REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
LAKE VICTORIA ENVIRONMENT
MANAGEMENT PROJECT (PHASE II)
(IDA CREDIT NO.4532-KE AND
IDA CREDIT NO.5634-KE)

FOR THE YEAR ENDED
30 JUNE 2018

MINISTRY OF ENVIRONMENT, WATER AND
NATURAL RESOURCES
MINISTRY OF ENVIRONMENT AND FORESTRY.

LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT - PHASE II (LVEMP II)

Financed by:
Government of Kenya
&
International Development Association

PROJECT GRANT/CREDIT NUMBER 45320 &56340

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)
Lake Victoria Environmental Management Project - Phase II (LVEMP II)  
Reports and Financial Statements  
For the financial year ended June 30, 2018

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Lake Victoria Environmental Management Project – Phase II (LVEMP II).

Objective: The project development/global objectives are to contribute to:

(i) Improvement of the collaborative management of trans-boundary natural resources of Lake Victoria Basin for the shared benefit of EAC partner states; and

(ii) Reduction of environmental stress in Lake Victoria and to enhance the basin’s ecological integrity by addressing environmental threats such as controlling point and non-point sources of pollution. The project will also boost the basin’s cultural and economic value by involving communities in natural resources management, balancing environmental protection and economic growth demands and improving economic growth and equity among riparian communities.

Address: The project headquarters offices are located in Kisumu County, Kenya.

The address of its registered office is:

Nyanza regional Headquarters, 11th Floor
Owuor Otiende Road,
Off Kenyatta Highway,
P.O Box 9220-40100,
Kisumu – Kenya.
Tel: +254 57-2020563 Fax: 254 57-2020284
Email: info@lvemp2kenya.org or lvemp2@gmail.com

Contacts: The following are the project contacts

National Project Coordinator
Telephone: (254) 57-2020563
E-mail: info@lvemp2kenya.org or lvemp2@gmail.com
Website: www.lvemp2kenya.org

1.2 Project Information

<table>
<thead>
<tr>
<th>Project Start Date:</th>
<th>The financing agreement for LVEMP II – Kenya was signed on 8th May 2009 between the Republic of Kenya and the International Development Association (IDA). The project was declared effective on 30th July 2009 and became fully operational on 7th September 2009.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project End Date:</td>
<td>31st December 2017</td>
</tr>
<tr>
<td>Project Manager:</td>
<td>The National Project Coordinator: M/s Francisca Owuor</td>
</tr>
<tr>
<td>Project Sponsor:</td>
<td>International Development Association (IDA) – World Bank</td>
</tr>
</tbody>
</table>
1.3 Project Overview

<table>
<thead>
<tr>
<th>Line Ministry/State Department of the project</th>
<th>Ministry of Environment and Forestry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project number</td>
<td>PROJECT ID: P100406 CREDIT NUMBER 45320 &amp; CR 56340</td>
</tr>
<tr>
<td>Strategic goals of the project</td>
<td>Key Strategic Objectives. The project development/global environmental objectives are to:-</td>
</tr>
<tr>
<td></td>
<td>(i) Improve the collaborative management of trans-boundary natural resources of LVB for the shared benefit of EAC partner states; and</td>
</tr>
<tr>
<td></td>
<td>(ii) Reduce environmental stress in Lake Victoria and to enhance the basin’s ecological integrity by addressing environmental threats such as controlling point and non-point sources of pollution. The project will also boost the basins cultural and economic value by involving communities in natural resources management, balancing environmental protection and economic growth demands and improving economic growth and equity among riparian communities</td>
</tr>
<tr>
<td>Achievement of strategic goals</td>
<td>The project aimed to achieve the goals through the following Strategic Programmes.</td>
</tr>
<tr>
<td></td>
<td>- Component 1. Strengthening institutional capacity for managing shared water and fisheries resources</td>
</tr>
<tr>
<td></td>
<td>- Component 2. Point sources pollution control and prevention</td>
</tr>
<tr>
<td></td>
<td>- Component 3. Watershed management</td>
</tr>
<tr>
<td></td>
<td>- Component 4. Project coordination and Management</td>
</tr>
<tr>
<td>Other important background</td>
<td>LVEMP II is an eight and half-year project (Jul 2009 - Dec 2017) being implemented in two phases of Adjustable Program Lending (APL) I and III. APL II involves Rwanda and Burundi. The project is financed by the</td>
</tr>
</tbody>
</table>

In Kenya, the Project is being implemented in Lake Victoria Basin comprising of 32 sub-counties spread across Nyanza Western and Rift Valley. However, APL I will be implemented in Nyando River Basin which covers an area of 3550 Km2 and traverses Kisumu East, Nyakach, Nyando, Muhoroni, Nandi South, Nandi Central, Kipkelion, the lake shore counties of Migori, Homabay, Siaya and Busia: other counties include Kisii and Bomet.

The project total cost for APL I in Kenya is USD 30 Million. APL I started in July 2009 and was to end in June 2013, a 2 year 'no cost' extension was granted to June 2015, in FY 2014-15, the project was granted additional financing of USD 10 Million extending project duration by 21/2 Years with effective closure date of Dec 2017. |
| Current situation that the project was formed to intervene | LVEMP II was designed to:

(a) Assist the country to implement her commitment to harmonize policies, legislation, and standards for shared natural resources and environmental management in the LVB.

(b) Further strengthen the capacity of the national, local, and community-level institutions responsible for Lake Basin management and development.

(c) Update information on ecosystem health, especially on the water and fishery resources, which underpins resource management decisions.

(d) Refine analytical tools for ecosystem monitoring developed under LVEMP I.

(e) Implement infrastructure projects on pollution control and prevention, and safety of Lake Navigation, based on the existing feasibility studies.

(f) Scale up successful community-driven pilot interventions to control point and non-point sources of pollution; and

(g) Mobilize new communities and build their capacity to prepare Community Driven Development, natural resources management and income generating subprojects. |
| Project duration | The 2nd Phase of the project started on 1st July 2009 and closed 31st December 2017. |
1.4 Bankers

The following are the bankers for the current year:

(i) Cooperative Bank of Kenya; Kisumu Branch – A/c 01141294300200
(ii) Standard Chartered Bank ltd; Kenyatta Avenue Branch – A/c 0108093570904

1.5 Auditors

The project is audited by the Office of Auditor General – Republic of Kenya

1.6 Roles and Responsibilities

Key persons working on the project.

<table>
<thead>
<tr>
<th>Names</th>
<th>Title designation</th>
<th>Key qualification</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Francisca Owuor</td>
<td>National project Coordinator</td>
<td>Post Graduate – Masters in Economics</td>
<td>In charge of the project</td>
</tr>
<tr>
<td>Joshua Galoro</td>
<td>Project Accountant</td>
<td>Post Graduate – MBA in Accounting/Finance</td>
<td>In charge of Accounts Unit Financial management</td>
</tr>
<tr>
<td>Richard Munyithya</td>
<td>Monitoring and Evaluation Officer</td>
<td>Post graduate Masters – Economics</td>
<td>In charge of Monitoring and Evaluation</td>
</tr>
<tr>
<td>Rodrick Kundu</td>
<td>Fisheries Specialist</td>
<td>Post Graduate – Masters-Fisheries Management</td>
<td>Technical experts: Fisheries activities</td>
</tr>
<tr>
<td>Engineer Isaac</td>
<td>Agriculture Specialist</td>
<td>Graduate – BSc-Agricultural Engineering</td>
<td>Technical experts: Agriculture and Livestock activities</td>
</tr>
<tr>
<td>Ngugi</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maurice Wanyiri</td>
<td>Natural Resource Management specialist</td>
<td>Post Graduate – Masters Environmental Planning Management</td>
<td>Technical experts: Forestry</td>
</tr>
<tr>
<td>Isaiah Mawinda</td>
<td>Water Specialist</td>
<td>Post Graduate Masters in Environmental Planning and Management, Bachelor of Science in Geology</td>
<td>Technical experts: water and sewerage activities</td>
</tr>
<tr>
<td>Solomon Kihiu</td>
<td>Environment Specialist</td>
<td>Post Graduate (Masters) – Environmental Science Bsc- Wood science</td>
<td>Technical experts: Environmental management</td>
</tr>
<tr>
<td>Names</td>
<td>Title designation</td>
<td>Key qualification</td>
<td>Responsibilities</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------------------------------</td>
<td>--------------------------------------------------------</td>
<td>------------------------------------------------</td>
</tr>
<tr>
<td>Florence Nyangau'</td>
<td>Procurement Officer</td>
<td>Graduate - Supplies Management</td>
<td>In charge of Supplies Chain Management</td>
</tr>
<tr>
<td>Nicholas Manyolo</td>
<td>Communications Officer</td>
<td>Post Graduate – Masters in International relations Graduate – Information and Communication</td>
<td>Communications /Public Relations</td>
</tr>
<tr>
<td>Basil Murila</td>
<td>Community Development Officer</td>
<td>Graduate - Anthropology</td>
<td>Technical experts – Community Driven developments</td>
</tr>
<tr>
<td>Mathews Okello</td>
<td>Accounts Assistant</td>
<td>Graduate – B.com</td>
<td>Financial management</td>
</tr>
<tr>
<td>Elisha Nduga</td>
<td>Procurement Officer</td>
<td>Diploma – Supply Chain Management</td>
<td>Supply chain management</td>
</tr>
<tr>
<td>Evelyn Mwikali</td>
<td>Administrative Assistant</td>
<td>Diploma – Business administration</td>
<td>Supports NPCT</td>
</tr>
<tr>
<td>Stephen Oketch</td>
<td>Senior Lab Technologist</td>
<td>Higher National Diploma – Applied biology</td>
<td>Water quality and pollution monitoring</td>
</tr>
<tr>
<td>Reuben Kuto</td>
<td>Senior Lab Technologist</td>
<td>Higher National Diploma – Analytical Chemistry</td>
<td>Water quality and pollution monitoring</td>
</tr>
<tr>
<td>John Okere</td>
<td>Chief Hydrologist Assistant</td>
<td>Diploma – Surface water quantity assessment</td>
<td>Metrological and water quantity assessment</td>
</tr>
</tbody>
</table>
1.7 Funding summary

The Project was for duration of 8\(\frac{1}{2}\) years from 2009 to 2018 with an approved budget of US$ 36.7 Million equivalent to KShs 3.69 Billion as highlighted in the table below:

Below is the funding summary:

<table>
<thead>
<tr>
<th>Source of funds</th>
<th>Donor Commitment-</th>
<th>Amount received to date – (30th June, 2018)</th>
<th>Undrawn balance to date (30th June, 2018)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Donor currency USD</td>
<td>KShs</td>
<td>Donor currency (USD)</td>
</tr>
<tr>
<td>GRANT SUMMARY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Grants</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>LOAN SUMMARY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA Loan</td>
<td>36,675,541</td>
<td>3,336,703,400</td>
<td>36,168,542</td>
</tr>
<tr>
<td>Total Loans</td>
<td>36,675,541</td>
<td>3,336,703,400</td>
<td>36,168,542</td>
</tr>
<tr>
<td>CounterPart funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government of Kenya</td>
<td>0</td>
<td>360,000,000</td>
<td>199,858,351</td>
</tr>
<tr>
<td>Total Funding Summary</td>
<td>36,675,541</td>
<td>3,696,703,400</td>
<td>36,168,542</td>
</tr>
</tbody>
</table>

1.8 Summary of Overall Project Performance:
Physical performance

The project was envisaged to close on 30th June, 2015 after a six-year period of implementation within which major achievements were realized. However, to ensure a smooth and seamless completion process, it was granted an extension of 2½ years with additional financing of US$ 10 million. As at the close of the 2017/2018 FY, the project aggregate total expenditure since inception was about 95% of its IDA allocation and all the activities planned under the credit 4532 and 5634 had been fully implemented.

Component 1: Strengthening Institutional Capacity for Managing Shared Water and Fisheries Resources

Subcomponent 1.1: Harmonization of Policies Legislation and Regulatory Standards

Under this sub-component, implementation of activities under the first six (6) sub-component outputs was coordinated by the regional co-ordinating bodies - Lake Victoria Basin Commission (LVBC) and Lake Victoria Fisheries Organization (LVFO).

Sub-component Output 1.1.10: Fish Levy Trust Fund (FLTF) operationalized

Activity 1.1.10.3: Establish the management of Fish Levy Trust Fund - the Fisheries Management and Development Act 2016, upon which the FLTF is to be operationalized, became effective in September 2016. The pending key tasks to operationalize the Fund include:

- Conducting a stakeholders validation workshop and enactment of the FLTF Regulations that developed by the project in 2012,
- sensitizing key stakeholders on the new financial arrangement (FLTF)
- constituting the Board of Trustees, Secretariat and County FLTF committees
- conducting exchange visits to share experiences with those countries that are implementing a similar Fund

During the period under review, the Ministry of Agriculture, Livestock & Fisheries made provision for seed money to operationalize the Fund in the current FY 2017/2018. FLTF Board of Trustee members were recruited and Business Plan and Action Plan to operationalize the fund developed.

2.1.2 Sub-component 1.2 Ecosystem Monitoring and Applied Research

Sub-component Output 1.2.2: Quality environmental and social economic data generated, analyzed, interpreted, packaged and stored in publicly accessible GIS based database

Activity 1.2.2.4: Participate in fish stock assessment, catch assessment, frame survey and the Hydro-Acoustic survey - no activity was undertaken during the period under review.

Activity 1.2.2.11: Implement Water Hyacinth Management Strategy (Weevil rearing, manual removal, mechanical removal, surveillance DRSRS Hiring of water-master) - no activity was undertaken during the period under review.

Sub-component Output 1.2.5: Institutional Capacity Building
Activity 1.2.5.4: Water hyacinth harvesting equipment (Operational costs) -

✓ The machine was supplied on 12/4/2016 and a training on its use conducted involving 10 coxswains and 10 ship crew. An Inspection and Acceptance Committee (IAC) later met in the presence of the Unit Export and their representative in the Country for a third inspection of the harvester. The Supplier was in concurrence with the findings of the IAC that sat in November 2016 and agreed to implement all the recommendations of the second IAC. The Supplier later responded to the recommendations, and the Legal Officer from the Ministry prepared a Legal Professional Opinion that would be used by the Principal Secretary for contract extension. It will also be used to trigger subsequent steps that are time bound, with clear legal implications, to bring the contract to a conclusion. During the period under review, the matter was brought to the attention of the World Bank and British Higher Commissioner to Kenya.

Activity 1.2.5.6: Procure laboratory equipment (to take care of reagents and consumables and procure additional consumable; Lab master) – the procurement process of the equipment was time barred and dropped.

Component 2: Point Sources Pollution Control and Prevention
The following implementation progress was made during the period under review:

Subcomponent 2.1: Rehabilitation of Wastewater Treatment Facilities

Sub-component Output 2.1.2: Provide Eco-sanitary/Bio-toilets Services

✓ Activity 2.1.2.2: Procure, construct and provide 13 Eco-sanitary public toilets in the following towns: Busia County – 2; Siaya – 1; Bomet – 2; Kisii – 1; Nandi County – 2; Homabay – 1; Kisumu, 1; Migori – 2 and Kericho - 1

Thirteen (13) bio-toilets were implemented in various public schools in the project area. The tender for civil works was concluded and awarded to the winning bidder (M/S Comila Construction Co. Ltd) in May 2016 and an acceptance letter issued by the contractor. The contract was sent to Ministry Hqs for PS’s signature in June, 2016 and approval was provided. The contractor was handed over the 13 sites from 13th-15th September, 2016 and has since commenced work and the sites were issued with EIA licenses. During the period under review, the 13 bio-toilets were completed (100%), Bunsen burners and water tanks installed and awaiting handing over and training of users. The facilities are in the following schools: Migori County (Kadika & Kiranda), Homa Bay county (Kawuor), Kisii county (Iterio), Bomet county (Lona laboso & Longisa), Nandi county (Aldai & Kapsengere), Kiksumu county (Achego), Busia county (Sigalame & st.Aquinas Nanderema), Siaya county (Nyagoko), and Kericho county (kipchimchim).

Repair of the 8 initial uncompleted Bio-toilets - The tender for civil works was concluded and awarded to the winning bidder. The repairs were done to completion and awaiting water tanks and Bunsen burner installation and handing over. The facilities are as follows: Nandi
county (Samoei Sec School), Kisumu county (Nyangware, Ahero & PAG Awasi Girls Sec Schools), Busia county (Bumbe & Marenga BMUs) and Siaya county (Nyamonye Sec School & Misori BMU).

➢ Activity 2.1.2.3: Provide exhausters for on-site sanitation services to 5 other counties/towns: Kisii, Busia, Oyugis, Nandi Hills and Siaya - The tender for supply of the exhausters was concluded and awarded to the winning bidder (M/S Toyota Kenya Ltd) in May 2016 and an acceptance letter submitted by the contractor. The contract was signed by the Principal Secretary in June, 2016. The exhausters were delivered in 12th October, 2016, inspection and acceptance done on 1/3/2017, and handed over to the user counties on 29/11/2017.

Sub-component Output 2.1.4 - 2.1.6: The Sewerage Treatment Facilities - Kisumu, Homabay and Bomet are operationalized, maintained and expanded (Homa bay and Bomet)

■ Activity 2.1.5.2: Rehabilitate the Homa Bay Sewerage Treatment Facility (Expand the sanitation facility)

➢ The procurement process of the civil works was concluded and the contract awarded to M/s Blootex Ltd. The site was handed over to the contractor on 15th September, 2016. The extension works were completed as per the work plan, save for a 60m sewer line whose way leave was not given. The works comprised the following:
  ✓ Anaerobic Pond (5metres deep)
  ✓ 3sewer lines (one more to be done)
  ✓ Road crossing
  ✓ The contractor working on the snag list (final touches)

➢ The pending issue of issuance of way leave for 60m sewer line will be addressed by the County Government of Homabay. The materials procured by the contractor for the sewer line were handed over to the CEC for Environment. The completed works are now waiting for handing over to the county government.

■ Activity 2.1.6.4: Construction of the Bomet Sewerage Treatment Facility (Expand the sanitation facility)
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The procurement process of the civil works was concluded and the contract awarded to M/s Wamunyoro Investment/machine Centre Ltd. The site was handed over on 13th September, 2016. The extension works were completed as per the work plan and these comprised the following: perimeter wall, utility building, and 4 sewer lines. The sewer lines are: the line connecting the highway sewer to Godown sewer line, extension of Governor’s line to serve High Court, Huduma Center, County Commissioner HQ and new Governor’s Office.

Sub-component Output 2.1.8: Two Additional Sewerage Treatment Facilities Designed.

- Activity 2.1.8.1: Feasibility studies and design to construct the Sewerage Treatment Facility in Additional two (2) Towns - the identified towns for construction of the sewerage facilities were Mbita in Homabay County and Londian in Kericho County. The Terms of Reference for the feasibility studies were developed, sent to World Bank for No Objection and feedback provided. The Bank was acceptable with the data provided for Mbita town but required more details on the data for Londian. However, it was established that Lake Victoria South Water Services Board (LVWSWB) would be supporting the preparation of feasibility studies and designs for Mbita town through a different source of funds. As an alternative, Oyugis town, still in the same county, was identified to benefit from the study. The required data to support the study in Londian town had also been provided.

- During the period under review, the contract signed in Sept, 2017 and the assignment had been significantly accomplished by 31/12/2017.

Sub-component Output 2.2: Cleaner Production Technologies Promoted

- Activity 2.2.1.1: Cleaner production activities and documentation of best practices of CP -

  The Kenya National Cleaner Production Centre (KNCPC) has been implementing the promotion of Resource Efficient and Cleaner Production (RECP) technologies within the Kenyan Lake Victoria Basin under the Regional LVEMP II financial support since 2010, upto 2014 when the regional funds were exhausted. LVEMP II (K), through the Ministry of Environment and Natural Resources, engaged the organization to implement RECP activities in July 2016 in selected areas within the Basin. During the period under review, the following activities were implemented:

i) KNCPC technical team carried out a detailed Resource Efficient and Cleaner Production Assessment in seven (7) Medium & Small Micro-Industries (MSMI’s) in the Kisii, Homabay and Nyamira Counties. These were hotel, fish, tea, coffee and abattoirs/slaughter houses sub-sectors. Being the first batch, KNCPC chose all these sub-sectors in order to inform on the next batch of in-plant assessments. These assessments were undertaken for three (3) days per MSMI. The detailed assessment covered water and wastewater management, raw materials management and energy management thematic areas.

ii) Continued with the engagement with the County government, NEMA and the MSMIs on their commitment to implement the recommendations that will be generated during the in-
plant assessments. The County government and NEMA were to assist the MSMIs to implement the program

iii) Analysis of the initial effluent and influent results of the MSMIs

- The challenges realized during the exercise were that:
  - The Beach Management Units (BMUs) were found to have more challenges owing to their mode of operation i.e. the management is mainly composed of the locals who are representing of their communities - this posed a challenge because of their levels of education.
  - Need to have an effective implementation program within the MSMIs and time variations between the activities should be limited.
  - Given that the activities are scheduled to end by June, the other activities may be affected if the delay continues.

Component 3: Watershed Management
Subcomponent 3.1: Natural Resources Conservation and Livelihoods Improvement

Sub-component output 3.1.1: Non-Point Source Pollution through community Sustainable Land Management practices reduced (Co-Management)

Activity 3.1.1.1: Rehabilitate and restore Ombeyi, Dienosiyoi, Kingwal, and Koyo wetlands (Implement the 4 wetland management plans)

- The four wetland management plans were launched in September 2014 and implementation of some of the activities in the action plans began. During the period under review, the following activities were undertaken:
  - Forestry: 6,000 tree/bamboo seedlings were supplied and issued to the riparian communities for planting during the April/May rains, additional to the 14,000 tree/bamboo seedlings planted earlier,

- Fish Ponds: A total of 8 fish ponds were also constructed and stocked with fingerlings in all the 4 wetlands.
Beehives: 100 beehives were procured and issued to community and the occupancy is currently 95%. During period under review, a further set of beehives was procured and issued to wetland communities, 4 harvesting equipment and honey clarifies were procured and issued to the beekeepers within wetlands for use during honey harvesting.

Kibirong Wetland Fence: The procurement process was finalized and construction of the fence (5.7km within an area of 420 ha) done to completion; awaiting handing over.

Activity 3.1.1.2: Rehabilitate and restore degraded areas of bare hills and river banks in the Nyando catchment (monitor and maintain implemented CMIs) - the target was to procure 100,000 tree seedlings and plant in 100 Ha. The bids evaluation report was submitted to the Ministry Hqs on 12th May 2016 and award letters to suppliers issued on 2nd September 2016 for supply of the seedlings. Of the expected 100,000 tree and bamboo seedlings, only 4,000 bamboo seedlings were delivered, planted at the river banks during the Oct/Nov rainy season. During the period under review, the maintenance of the 55,000 tree seedlings planted in Kericho and Nandi counties during the April/May rains continued.

Activity 3.1.1.4: Undertake water harvesting and spring protection (protect more springs and upscale roof water harvesting) - the target was to install 20 water tanks (10,000 litres each) in public schools. The contracts to construct tank bases and supply of the water tanks were awarded. During the period under review, the storage tanks were supplied and the construction of 20No. tank bases completed.

Activity 3.1.1.5: Develop two (2) additional wetlands Management plans – the procurement process for the consultancy to develop 2 new wetland management plans for Kuje (Kericho) & Ondag’o (H/Bay) was concluded. During the period under review, the documents were prepared to completion.

Sub-component output 3.1.2: Community Demand Driven Sub-projects and livelihood improvement implemented (CDD)

Activity 3.1.2.1: Support communities to implement sub-catchment management plans in various sectors

Through the Community Driven Development approach (CDD), 247 sub-projects were funded at a total budget of Kshs 729,565,582, out of which Kshs 714,974,270.36 (98%) has
been disbursed. A total of 251\textsuperscript{1} subprojects were implemented out of which 235 of them have been fully completed (93%). The remaining 16 CDDs subprojects were terminated.

- Several subprojects have impacted positively on the lives of the group members and also on the larger community. Some of these include the ROJE Self Help Group (SHG) in Kisumu County that is involved in raising and selling of tree seedlings, Aldai Girl's Sec School in Nandi County that has been supported to undertake roof-water harvesting in the school, Litei SHG that implemented a successful water supply system for the local community, among others.

\textbf{Activity 3.2.1.4: Conduct EIAs/Social Assessments for CDD Sub-projects and co-management interventions (including EIAs for construction of sewerage facilities for 2 additional towns) -} the target was to initiate various consultancies to prepare 34 different EIA reports. The consultancies on Environmental Impact Assessment (EIA) were undertaken and licenses issued.

\textbf{Activity 3.2.3.3 Provide awareness to communities and implement watershed management activities using local CBOs (Train and Provide Technical support on O&M of CDDs and CMIs) -} The following community capacity building trainings were undertaken during the period review:

- Aquaculture Training; 31 men and 4 women participated
- Poultry Production; 27 men and 6 women participated
- Green-house Management; 22 men and 7 women participated
- Refresher on procurement; 30 men & 4 women participated

It was observed that women participation was relatively low and would need to be enhanced.

Component 4: Project Coordination and Management

Subcomponent 4.1: Project coordination and communication

During the period under review, the following activities were implemented under this sub-component.

Sub-component output 4.1.2: Operations of the NPSC, NTSC, NPCT and NFPO supported

\textbf{Activity 4.1.2.8: Supporting meetings of the NPCT -} The NPCT met twice during the period under review. The meeting provided opportunities for reflections and lessons learning on the project implementation process.

\textbf{Activity 4.1.2.9: Supporting meetings of the NPSC and NTSC -} the NTSC and NPSC meetings were convened on 27/11/2017 and 29/11/2017 respectively and various technical and policy related issues were deliberated and relevant recommendations made.

\textsuperscript{1}Out of the 247 implemented CDD groups, 4 were given additional funds to top-up budget deficits.
Sub-component Output 4.1.3: An internal communication system linked to M&E to facilitate information sharing developed

- Activity 4.1.3.3: Operation and maintenance of MIS and Other ICT systems – the Management Information System (MIS) has been operational since August 2014. This is being maintained on a regular basis to ensure smooth operation of the NPCT.

Sub-component Output 4.1.4: Information sharing system developed

- Activity 4.1.4.5: Produce materials such as posters, flyers, fact sheets - the following outputs were realized: printed Project I.E.C materials [banners/brochures for Lake Victoria Basin Conference (LVBCON) – Mwanza, United Republic of Tanzania], and Sector activities.

- Activity 4.1.4.7: Conduct media campaigns through newspaper, TV, radio talk shows, public dialogues – conducted radio and TV talk shows through Radio SKY FM, Sahara FM and Nation TV on LVBCON – Mwanza URT; press supplement on LVBCON – Mwanza URT cum Project information published in Nation Newspaper, and conducted live radio talk show on Project interventions with Royal Media and Ramogi Radio FM during Agribusiness open forum.

- Activity 4.1.4.8: Conduct dissemination seminars, workshops, science fairs, conferences, exhibitions, etc – the project successfully exhibited publicity materials and CDDs products at the LVBCON – Mwanza URT, and at the Royal Media Agribusiness Forum cum Exhibition at Awendo Sonny Green stadium – Migori County.
Activity 4.1.4.10: Produce Newsletters (Thematic fact sheets, brochures on all interventions) - the target was to produce newsletters (4 issues, one quarterly). The 3\textsuperscript{rd} issue of the Newsletter was produced, delivered and shared with stakeholders. A publication highlighting the project achievements was prepared and will be printed and circulated to stakeholders. An e-bullet-in was also prepared and shared with stakeholders.

Subcomponent 4.2: Monitoring and Evaluation

Sub-component Output 4.2.1: An integrated M&E System for planning and management decision making established

- Activity 4.2.1.1: Hire M&E Specialist and supervision of Service Providers/Interns - the M&E Officer and Community Development Officer continued to supervise and guide the Field Services Interns for close follow-up of the CDD sub-projects that are under implementation.

- Activity 4.2.1.2: Establish a national GIS based M&E and MIS system & Training - the MIS was set up and it has been in use. The process of procuring GIS equipment and software was initiated and it being fast-tracked.
Activity 4.2.1.3: Collection, analysis, storage and dissemination of project implementation performance outcome and impact data – the M&E Officer, together with the rest of the NPCT members, continued to collect data and information from various relevant sources especially through technical meetings, field visits, reports, among others. Data gathered came in handy in up-dating the Project implementation progress; including updating of the Results Framework indicator targets.

Activity 4.2.1.6: Undertake implementation completion review of the project – during the period under review, a project completion report (PCR) was prepared as part of the project closure processes. A consultant was hired to prepare an economic analysis on the project interventions.

Activity 4.2.1.9: Production of monthly, quarterly and annual reports – the 4th quarter and annual progress reports were prepared and shared with stakeholders.

The major challenges encountered during the reporting period include:

i. Though there has been good progress in the procurement process, there are cases where delays have been caused by over-priced or non-responsive bids. This has often led to retendering and loss of implementation time;

ii. Low implementation capacity, weak governance and sometimes low attitude among some communities leading to slow implementation and even failure of some CDD sub projects;

iii. The complex nature of the project was a challenge in itself and in view of the fact that it is a multi-sectoral project and involving many stakeholders.

1.9 Summary of Project Compliance:
There were no issues of noncompliance.
2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the Ministry of Environment and Forestry and the Project Coordinator Lake Victoria Environmental Management Project – Phase II (LVEMP II) are responsible for the preparation and presentation of the Project’s financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year(period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the Ministry of Environment and Forestry and the Project Coordinator for Lake Victoria Environmental Management Project – Phase II (LVEMP II) accept responsibility for the Project’s financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the Ministry of Environment and Forestry and the Project Coordinator for Lake Victoria Environmental Management Project – Phase II (LVEMP II) are of the opinion that the Project’s financial statements give a true and fair view of the state of Project’s transactions during the financial year/period ended June 30, 2018, and of the Project’s financial position as at that date. The Principal Secretary for Ministry of Environment and Forestry and the Project Coordinator for Lake Victoria Environmental Management Project – Phase II (LVEMP II) further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the Ministry of Environment and Forestry and the Project Coordinator for Lake Victoria Environmental Management Project – Phase II (LVEMP II) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary for the Ministry of Environment and Forestry and the Project Coordinator for Lake Victoria Environmental Management Project – Phase II (LVEMP II) on November 9, 2018 and signed by them.

Principal Secretary
Name: Ali Noor Ismail, CBS

Project Coordinator
Name: Francisca Owuor

Project Accountant:
Name: Joshua Galoro
ICPAK Member Number: xvi
REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Lake Victoria Environment Management Project (Phase II) (IDA Credit No. 4532-KE and IDA Credit No. 5634-KE) set out on pages 1 to 28 which comprise the statement of financial assets and liabilities as at 30 June 2018 and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015, 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 Lake Victoria Environmental Management Project Phase II 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 Standard (Cash Basis) and comply with the terms of Financing Agreement No. 4532 dated 8 May 2009 together with the additional financing agreement No.5634 dated 7 July 2015 between the International Development Agency (IDA) and the Republic of Kenya.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The Financial statements for year ended 30 June 2018 presented for audit review had the various differences noted on cumulative to date figures under receipts and expenditure balances in the financial statements against the addition for the year:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cumulative 30 June 2017</th>
<th>Addition 30 June 2018</th>
<th>Total</th>
<th>Cumulative 30 June 2018</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td>Kshs</td>
<td>Kshs</td>
<td>Kshs</td>
<td>Kshs</td>
<td>Kshs</td>
</tr>
<tr>
<td>Transfer from GOK</td>
<td>87,003,207</td>
<td>7,000,000</td>
<td>94,003,207</td>
<td>199,858,351</td>
<td>(105,855,144)</td>
</tr>
</tbody>
</table>

Contrary to section 43(a) of Public Finance Management Government Regulations 2015, stipulate that an Accounting officer shall sign financial statement thereby making himself or herself responsible for their correctness. No plausible explanations have been provided by management for these discrepancies or variances.

In consequence, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be ascertained

2. Purchase of Water Hyacinth Weed Harvester and Trucks

Included in the financial statements under note 8.10 is acquisition of non-financial assets of Kshs.106,777,894 which includes purchase of vehicles and other transport equipment of Kshs.63,655,335 which in turn includes two trucks worth Kshs. 18,717,400, purchased with an aim of transporting the water hyacinth weed once harvested in fulfilment of mechanical water harvesting initiative which has not taken off as at the time of audit in October 2018. However, it was observed that project had purchased water hyacinth harvester in 2015/2016 at a contract price of Euro 680,000 equivalent to Kshs.73,745,252, and had challenges of not having met Marine and Safety requirements, resulting to operational and safety challenges in actualizing the initiative. Contrary to section 43(d) of Public Finance Management Government Regulation 2015 stipulate that an Accounting Officer shall manage control and ensure that policies are carried out efficiently and wastage of public funds is eliminated and Section 71(1) (b) stipulate that the Accounting Officer confirms with the relevant Government entity that donations given in kind are in good and serviceable condition. The citizens have not got value for money on the purchase of the machine and trucks which were procured and are not in use and remain idle.
3. Pending Payables

The financial statements under annex 2A and 2B reflects Kshs. 5,853,775 and Kshs. 15,480,000 totaling to Kshs.21,333,775 in relation to pending accounts payable and pending staff payables respectively for the year ended 30 June 2018. However, the following were noted:

i. An amount of Kshs. 3,710,271 out of a total of Kshs. 5,853,775 paid to Kenya Revenue authority during the year was reversed in the cashbook and thus included as a pending payable. No reason has been provided to explain why the cheques were reversed in the cash book and taxes not remitted to KRA.

ii. Under analysis of pending bills (Annex 2A) is an amount being payable to suppliers of goods and services by Aventure holding ltd, I way Africa Riley Security Services and Parapet Cleaning services of Kshs. 803,500, Kshs. 1,009,200, Kshs. 162,840 and Kshs. 167,964 respectively totaling to Kshs. 2,143,504 outstanding as at 30 June 2018. No reason has been provided to explain why the suppliers had not been paid. In addition, the aging analysis was not provided to show how long the debts have been outstanding.

iii. Pending staff payables amounting to Kshs. 15,480,000 were still outstanding as at 30 June 2018. Top up allowances of 23 officers for 12 months starting July 2017 to June 2018 amounting to Kshs.13,080,000 were not paid. In addition, salaries for two officers amounting to Kshs.2,400,000 were also not paid during the year. No reason has been provided to explain the delay in payments.

iv. The bank balance of Kshs.1,392,306 on 30 June 2018 was less than the pending bills balance of Kshs.21,333,775 reported in the financial statements. It was not clear how the difference of Kshs.19,941,469 would be funded as no evidence was provided for audit review.

Contrary to section 43(b) of Public Finance Management Government Regulation 2015 stipulate that an Accounting officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purpose only which they were intended and appropriated by the National Assembly.

Consequently, the validity and completeness of the pending bills of Kshs.21,333,775 could not be confirmed for the year ended 30 June 2018.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.
I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

### 1. Information and Communication Technology (ICT) Policy

The audited entity has no ICT department of its own and lacks a formally documented ICT policy to act as a guiding framework for its ICT operations. Therefore, there's no assurance that its ICT resources are being utilized efficiently and effectively in accordance with the applicable ICT Standards as provided for by the regulating body - ICT Authority (ICTA). The ICTA Standards define the processes that ensure the effective and efficient use of ICT in enabling a government institution achieve its goals.

Consequently, in the absence of a formally documented ICT policy, this could lead to lack of a clear direction on the management and use of the ICT systems in place and their related controls and also understate the assets of the project.

### REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Delayed Counterpart Funding

Included in the financial statements under project information and overall performance is 1.7 funding summary which includes Counterpart funds, analysis of the table revealed that counterpart funding by the Government was not released in full and out of the amount of Kshs.360,000,000, the unreleased balance amounted to Kshs.160,141,649 which amounted to 44% of the expected release. Upon closure of the project on 31 December 2017 a total of Kshs.210,841,567 remained undrawn/unreleased inclusive of Kshs.50,699,918 IDA Credit being 1% of the IDA financing. Contrary to section 33(f) of Public Finance Management Government Regulation 2015, stipulate that budget estimates shall take into account expenditure priorities which contributes to the realization of the required output and desired policy outcome.

Consequently, delays by the Government in releasing counterpart funds impacts negatively on project implementation and development for the concerned citizen.
2. Nyakonya Self Help Group Land Ownership

Included in financial statements under note 8.12 is other grants and transfers and payments of Kshs.32,146,917 which includes Kshs.1,500,000 for purchasing of plastic bottle molding machine and construction of molding room for Nyakonya Self Help Group. Site visit revealed that the piece of land where the bottling plant was constructed belonged to an individual and no title deed was availed for the group. Contrary to section 143(1) of Public Finance Management Government Regulations 2015, the Accounting Officer shall be responsible to maintain a register of assets under his or her controls or possession as prescribed by the relevant laws Consequently, the ownership of the land could not be ascertained despite the investment amount have been put on the land.

3. Purchase of Dairy Cows

Included in financial statements under note 8.12 is other grants and transfers and payments of Kshs.32,146,917 which includes Kshs.1,207,300 disbursed to Openji/Budubusi Beach Management Unit for construction of dairy units and purchase of 12 in calf heifers. Our physical verification on the same revealed the following:

i) No single dairy unit was physically verified and no list of beneficiary was availed

ii) The chairman confirmed that seven (7) out of the twelve (12) dairy cows had died and yet there were no records to prove the same.

iii) The ownership of one dairy cow that was shown was in doubt as it did not meet the specification of being with calf heifer and was not tagged. Contrary to section 99(3) of Public Finance Management Government Regulations 2015, stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates

Consequently, the regularity of the expenditure of Kshs.1,207,300 could not be confirmed.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.
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 procedures performed, 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

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1265. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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 (Cash 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.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Project's or to cease operations, or have no realistic alternative but to do so. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.
In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

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

**Auditor-General's Responsibilities for the Audit**

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 Project'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 Project'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 Project's 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 Project's to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.
I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

20 December, 2018