricing policy as the Lessee has shown commitment in the execution of the lease agreement	Steven Ruimuku MD	Not Resolved	Continuous
9	Loss Making Services	This is attributed to inadequate funding from the exchequer and some of the projects are social based so not for profit making	Steven Ruimuku MD	Not Resolved	Continuous
10	Revaluation Reserve	The Management is planning to undertake revaluation of its Assets in the next financial year	Steven Ruimuku MD	Not Resolved	Continuous

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Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.


Steven G. Ruimuku
MANAGING DIRECTOR


Ms. Halima Shaiya
Ag. BOARD CHAIRPERSON

Date.....18/2/2019.....

Date.....18/2/2019.....