

REPUBLIC OF KENYA



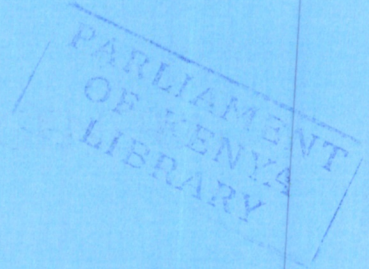
OFFICE OF THE AUDITOR-GENERAL

**THE NATIONAL ASSEMBLY
PAPERS LAID**

DATE: 18 AUG 2019 DAY: Thursday

TABLED BY: M. M. Mwangi Dip

CLERK-AT THE-TABLE: OF G. M. Mwangi Dip



THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
LAKE BASIN DEVELOPMENT
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2018**





LAKE BASIN DEVELOPMENT AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2018

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



LAKE BASIN DEVELOPMENT AUTHORITY
Annual Reports and Financial Statements
For the year ended June 30, 2018

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PART I

ANNUAL REPORT 2017/2018



LAKE BASIN DEVELOPMENT AUTHORITY
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I. CORPORATE INFORMATION

Directors

✓ Mr. Cavince Odoyo Owidi	-	Chairman
✓ Dr. Raymond Omollo, PhD	-	Managing Director
✓ Mr. Nelson Kifworo	-	Chair Planning & Dev committee
✓ Ms. Aoko Midiwo- Odembo	-	Chair, LBDC Co. Ltd
✓ Mr. Jack Bergita Otana	-	Chair Audit & Risk Mgt. Committee
✓ Mr. Jaluo Murunga William	-	Chair Finance & Est Committee
✓ Mr. Patrick Ouya Lumumba	-	Chair Compliance and Governance Committee
✓ Mr. Abraham Koech	-	Representative-The National Treasury
✓ Mr. Earlie Ng'ani	-	Member
✓ Ms. Katherine Muoki,	-	Rep. Min. of Devolution and Planning
✓ Ms Wilbroda Odera	-	Member
✓ Mr. Steve Okoth Mwangi	-	Member
✓ Hon. William Omondi	-	Member

Physical Contacts

P.O. Box 1516-40100
Kanyakwar
Kisumu-Kakamega Road
Kisumu, KENYA

Entity Contacts

Telephone : (254) 020-2023414
Mobile : 0715-682555/0735-711933
E-mail : info@lbda.co.ke
Website : www.lbda.co.ke

LBDA Bankers

National Bank of Kenya Ltd.
Kisumu Branch
P.O. Box 1152 - 40100
KISUMU
KENYA

Kenya Commercial Bank Ltd.
Kisumu Branch
P.O. Box 17 - 40100
KISUMU

Cooperative Bank of Kenya Ltd.
Kisumu Branch
P.O. Box 1511 – 40100
KISUMU

CORPORATE INFORMATION- Continued-

Auditors

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

Legal Advisors

Gumbo & Associates Advocates
P.O Box 2718-
Eldoret.

Amondi & Co. Advocates
P.o Box 675-40100,
Kisumu.

Ogejo.Omboto & Kijala Advocates
P.O Box 3801-40100
Kisumu.

CORPORATE INFORMATION- Continued-

a) Preamble

The regional development approach for National Development Planning was adopted in Kenya in the early 1970s. This led to the establishment of the six Regional Development Authorities (RDAs) based on rivers and large water body basins between 1974 and 1990. Lake Basin Development Authority, as one of the six RDAs, was established by an act of parliament (Cap 442) on the 31st of August 1979 to provide an avenue for a quicker, more meaningful and co-coordinated development in the Kenyan portion of the Lake Victoria basin. The organization's area of jurisdiction covers a land area of approximately 39,000-km² with an estimated population of 16.2 million people (KNBS, 2009). This region is endowed with an immense resource base, which include Land, water and human resources, which could anchor and stimulate economic Growth in the basin area and the entire country.

To leverage on the existing opportunity, LBDA has been initiating, planning, coordinating and implementing integrated, basin-based multi-sectoral programs with the aim of accelerating sustainable socio-economic growth and transformation among the local communities within the basin. This has been through a series of five-year strategic planning cycle. The Plans in these strategic planning cycles have been informed by the government's long-term development aspirations, policies and strategies. Among such policies and strategies have been the Kenya Vision 2030 and its medium-term plans priorities, international obligations including Millennium and Sustainable Development Goals as well as the current "Big Four Agenda" for 2018-2022.

b) Principal Activities

The vision, mission and core values of Lake Basin Development Authority are as follows:

VISION

To be a leader on sustainable integrated socio-economic development in Kenya.

MISSION

To catalyse, promote and implement resource based programmes for sustainable basin-based integrated socio-economic development for improved livelihoods of the communities in the Lake Victoria Basin.

CORE VALUES

Our core values are captured in an acronym derived from the word RESPECT

R We shall respect diversity of opinion race creed.

We shall be responsible in all our action.

E We shall be ethical, uphold & sustain a culture of honesty in dealing with our stakeholders.

We shall be emphatic to our constituents.

S We shall be socially responsible in all our activities.

P We shall act with utmost professionalism.

We shall adopt participatory approaches to development and forge effective partnership with all our stakeholders.

E We shall respect and protect the environment in all we do.

C We shall be committed to our vision and mission.

We shall foster creativity and innovation.

T We shall inspire trust among us and in the community.

We value team work both internally and externally.

We shall uphold tolerance among us and with the communities we serve.

CORPORATE INFORMATION- Continued-

Quality Policy

The Authority commits to comply with all applicable statutory requirements and continual improvement of its Quality Management System based on ISO 9001:2015 International Standards.

The Authority's top Management commits to review this policy and established quality objectives biennially to ensure sustained improvement and suitability.

LBDA's Quality Objectives:

- Lake Basin Development Authority (LBDA) is a Government Agency committed to providing demand driven quality products and services through integrated planning and development to catalyse sustainable, Socio and Economic development by promoting resource based investments in the Lake Basin Region;
- LBDA is committed to the effectiveness and efficiency of the quality management system through defined Quality Objectives that shall be reviewed annually at various functional levels within the organization
- To ensure consistent delivery of services, LBDA shall endeavour to meet and exceed the needs and expectations of our customers and interested parties through the implementation and maintenance of a Quality Management System based on the requirements of ISO 9001:2015;
- The management shall also be committed to timely compliance with the relevant statutory and regulatory requirements;
- LBDA shall regularly measure, analyse and evaluate the effectiveness and efficiency of the Quality Management System for continual improvement.




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CORPORATE INFORMATION- Continued-
THE BOARD OF DIRECTORS

1	<p>MR CAVINCE ODOYO OWIDI (CHAIRMAN)</p> 	<p>D.O.B: 25th April 1968</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • Bachelor of Education Honours –Pure Applied Mathematics including computer science and applied statistics-Egerton University • Public Administration and leadership- University Of South Africa <p><i>Experience</i></p> <ul style="list-style-type: none"> • Advisor- Nairobi Governor 2014-2017 • Managing Director-Parco Africa Ltd Nairobi/Dubai • Regional Manager PBI International 2004-2016 • Principal Horizon Academy-1994-2004 • Senior Teacher Arya Vedic GCE school1996-1999
2	<p>MR. EARLIE ALPHAYO NGANI (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 12th August 1964</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • Post Graduate Diploma in Law • LLB-Pune University • Bachelor of Commerce (Accounts)-Pune University <p><i>Experience</i></p> <ul style="list-style-type: none"> • Senior Partner - Ng’ani&Oluoch Advocates (2004- to date) • B.W. Kamunge & Company Advocates (1995 – 2000) • Gatheru Gathemia & Company Advocates (1994 – 1995)
3	<p>DR. EVANS A. ATERA (SECRETARY)</p> 	<p>D.O.B: 8th June 1968</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • Ph.D. in Agronomy- Kobe University, Japan • M.Sc. Agriculture (Agronomy)- Kobe University, Japan • B.Sc. Agriculture -University of Eastern Africa, Baraton Kenya • Member: KNAS <p><i>Experience</i></p> <ul style="list-style-type: none"> • Chief Executive officer and Board Secretary at LBDA (2016-To date) • General Manager Lake Basin Development Company (2015-2016) • Regional Manager LBDA (2011-2015)
4	<p>MS. AOKO MIDIWO-ODEMBO (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 27th January 1959</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • Masters of Public Administration (MPA) Atlanta University • B.A (History and Political Science) University of Nairobi <p><i>Experience</i></p> <ul style="list-style-type: none"> • Consultant and Special Assistant to the President - Corporate Council on Africa (CCA) – Washington, DC (2010 – 2013) • Liaison Coordinator - Carter Center - Nairobi, Kenya Office (1994 – 1997) • Contracts Manager - African Medical and Research Foundation (AMREF) - Nairobi, Kenya (1991 – 1994)

CORPORATE INFORMATION- Continued-




THE BOARD OF DIRECTORS

4		<ul style="list-style-type: none"> • Project Administrator - The Population Council - Nairobi, Kenya (1989) • Country Representative - Resources for Child Health (REACH) – Nairobi, Kenya(1988 – 1989) • Program Analyst - Centers for Disease Control (CDC), International Health Program Office – Atlanta, GA (1987 – 1988) • Assistant Personnel Manager - Kenya Industrial Estates Group of Companies (1983 – 1985)
5	<p>MR. JACK BERGITA OTANA (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 22nd August 1958</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • CPA I Sec 1 <p><i>Experience</i></p> <ul style="list-style-type: none"> • Auditor-NokweAdienge & Co (Audit-Firm) (1990-1991) • Branch Accountant- Interfreight (K)Ltd (1986-1989)
6	<p>MR. NELSON KIFWORO (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 6th August 1968</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • Bachelor of Science Business Admin-International Business <p><i>Experience</i></p> <ul style="list-style-type: none"> • Makers Enterprises Limited (Private) (1996 – todate) • Embassy Of Kenya, Abu Dhabi, UAE (2005-2008) • United Nations Regional Offices (1993-1995) • Trade Bank Limited (1991-1993)
7	<p>MR. STEPHEN MWANGA (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 30th September 1975</p> <p><i>Qualifications</i></p> <ul style="list-style-type: none"> • Diploma in Banking and Finance-Kenya School of Monetary studies <p><i>Experience</i></p> <ul style="list-style-type: none"> • Director-Fleming Bridge Aviation Services (2009- todate) • Director- Global Investment Services(Nairobi) [2012-Todate] • Network Administrator- University of Nairobi • Harambee Sacco (2003-2007)

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CORPORATE INFORMATION- Continued-

THE BOARD OF DIRECTORS- Continued

<p>8</p>	<p>MR. PATICK OUYA LUMUMBA (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 1964</p> <p>Qualifications</p> <ul style="list-style-type: none"> • Bachelor of law (LLB)- University Of Poona India • Bachelor of Arts Cooperative Mangement –University of Agra India <p>Experience</p> <ul style="list-style-type: none"> • Town Clerk – County Council of Lamu (2010-2012) - Siaya Municipal Council (2007-2010) - Malindi Municipal Council (2005-2007) - Homa Bay Municipal Council (2004-2005) • Deputy Town Clerk – Vihiga Municipal Council (2002-2004) • Legal Officer – Concord Insurance (1993-1995) • Legal Assistant – OmbijaWasuna& Co. Advocates (1998-2001) • Research Assistant – Fredric Nauman Foundation (1995-1997)
<p>9</p>	<p>MS. WILBRODA ODERA (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 24th August 1983</p> <p>Qualifications</p> <ul style="list-style-type: none"> • B.Sc.-Actuarial Science <p>Experience</p> <ul style="list-style-type: none"> • Head of Individual Life Business – APA Life Assurance Limited (2014 –to date) • ICT Project Manager – APA Life Assurance Limited (2012 –2014) • Team leader Client Services – Jubilee Insurance Company Limited(2012) • Business System Analyst-Life System Implementation Project – Jubilee Insurance Company Limited (2010–2012) • Team leader Product Development – Jubilee Insurance Company Limited (2008 –2012)
<p>10</p>	<p>HON. WILLIAM OMONDI (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 1951</p> <p>Qualifications</p> <ul style="list-style-type: none"> • Diploma Land, Engineering and Topo Surveys - Kenya Technical University • EALS International Certificate <p>Experience</p> <ul style="list-style-type: none"> • Private practice (2008-2016) • Member of Parliament, Kasarani Constituency- Nairobi (2002-2007) • Senior Surveyor, Nairobi City Council- Ministry of Local Government (1979- 1992) • District Surveyor, Kisii (1978) • Assistant Surveyor, Ministry of Lands & Settlement (1974-1977)

CORPORATE INFORMATION- Continued-

THE BOARD OF DIRECTORS



<p>11</p>	<p>MS. KATHERINE MUOKI (NON EXECUTIVE DIRECTOR)</p> 	<ul style="list-style-type: none"> • D.O.B: 26th September 1966 <p>Qualifications</p> <ul style="list-style-type: none"> • Master of Arts (Economics) • Bachelor of Education (Economics and Business Studies) • Member of Economic Society of Kenya • <p>Experience</p> <ul style="list-style-type: none"> • Director of Economic Planning responsible for Infrastructure, Science, Technology and Innovations, Ministry of Planning, National development and Vision 2030, Ministry of Devolution and Planning (2010 to present) • Economist at various levels in Ministry of Planning and National Development, Ministry of Finance and Planning, Ministry of Planning, National Development and Vision 2030 (1988 to 2010)
<p>12</p>	<p>MR. JALUO MURUNGA WILIAM (NON EXECUTIVE DIRECTOR)</p> 	<p>D.O.B: 19th September, 1961</p> <p>Qualifications</p> <ul style="list-style-type: none"> • Masters – Early Childhood & Primary Education • Bachelor of Arts in Early Childhood & Primary Education <p>Experience</p> <ul style="list-style-type: none"> • Assistant Lecturer - University of Eldoret (2014- todate) • Assistant Lecturer - Maasai Mara University (2013-2014) • Assistant Lecturer - Mount Kenya University, Kakamega Campus (2012-2013) • Education Officer - Likuyani District • Head teacher - Musemwa and Lwanda Primary Schools
<p>13</p>	<p>MR.ABRAHAM KOECH (Alternate Director to the Cabinet Secretary/National Treasury and Planning)</p> 	<p>D.O.B: 21st April 1969</p> <p>Qualifications</p> <ul style="list-style-type: none"> • MBA in Strategic Management from Jomo Kenyatta University of Agriculture and Technology and also • BA Hons in Economics <p>Experience</p> <p>Has over 22 years of service in Corporate and Public Sector. Currently, serving as an Alternate Director to the Cabinet Secretary/National Treasury and Planning in the Boards of Lake Basin Development Authority, Mumias Sugar Company Ltd, Kenya Seed Company Ltd, and Kenya Film Classification Board.</p>

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XC
CORPORATE INFORMATION- Continued-




MANAGEMENT TEAM

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


1	<p>DR. EVANS A. ATERA</p> 	<p>Ag. Managing Director</p>	<ul style="list-style-type: none"> • Ph.D. in Agronomy • M.Sc. Agriculture (Agronomy) • B.Sc. Agriculture • Member: KNAS
2	<p>MR. MAURICE OBASO</p> 	<p>Ag. Chief Manager, Planning Research, Bus. Dev. & Inv. Pro.</p>	<ul style="list-style-type: none"> • B.A- Marketing • MBA
3	<p>CPA(CS) FREDRICK CHERE</p> 	<p>Chief Manager- Finance ICPAK Membership No. 4745</p>	<ul style="list-style-type: none"> • MBA Strategic Management • B. Com- Accounting • CPA(K) ,CPS (K),CFE • Certificates in Leadership and Governance • Professional Association: ICPAK, ICPSK, ACFE
4	<p>MR. WILLIAM O. OGOLLA</p> 	<p>Chief Manager, Agricultural Services</p>	<ul style="list-style-type: none"> • MSc. Land & Water Management • Bachelor of Science- Agriculture

CORPORATE INFORMATION- Continued-

MANAGEMENT TEAM- continued





5	<p>ENG. GODFREY M. MWANGI</p> 	<p>Ag: Chief Manager, Technical Services & Operations</p>	<ul style="list-style-type: none"> • BSc. -Civil Engineering • Member: EBK; IEK
6	<p>MR. JOSEPH OKOTTO- OKOTTO</p> 	<p>Manager Planning, Research & Special projects</p>	<ul style="list-style-type: none"> • Msc- Natural Resource Management • BSc. –Environmental Science • Diploma in Cartography • Certificate in Policy and Planning.
7	<p>CPA GRACE ABUTO</p> 	<p>Manager, Internal Audit ICPAK Membership No. 5629</p>	<ul style="list-style-type: none"> • B. Com-Finance • CPA(K), CPS Finalist • Member: ICPAK, ISACA
8	<p>MRS. MIRIAM SIWA</p>	<p>Ag. General Manager, LBDC</p>	<ul style="list-style-type: none"> • MSc. Entrepreneurship • PGD Planning &Mgt of Devpt Projects • PGDHRM • Bachelor of Education • Diploma in Management

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CORPORATE INFORMATION- Continued-

MANAGEMENT TEAM- continued

9	<p>CPA CHRISTINE OTIENO</p> 	<p>Manager Finance ICPAK Membership No. 10470</p>	<ul style="list-style-type: none"> • MBA-Strategic Management • PG Diploma in Banking • B. Com-Accounting & Auditing • CPA (K) • Member ICPAK
10	<p>MR. SAMUEL NDIRE</p> 	<p>Manager, Quality Assurance</p>	<ul style="list-style-type: none"> • Bachelor of Arts • PG Diploma in Public Relations
11	<p>MRS. BEATRICE OKOKO</p> 	<p>Manager, Corporate Affairs</p>	<ul style="list-style-type: none"> • Masters- Project Planning & Management • BBA - Finance • Advanced Diploma in Business Administration • Corporate Governance Training.
12	<p>MR. PHILIP O. OLOO</p> 	<p>Manager, Agricultural Services</p>	<ul style="list-style-type: none"> • Masters- Project Planning & Management • BSc. Horticulture & Agriculture

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13	<p>MR. JAMES NYAKWEBA</p> 	<p>Ag. Manager, Human Resource</p>	<ul style="list-style-type: none"> • Masters in Human Resource management • Bachelor in Human Resource Management. • Member-IHRM • CPS-Part I
14	<p>MR. BILDAD ONDITI</p> 	<p>Ag. Manager, Engineering Services</p>	<ul style="list-style-type: none"> • MSc. Soil & Water Engineering • BSc. Engineering • Diploma in Business Management
15	<p>MR. EDWIN OLANG</p> 	<p>Ag. Manager, Administration Services</p>	<ul style="list-style-type: none"> • B.A. – Development Studies
16	<p>MR. RAYMOND NDOLO</p> 	<p>Ag. Manager, Procurement</p>	<ul style="list-style-type: none"> • PGD- Logistics Management • B. Com – Marketing Management

II. CORPORATE GOVERNANCE

Lake Basin Development Authority (LBDA) is a Regional Development Agency that was established by an Act of Parliament Cap 442 on the 31st August 1979 to coordinate the socio-economic development in the Lake Victoria Basin, Western Kenya. Currently, the Authority is under the Ministry of East African Community and Regional Development which provides the general policy and strategic direction of the Authority. In order for the Authority to achieve its strategic objectives, it is governed by the Board who exercise control.

The board adheres to the highest standards of corporate governance and ethics as well as ensuring compliance with all applicable laws. It is committed to ensuring that the Authority's obligations, roles and responsibilities to its various stakeholders are fulfilled through its corporate governance practices. The Members and Management perform their duties with impartiality, honesty, transparency and accountability, professionalism, integrity, care and due diligence and act in good faith to the best interests of the public.

Further, the Board is committed to ensuring that ethics and integrity remain at the core of the Authority's operations. It recognizes that ethical management is key to the Authority's sustainability and is therefore, continuously putting in place practices, systems and processes to integrate ethics in all the Authority's operations. All new Members and staff equally undergo mandatory induction training that includes ethical conduct and are required to sign the Code of Ethics and to adhere to its principles and provisions.

Role of the Chairman

The Chairman provides leadership and governance of the Board and creates conditions for overall Board and individual Director's effectiveness by ensuring that all key and appropriate issues are discussed by the Board in a timely manner. He ensures that the Board plays a full and constructive part in the development and determination of the Authority's strategies and policies. He also ensures that the Board is supplied with timely and sufficient information to enable it discharge its duties effectively. In furtherance of the above, the Chairman ensures adherence to good corporate governance practices and procedures, and continuously promotes the highest standards of integrity, probity and corporate governance throughout the Authority and particularly at Board level.

Role of the Board

The Board is responsible for overall strategic direction and operational guidance of the Authority.

In this regard, the responsibilities of the Board include:

- i. Establishing short and long-term goals of the Authority and develop strategies to achieve these goals;
- ii. Monitoring the Authority's performance against these set goals;
 - a. Overseeing the preparation of annual financial statements and reports;
 - b. Approving annual budgets; and
- iii. Ensuring that the Authority has adequate systems of internal controls together with appropriate monitoring of compliance activities to ensure business continuity.

The Board's key achievements during the 2017/ 18 FY were:-

- Completion of the implementation of the Authority's 2012/17 Strategic Plan and development of draft 2017/22 Strategic Plan;

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- Approved and continually monitored the implementation of the Authority's Annual operating Plans and Budget;
- Implemented the Authority's Performance Contract with The National Treasury;
- Reviewed the Authority's financial controls, financial statements and reporting systems based on both strategic and long-term plans;
- Oversaw the Authority's management of enterprise risk and approved all significant corporate actions, among others.

CORPORATE GOVERNANCE –Continued

Board Membership and Attendance

No.	NAME OF DIRECTOR	BOARD POSITION	BOARD ATTENDANCE	BOARD COMMITTEE	
				CHAIRMANSHIP	NO. OF COMMITTEES
1	MR. EARLIE NGANI	MEMBER	7		2
2	DR EVANS A. ATERA	AG. MANAGING DIRECTOR	7		5
3	HON. WILLIAM OMONDI	MEMBER	7		2
4	MS. KATHERINE C. MUOKI, HSC	ALT. DIR.- MIN. DEV&PLANING	7		2
5	MR. PATRICK THOMAS O. LUMUMBA	MEMBER	5	COMPLIANCE & GOVERNANCE	2
6	MR. JACK BERGITA OTANA	MEMBER	7	AUDIT & RISK	2
7	MR. STEPHEN O. MWANGA	MEMBER	6		2
9	MR. NELSON A. KIFWORO	MEMBER	5	PLANNING & DEVELOPMENT	2
10	MS. AOKO MIDIWO-ODEMBO	MEMBER	4	LBDC BOARD	2
11	MS. WILBRODA A. ODERA	MEMBER	4		2
12	MR. WILLIAM J. MURUNGA	MEMBER	7	FINANCE & ESTABLISHMENT	2
13	Abraham Koech	ALT. DIR.- MIN. National Treasury	3		2

CORPORATE GOVERNANCE-Continued

Board Remuneration

Members are entitled to a sitting allowance for every meeting attended, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable. This is done within the limits set by the Government for State Corporations. In addition, the Chairman is paid a monthly honorarium.

Internal Audit and Assurance

As the Authority's third line of defence, the Internal Audit function's main objective is to provide assurance of the risk management, internal controls and governance processes. The assurance is meant to deepen good governance practices and support the achievement of the best internal controls through continual improvement and engagement. The Authority's system of internal controls has been defined by approved policies and procedures which contain operational and financial controls that ensures that the assets are safeguarded, transaction authorized and accurately recorded. Further, they ensure that material errors and irregularities are either prevented or detected within a reasonable time.

Internal assurance was carried out by the independent internal audit function. The objectivity and independence of the Internal Audit was enhanced through professionalism and competence of the function and governance support from the Board Audit Committee to which the function reports. During the financial year under review, planned audit reviews were carried out with a view to appraise the compliance levels against approved policies, relevant legislations as well as evaluate on the adequacy, design and operational effectiveness of internal controls.

The Office of the Auditor General also provided the external assurance through systems and financial reviews of the various expenditure cycles of the Authority.

Corruption Prevention Strategies

The Authority continued to implement the Anti-Corruption Policy and Corruption prevention strategies through the guidance of the Corruption Prevention Committee which is comprised of the Heads of the Departments and chaired by the Managing Director. These strategies included awareness creation aimed at raising the culture of integrity, ethical and professional conduct at the work place. Further, the Authority's staff awareness levels on ethics and integrity were enhanced through sensitization from Integrity Assurance Officers. Through the guidance of the Ethics and Anti-Corruption Commission, the Authority's entire management was sensitized on the new Anti-Bribery Act 2016 as well as other emerging issues on ethics and integrity.

The Authority also carried out a Corruption Risk Assessment in all its functional areas, developed and implemented appropriate mitigation plans.

Whistle Blowing Policy

The Authority is committed to protecting the identity and well-being of all employees and stakeholders when they provide information regarding corruption related activities or participate in investigations. Towards this, it has established three reporting channels through which anonymous reports on unethical/fraudulent behaviour can be made without fear of retaliation from the suspected individuals. The channels are corruption reporting hotline, email and corruption reporting box.

Conflict of Interest

The Members and staff are obligated to fully disclose and declare any potential or real conflict of interest, which comes to their attention, whether direct or indirect. At any meeting of the Authority, Members and staff are expected to declare any interest they may have in an agenda item under discussion. In case of conflict of interest the affected member or staff is excluded from any discussion or decision on the matter in question.

II. CORPORATE GOVERNANCE - Continued

Code of Conduct

The Authority has continued to observe and implement the provisions of the gazetted Code of Conduct. This code binds both the Board Members and staff as they must commit to its requirements upon joining the Authority.

Risk Management

Risk management is one of the strategic functions and is applied in the day-to-day operations of the Authority. This ensures that all risks are managed optimally and comply with the approved policies and tenets of good corporate governance. In the year under review, the Authority continued to implement the various mitigation strategies to ensure that the risk levels are minimized.

Relevant risks are those within the control of the Authority, a possible event or outcome that could cause the organization not operate or fulfil its mandate. In order to ensure the Authority remains up to date in its risk identification and mitigation strategies, the current risk management framework and related tools are being reviewed.

Corporate Governance Review

The Board shall review this Statement not less than annually and shall recommend any changes for its approval.

Committees of the Board

The Board has five committees with specific delegated authorities. These are the Board Executive Committee, the Audit & Risk Committee, Finance and Establishment Committee, Development & Planning Committee, Compliance & Governance Committee and LBDC Board Committee. The specified members and detailed terms of reference are indicated below:

Board Executive Committee Members

- | | | |
|----------------------------|---|---|
| • Mr. Cavince Oduyo Owi | - | Chairman |
| • Dr. Evans A. Atera | - | Ag. MD – Secretary |
| • Mr. Nelson Kifworo | - | Chair Planning & Dev committee |
| • Ms. AokoMidiwo- Odembo | - | Chair, LBDC Co. Ltd |
| • Mr. Jack Otana | - | Chair Audit & Risk Mgt. Committee |
| • Mr. Jalu Murunga William | - | Chair Finance & Est Committee |
| • Mr. Patrick Ouya Lumumba | - | Chair Compliance and Governance Committee |
| • Mr. Abraham Koech | - | Representative-The National Treasury |
| • Ms. Katherine Muoki, HSC | - | Rep. Min. of Devolution and Planning |

Establishment Finance and Committee Members

- | | | |
|----------------------------|---|---------------------------------|
| • Mr. Jalu Murunga William | - | Chairman |
| • Dr. Evans A. Atera | - | Ag. MD - Secretary |
| • Ms. Katherine Muoki, HSC | - | Rep. Min. Devolution & Planning |
| • Ms. AokoMidiwo- Odembo | - | Member |
| • Mr. EarlieNg'ani | - | Member |
| • Ms Wilbroda Odera | - | Member |

CORPORATE GOVERNANCE – Continued

Establishment Finance and Committee roles,

- Reviewing the Authority's financial strategy for approval by the Board;
- Reviewing the Authority's annual financial statements and reporting to the Board;
- Reviewing the Authority's financial regulations from time to time and recommending any necessary changes in those regulations to the Board;
- Overseeing the Authority's financial management and financial control systems and making quarterly reports to the Board;
- Reviewing and monitoring the implementation and effectiveness of the Authority's employment policies through regular reports provided by the Management Board;
- Overseeing the relations between the Authority and its employees
- Reviewing and making recommendations to the Board, on the salaries, allowances and other terms and conditions of service of staff
- Receiving and considering proposals on strategy and policy in all matters relating to the recruitment, reward, retention, motivation, and development of the Authority's staff and make recommendations to the Board.
- Receiving reports from management relating to promotion.

Planning and Development Committee Members

- | | | |
|----------------------------|---|--------------------------------------|
| • Mr. Nelson Kifworo | - | Chairman |
| • Dr. Evans A. Atera | - | Ag. MD – Secretary |
| • CPA Boniface Simba | - | Representative-The National Treasury |
| • Mr. JaluoMurunga William | - | Member |
| • Hon. William Omondi | - | Member |

The committee is responsible for the following:

- i. Review and recommend to the Board the Strategic Plan as developed and updated by the management of LBDA.
- ii. Review and recommend to the Board the LBDA annual work plans and budgets.
- iii. Review and recommend to the Board the LBDA annual Performance Contract between the Board and the Ministry and between the CEO and the Board
- iv. Review and recommend to the Board LBDA's concept papers and proposals.
- v. Oversee the implementation of LBDA projects and programmes
- vi. Advise the Board of existing and future development opportunities.
- vii. Monitor the following to ensure adherence to Board policies and report to the Board:
 - a. Strategic Plan;
 - b. Development Projects
 - c. Land Use Plan and land development to ensure compliance with Board policies.
- viii. Networking with other bodies for development purposes on behalf of the Board and in liaison with Management

CORPORATE GOVERNANCE – Continued

Audit & Risk Management Committee Members

- Mr. Jack Otana - Chairman
- Mr. Abraham Koech - Member
- Hon William Omondi -Member
- CPA Grace Abuto - Manager Internal Audit- Secretary

The committee is responsible for the following:

- Providing leadership and advising Authority on strategic issues related to risk management, quality management, and compliance with bench mark standards and Statutory Regulations;
- Reviewing and monitoring the effectiveness of the Authority’s risk Management Policies and strategies in mitigating against identified potential risks and in improving management and control;
- Receiving and considering proposals from the internal audit department on the internal audit and compliance work plans, and making recommendations to Board for approval;
- Receiving and considering quarterly internal audit and compliance reports and making recommendations to the Board;
- Receiving and considering annual external audit report submitted by external auditors and making recommendations to the Board;
- Receiving and considering proposals on quality review cycle and internal quality assessment plans from the management and making recommendations to Board for approval.

LBDC Board Committee Members

- Ms. Aoko Midiwo - Odembo - Chairperson
- Dr. Evans A. Atera - Ag. MD – Secretary
- Ms. Katherine Muoki, HSC - Rep. Min. Devolution & Planning
- Mr. Stephen Mwanga - Member
- Mr. Nelson Kifworo - Member
- Mr. Patrick Ouya Lumumba - Member

Compliance & Governance Committee

- Mr. Patrick Ouya Lumumba - Chairman
- Dr. Evans A. Atera - Ag. MD – Secretary
- Mr. Jack Otana - Member
- Ms Wilbroda Odera - Member
- Mr. Stephen Mwanga - Member
- Mr. EarlieNg’ani - Member

The committee is responsible for the following:

- Monitoring key performance indicators as agreed by Board

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CHAIRMAN'S STATEMENT

The Lake basin development Authority (LBDA) is a state corporation established in 1979 to coordinate meaningful development in the Kenyan portion of the Lake Victoria basin. LBDA has a number of strategies that it employs to achieve its broad mandate through a Multi-Sectoral approach due to the vast area it covers. LBDA covers 18 counties in the country whose population is approximately 42% of Kenya's population according to 2009 census

This 2017/2018 financial statement was prepared on the backdrop of a long electioneering period which greatly affected our operations. None the less as an Authority we have continued to strive to attain the targets set in the strategic plan, the Vision 2030 and the Medium Term Plan (MTP).

Self-sustainability of LBDA being one of our key priorities has led to the construction of the LBDA mall. The Mall being the biggest in the region will generate the much needed revenue hence reducing the overdependence on the exchequer releases to fund our operations and projects. Secondly, my board has ensured the Lake Basin Development Company (LBDC) activities are increased by acquiring a new mill hence improving efficiency. The 18 Technology Transfer Centres (TTCs) spread across the regions are being refurbished to ensure quality products and services to the community's they are located.

A motivated workforce is crucial to any organizations performance and in that case, we have recently implemented the new house allowance effective 1st July, 2017. Commuter allowance arrears of current and former employees have been duly paid.

The major challenge we faced in the year was the non-disbursement of development funds for the financial year which greatly affected our operations but my Board and the esteemed workforce of LBDA have worked tirelessly to ensure proper service delivery.

Another challenge is that during the year LBDA has been transferred to more than three ministries i.e. Environment, National Treasury, Devolution and East African Community. This has negatively impacted the performance of the organization.

Going forward, we intend to pursue an ambitious strategy to deliver quality services to the masses, transform our workforce into an innovative instrument of regional and national development and also ensure visibility of our products and services.

A large, stylized handwritten signature in black ink, which appears to read 'Cavince Odoyo Owidi'. The signature is written over a horizontal line.

Mr. Cavince Odoyo Owidi
Chairman, LBDA

III. REPORT OF THE MANAGING DIRECTOR



Since incorporation in 1979, we have focused our resources to deliver quality and demand driven quality services through integrated planning and development in the Lake Victoria basin. The promulgation of the new constitution in 2010 led to the establishment of County Government with some key National functions devolved to this units and therefore we saw it fit to repackage our product and services to effectively carry out our mandate.

The FY 2017/18, the Authority only received Kshs. 191.5 Million for recurrent expenditure from the exchequer. A further Kshs. 500 Million was also received to cater for the pending bills incurred during the construction of the LBDA Mall. This fact has made us vulnerable especially in hard economic situation currently being experienced. To mitigate this the LBDA mall will soon be operational and enhance our revenue streams to compliment the exchequer. The LBDC Rice Mill is another project which will guarantee our relevance in the region, and in this regard the Exchequer has agreed to fund its up scaling to a tune of Kshs. 230 Million in the FY 2018/19

This financial year the Authority reviewed the Strategic plan 2017-2022 to align its activities to the new constitutional order and the Medium Term Plan (MTP III). The vision 2030 flagship projects i.e. the Magwagwa and Nandi multipurpose Dams have been taken care of and the Authority will continue to vigorously pursue their implementation through the Public Private Partnership (PPP).

LBDA began the process of transiting the ISO 9001:2008 to the ISO 9000:2015 which mainly focuses on quality service delivery to our customers. A consultant has been brought on board and will ensure complete transition by 30th September 2018.

As of date, I am proud to say that with our permanent team of 262 regional and headquarters office personnel, we are well equipped to handle any project that is required of us to a complete satisfaction. On this note we secured a Kshs 152 Million in the financial year to implement the approved house allowances of our employees. The Authority has also ensured that all its workforce has a comprehensive medical cover from the National Hospital Insurance Fund (NHIF) and work injury benefit act (WIBA) cover.

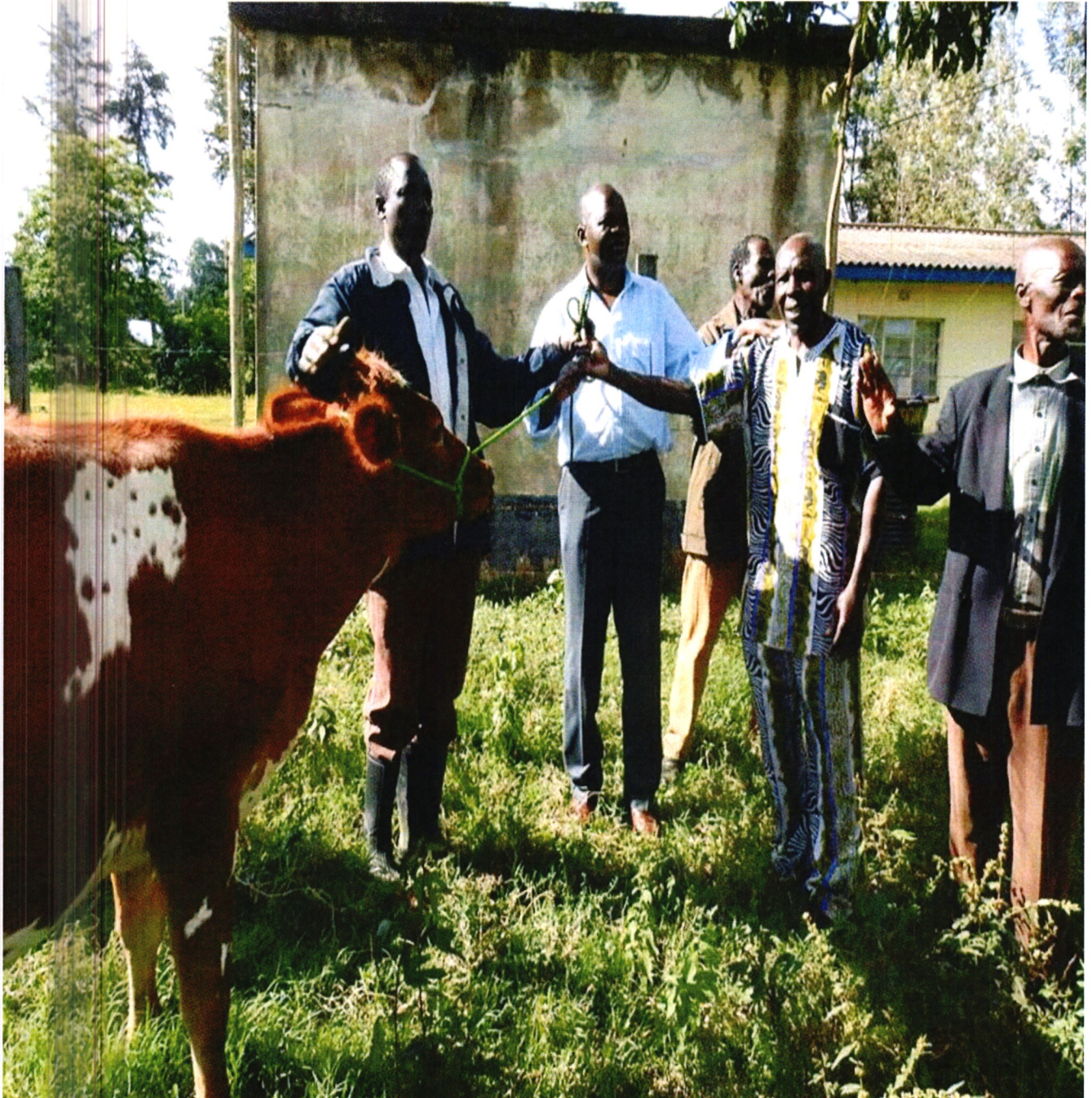
Our main challenge remains funding, either delayed or no funding for our development activities from the exchequer. We have prepared a sustainability paper in this regard and submitted to our parent Ministry for discussion.

The planned development initiatives for the FY 2018/19 will continue to promote rural-urban balance strategies, employment creation, household food security, tourism and trade development in an integrated environment. This has been aimed at the creation of wealth and bringing about socio-economic transformation that empowers communities.

Dr. Evans A. Atera
AG. Managing Director, LBDA

IV. KEY PROJECTS AND INVESTMENT DECISIONS THE AUTHORITY IS PLANNING/IMPLEMENTING

During the review period, the Authority planned to implement 6 projects namely: Upscaling of the LBDC Rice Mill, Regional Demonstration and Technology Transfer Centres, Magwagwa Multipurpose Dam Project, Integrated Land and Water Ecosystems Studies Project, Lake Basin Mall Project and Lichota, Muhoroni & Alupe Solar Irrigation Project.



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The planned activities for the project included the rehabilitation of 8 Integrated Technology Transfer Centres (ITTCs) and set up a Reticulation Aquaculture System (RAS) at Kibos ITTC in Kisumu County; the production of 2,000,000 fingerlings; the purchase and processing of 1,000 tonnes of paddy rice from rice farmers; the payment pending bill of Ksh. 500,000,000 of the Lake Basin Mall; the production and planting of 2,470,000 tree seedlings at Gwasssi hills and Mt. Elgon catchment areas.



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Due to limited funding the Authority managed to produce 1,125,000 fingerlings and 0.435 tonnes of table-sized fish under the Regional Demonstration and Technology Development Project. Additionally 120 fish farmers were trained on RAS fish farming technology.



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The Authority had planned to purchase and process 1,000 tonnes of paddy rice for the Rice Mill project but managed to purchase and process 14.68 tonnes. A total amount of Kshs. 500,000,000 was paid with due regard to the pending bill of the Lake Basin Mall Complex. The Authority managed to produce 1.6465 tonnes of honey at Ndhiwa Honey Refinery.



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On Magwagwa Multi-purpose Dam Project, the Authority had planned to conduct ESIA study, stakeholder mobilisation and sensitization as well as resource mobilisation for effective project implementation. Under the Integrated Land and Water Ecosystem Studies project, the Authority was able to produce 125,480 tree seedlings.

PROJECTS IMPLEMENTED IN THE FY 2017/18

S/No.	PROJECT NAME	Project Cost (Ksh. Millions)	FY 2017/18 Printed Estimates (Ksh. Millions)	FY 2017/18 Revised Estimates (Ksh. Millions)	Planned Outputs for FY 2017/18
1.	Up scaling of Rice Mill	250	37.5	0	•1,000 tonnes of paddy rice purchased and processed
2.	Magwagwa Multipurpose Dam Project	86,800	30	0	<ul style="list-style-type: none"> • ESIA study conducted • Stakeholder Mobilization and sensitization conducted • Tendering process initiated and completed <p>Implementation Contract duly signed</p>



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V. **Key projects and investment decisions the Authority is planning/implementing- Continued**

3.	Regional Demonstration and Technology Development Centres	150	31	0	<ul style="list-style-type: none"> • 2,000,000 mono-sex fingerlings produced • RAS technology transferred to 1,605 fish farmers
4.	Integrated Land and Water Ecosystem Studies (Nzoia & Lambwe basin)	250	80	0	<ul style="list-style-type: none"> • 2,600 households empowered • 2,470,000 tree seedlings produced <ul style="list-style-type: none"> • 1,000 ha of degraded riparian reserves rehabilitated
5	The Lake Basin Mall Complex – Kisumu	4,509	1,000	500	Ksh. 500,000,000 of pending bill paid
6	Lichota, Muhoroni and Alupe Solar Irrigation	360	20	0	•50 ha of land irrigated
	TOTAL	92,319	92,319		

V. ORGANIZATIONAL SUSTAINABILITY

Lake Basin Development Authority organizational sustainability is centred on three pillars:

- People and Community
- Finance and Economic Activity
- Environmental Sustainability

(1) People and Community

The Authority as an employer

Lake Basin Development Authority is committed to being a good employer, and to contribute positively to the local community through social economic initiatives. As an employer LBDA is committed in ensuring that all staff members are fully supported in their work, have a decent working environment, and are fairly rewarded. The Authority also encourages and supports staff to engage in activities which benefit the wider community and society.

In order to achieve this, the Authority commits to:

- Embedding equality and diversity into all operations
- Ensuring staff can achieve their full potential through training, mentoring, and other staff development activities.
- Achieving the highest practical standards of health and safety for our staff and visitors.

In our commitment to promote employee well-being at the workplace, we have continued to provide services and benefits that not only motivate employees but also enhance their productivity. Towards this, the Authority has maintained a healthy workforce through the provision of a medical scheme.

The Authority operates a defined Contribution Retirement Benefits Scheme for its employees on Permanent and Pensionable terms of employment, the assets of which are held, managed and administered in a separate trustee scheme as per the RBA requirements.

Local Community

The Authority is a major employer in the local community with considerable activities in over 18 counties. It participates in specific community engagement projects.

In support of the local community, the Authority undertake training to the farmers on the modern technology transfers with a view to enhancing farmers knowledge and skills on how to generate more farm produce from their farms.

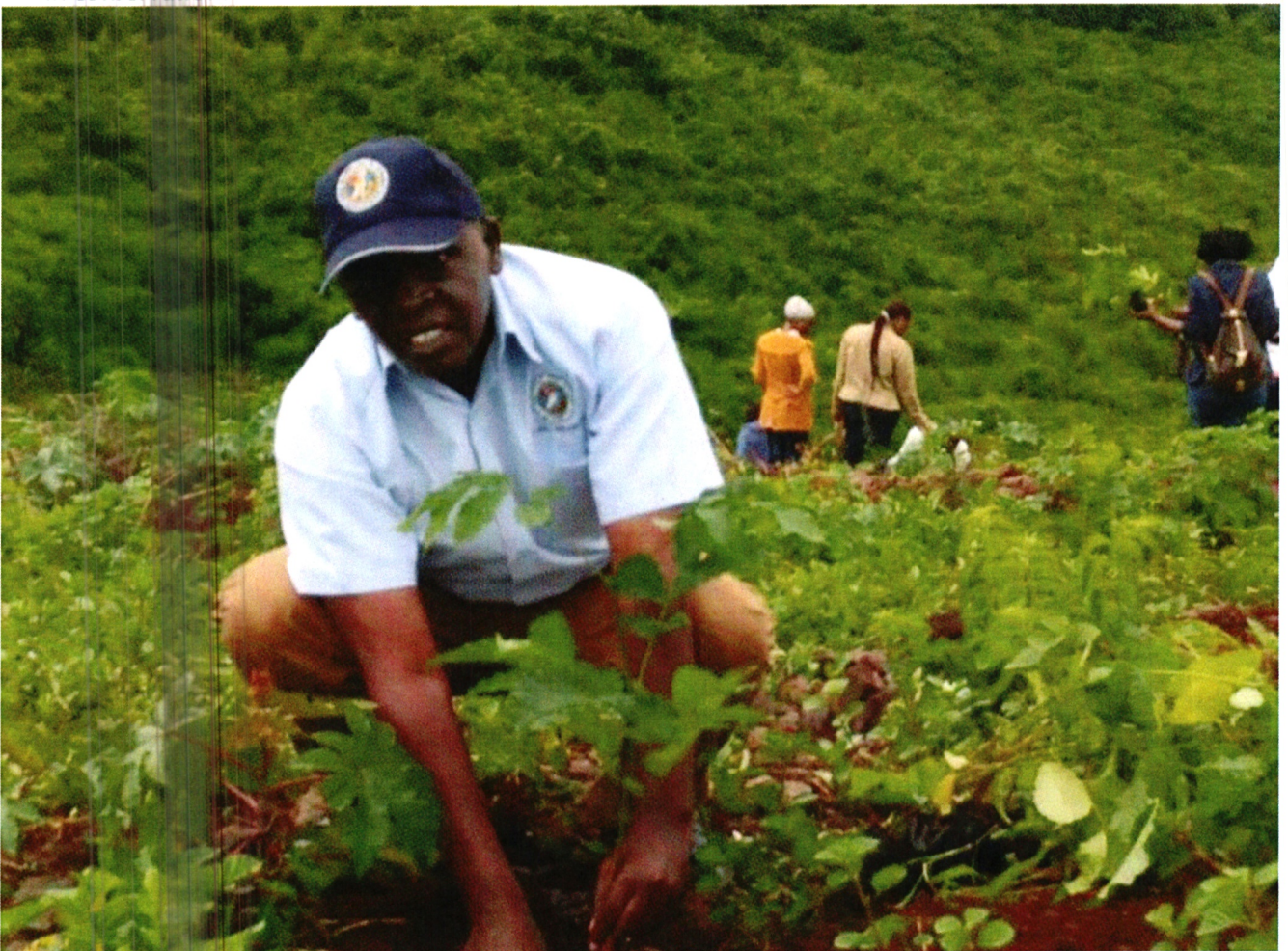


(2) Finance and Economic activity

The Authority recognises the way in which it conducts its activities financially has a bearing on those with an interest in its work. The Authority financial regulations follow the laid down Accounting Standards.

(3) Environmental Sustainability

LBDA recognises environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider their environmental and ecological aspects and impacts. In this respect Authority is partnering with various County governments and other stakeholders in conservation.



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VI. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Corporate Affairs Department was allocated Kshs. 1, 000, 000.00 for Corporate Social Responsibility (CSR) activities for the Financial Year 2017/18 .The department spent Kshs. 926,800.00 in the activities below:

INTERNATIONAL DAYS

LBDA in conjunction with Kisumu County Government partly sponsored international days to the tune of Kshs, 512,300/= in terms of logistics to facilitate the events as below:

- World Tourism Day- 27th September 2017
- World Rabies Day & Marathon- 28th September 2017
- World Water Day- 22nd March 2018

Output

- i) Enhance Community relationship and collaborations with County Government
- ii) Enhance government Big Four Agenda especially health & Food security
- iii) LBDA Brand recognition
- iv) Community empowerment



Uhai Lake Forum

LBDA has been key in promotion of climate change adaptation through our mandate and activities such as technology transfer in aquaculture, agro forestry, training and capacity building. The forum was held on the 12th – 14th April 2018 and the theme for the forum was '*climate change adaptation and peaceful co-existence in the Lake Victoria Basin*'. As part sponsors LBDA spent Kshs. 129,000 in logistics to facilitate the forum and donated 1,000 tree seedlings.

Output

- i) Enhance Community relationship within Authority's jurisdiction
- ii) Platform to share lessons on climate change adaptation and environmental conservation
- iii) LBDA Brand recognition

CORPORATE SOCIAL RESPONSIBILITY STATEMENT- Continued

Donation to National Holidays

The Authority contributes to county secretariats in order for them to achieve success in preparation of National Holidays. The Authority's Choir performs during this occasions and it also donates towards the luncheon.

Output

- i) County relationship
- ii) Brand recognition through our choir

YFCK National Tree Planting Day

LBDA in partnership with ASK and other stakeholders participated in the YFCK National Tree Planting Day on the 19th May 2018 at Amani Park in Riat institute. This was in line with our mandate to push for the targeted 10% tree cover nationwide. The Authority being one of the key stakeholders, donated 6,000 tree seedlings and also partially sponsored the events logistics at KShs.65,500.



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CORPORATE SOCIAL RESPONSIBILITY STATEMENT - Continued

Below is a summary table of the activities for 2017/18 Financial Year.

No	Organisation/ Activity	Date	Amount
1.	World Tourism day	27 th September 2017	215,500.00
2.	World Rabies Day & Marathon-	28 th September 2017	155,500.00
3.	World Water Day	22 nd March 2018	141,300.00
4.	Uhai Lake Forum	12 th – 14 th April 2018	139,000.00
5.	YFCK National Tree Planting day	19 th May 2018	125,500.00
6.	National Holidays (donation + lunches for choir	Varied	150,000.00
TOTAL			926,800.00



PART II

FINANCIAL STATEMENTS FOR THE YEAR 2017/2018



LAKE BASIN DEVELOPMENT AUTHORITY
Annual Reports and Financial Statements
For the year ended June 30, 2018

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30th, 2018 which show the state of the Authority's affairs.

Principal activities

The principal activities of the Authority, established under Cap 442 Laws of Kenya are: -

- (a) Integrated basin based development planning;
- (b) Integrated basin based development projects and programmes;
- (c) Resource studies and information sharing for basin wide planning and development
- (d) Public investment and establishment of basin resource management standards and norms;
- (e) Utilization of international waters; and
- (f) Interventions of strategic national government interest.

Results


The results of the entity for the year ended June 30, 2018 are set out on page one

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Section 14 of the Public Audit Act 2015 and Article 229 of the Constitution of Kenya.



Mr. Cavince Odoyo Owidi
CHAIRMAN



Dr. Raymond Omollo, PhD
MANAGING DIRECTOR

Date: 29/03/2019

Date: 29/03/2019

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

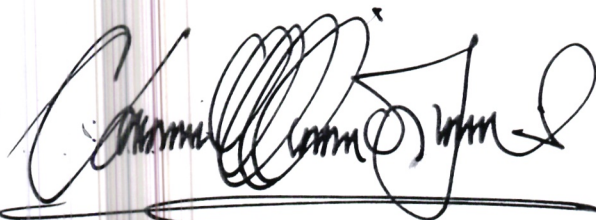
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining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

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2018, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Authority's financial statements were approved by the Board on 28th September 2018 and signed on its behalf by:



Mr. Cavince Odoyo Owidi
CHAIRMAN

Date: 29/03/2019



Dr. Raymond Omollo, PhD
MANAGING DIRECTOR

Date: 29/03/2019

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON LAKE BASIN DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Lake Basin Development Authority set out on pages 37 to 65, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Lake Basin 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 do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

A review of the financial statements revealed the following anomalies:

- i) The statement of changes in net assets includes an adjustment of Kshs.237,593,151 that has not been explained.
- ii) The cash flow statement indicates that the cash and cash equivalents as at 30 June 2018 was Kshs.183,640,253. However, the sum of net cash flows from operating activities of Kshs.43,948,307, net cash flows from investing activities of (Kshs.452,593,369), net cash flows from financing activities of Kshs.500,000,000 and cash and cash equivalent at the beginning of the year of Kshs.92,998,823 gives Kshs.184,353,761 and thus an unexplained difference of Kshs.713,508. Further, the cash and cash equivalents as at 1 July 2017 is indicated as Kshs.92,998,823, however, this differs with the certified amount of Kshs.94,281,779 resulting to an unexplained difference of Kshs.1,282,956.

Report of the Auditor-General on the Financial Statements of Lake Basin Development Authority for the year ended 30 June 2018



- iii) Note 18 to the financial statements indicates that the cash and cash equivalents as at 30 June 2017 was Kshs.92,998,823. However, this differs with the certified amount in the statement of financial position of Kshs.94,281,778.
- iv) Note 19 to the financial statements indicates that the receivables from exchange transactions as at 30 June 2017 was Kshs.53,509,394. However, this differs with the audited and certified amount in the statement of financial position of Kshs.50,854,576 leading to an unexplained difference of Kshs.2,654,818.
- v) Note 9 to the financial statements indicates that short-term employee benefits for the year ended 30 June 2017 were Kshs.176,454,085 which differs with the certified amount in the statement of financial performance of Kshs.178,981,292 for the same period.
- vi) Note 13 to the financial statements indicates that contracted services for the year ended 30 June 2017 were Kshs.26,742,144 which differs with the certified amount in the statement of financial performance of Kshs.11,498,556 for the same period.
- vii) Note 14 to the financial statements indicates that general expenses for the year ended 30 June 2017 were Kshs.113,416,688 which differs with the certified amount in the statement of financial performance of Kshs.126,113,069.

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

2. Property, Plant and Equipment

The statement of financial position indicates that the property, plant and equipment balance as at 30 June 2018 was Kshs.5,105,927,647. However,

- i) The assets highlighted below have not been valued and included in the financial statements.

	Farm Buildings	Details/ Registration number	Station
1	Dairy unit (milking parlor and calf pen)	Land	Lichota
2	Ndhiwa honey refinery house	Land	Ndhiwa
	Trailers		
6	AGRO ZA	9356	LBDA
7	AGRO ZB	2226	LBDA
8	AGRO ZB	1302	LBDA
9	AGRO ZB	1303	LBDA
14	AGRO ZA	1204/6	Lichota
15	Water busher	LBDA/YNR/MIF- PMT-003-010	Muhoroni

- ii) Further, the assets highlighted below do not have ownership documents;

	Assets	Acreage/ Registration No.	Location/ Station	Value as per the Asset Register (Kshs.)
1	Bulldozer Kumatsu	53A	Kisumu	1,343,750
2	2 Hydraulic Excavators	UH 033	HQ	1,430,000
3	Muhoroni - (Livestock Multiplication Centre)	136 HA	Muhoroni	478,000
4	Lichota - (Livestock Multiplication Centre)	401.1 HA	Migori	4,529,728
5	Alupe - (Livestock Multiplication Centre)	120 HA	Busia	925,000
6	Yala Swamp Complex	2300 HA	Siaya	-
7	Lugari - (Livestock Multiplication Centre)	120.1 HA	Turbo	-
8	Solongo Brick Plant	7.5 HA	Solongo	-
9	Chwele Fish Farm	10 HA	Chwele	800,272
10	Kokwanyo - (Livestock Multiplication Centre)	120 HA	Ringa	686,000
11	Sironga Brick Plant	15.5 HA	Sironga	1,100,000
12	Kodera Brick Plant	15 HA	Oyugis	850,000
13	Kibos Fish Farm	2.2 HA	Kisumu	1,470,000
14	Borabu Fish Farm	1 HA	Kisii	-
15	Sangalo - (Livestock Multiplication Centre)	140 HA	Bungoma	-
16	Kapsabet Brick Plant	-	Kapsabet	985,000
17	Upper Kanyakwar residential	7.77 HA	Kisumu	18,000,000
18	Lower Kanyakwar residential	9.3 HA	Kisumu	16,700,000
19	Migosi Poultry	1.76 HA	Kisumu	5,805,333
20	Ndhiwa Honey Refinery	0.6 HA	Ndhiwa	-
21	Bondo Honey Refinery	7 HA	Bondo	-
22	Rongo Fish Farm	-	Migori	-
23	KSM Block 12/40	0.37 HA	Kaundi Hills	1,545,000
	Total			56,648,083

In addition, some of the assets do not have values as indicated above.

- iii) The following assets are included in the financial statements but had been disposed off in previous years:

	Assets	Registration No.	Location/Station
1	Tractor Model (Case International)	-	Yala
2	Tractor Model (Case International)	-	Yala
3	Tractor Model (Case International)	-	Muhoroni
4	Tractor Model (Kubota)	KWU 041	Yala
5	Tractor Model (Kubota)	KWU 049	Kokwanyo

iv) Valuation of Assets

With the exception of vehicles and tractors all other assets have not been revalued. It is therefore difficult to establish the true values of the Authority's assets.

v) Additions to Buildings

Included in additions to buildings of Kshs.451,145,680 as indicated in note 21 to the financial statements is Kshs.370,656,063 relating to penalty and interest paid to the contractor of the Lake Basin Mall Complex. The amounts paid were broken down as follows:

Description	Amount (Kshs.)
Finance cost due to delay in paying initial 20% deposit	52,999,042
Interest and Penalties due to delay of payment of the bid balance	307,421,955
Running costs as of contractual handover date	10,235,067
Total	370,656,064

A review of the payments and related records revealed the following anomalies:

There is no indication as to how the running costs as of contractual handover date of Kshs.10,235,067 were certified since the breakdown from the financial expert indicates that some of the costs were either too high or not confirmed.

Further, there was no express board approval of the payments.

Consequently, the Completeness, accuracy, valuation, safety and validity of the property, plant and equipment value of Kshs.5,105,927,647 as at 30 June 2018 could not be confirmed.

3. Receivables from Exchange Transactions

Note 19 to the financial statements indicates that the gross receivables from exchange transactions as at 30 June 2018 was Kshs.220,590,489 made up of ex-board members, ex-staff, current staff, trade debtors of Kshs.569,689, Kshs.15,628,064, Kshs.4,582,003 and Kshs.199,810,733 respectively resulting to a net figure of Kshs.72,766,099 net of provision for bad debts of Kshs.147,824,390. However, the following issues were noted:

- i) The amount of debt from ex-board and ex-staff members total to Kshs.16,197,753. The ages of these debts cast doubt on their recovery since they have been outstanding for long periods and little effort have been done to recover the amounts from the affected members.
- ii) Included in trade debtors figure of Kshs.199,810,733 is Kshs.122,269,959 owed to the Authority in respect of an overpayment relating to the construction of the rice mill. Efforts to recover this amount from the contractor have not borne fruit.

- iii) The provision for bad debts figure of Kshs.147,824,390 has remained constant despite changes in the debtors amounts.
- iv) Included in staff debtors of Kshs.4,582,003 are imprests issued to staff amounting to Kshs.1,497,906 which had not been surrendered as at 30 June 2018. These imprests had been outstanding for more than the seven days stipulated in the PFM Act regulations 2015 section 93.

In consequence, the accuracy and validity of the receivables from exchange balance of Kshs.72,766,099 could not be confirmed.

4. Government Loan

Included in the statement of financial position is a government loan of Kshs.2,000,000,000. This loan was provided by the Government of Kenya for the construction of the Mall. A review of the loan agreement and other records relating to the loan revealed the following issues:

i) Interest not accrued in the financial statements

Article iv of the loan agreement provides the following:

- The authority shall pay the Government interest on the loan at the rate of 5% on reducing balance.
- The loan period shall be 20 years with three years grace period all inclusive.
- Interest shall accrue from the respective dates of disbursement of the loan proceeds computed on the basis of 360-day year of twelve 30 day months.
- Interest accruing over the first year of the grace period will be capitalized on the first principal repayment date.
- Thereafter, interest shall be repaid semi annually

The first disbursement of Kshs.1,500,000,000 was done on 29 June 2017. Though the agreement says that the interest in the first year of grace period shall be capitalized and included in the principal on the first repayment date, no interest has been accrued in the financial statements.

ii) Use of loan proceeds on activities not related to the mall debt repayment

The Loan Agreement dated 29th June 2017 clause 7.01, on eligibility of payments to be paid out of loan proceeds, states that; a payment shall not be eligible to be paid out of loan proceeds unless - it relates to the settling of outstanding debts in regard to the Lake Basin Mall complex project in Kisumu.

Out of the funds received from the National Treasury, the entity used Kshs.79,902,309 for activities such as office supplies, legal fees, telecommunication expenses, security expenses, taxes, travelling expenses, electricity, compound maintenance and motor vehicle running costs not related to settling of outstanding debts in regard to the Lake Basin Mall complex.

iii) Non-establishment of Joint Oversight Committee

Article VI sub section 6.02 of the loan agreement requires the appointment of a joint oversight committee consisting of membership from the parties to the Loan

Agreement. It was noted that the joint oversight committee composed of membership from the parties to the loan agreement has not been appointed as stipulated by the loan agreement.

As a result, the loan balance and accrued interest are understated in the financial statements and the Authority is in breach of the Loan Agreement terms.

5. Revenue From Exchange Transactions

5.1. Rental Revenue from Facilities and Equipment

Included in revenue from exchange transactions of Kshs.46,795,285 is rental revenue from facilities and equipment's of Kshs.20,340,097. However, the following issues were noted from the review of this revenue:

- i) Revenue amounting to Kshs.526,000 was not supported with a valid rental agreement.
- ii) The revenue includes Kshs.1,659,775 relating to service charges to tenants. This amount is meant to cater for costs of maintaining the facilities. There is no corresponding expenditure of maintaining the facilities in the financial statements yet the service charge is included in revenue.

5.2. Finance Income

Included in revenue from exchange transactions is finance income of Kshs.3,748,252 which was realized from investment of excess funds in fixed deposit accounts. However, there was no authority from the board for the investment of excess funds.

Consequently, the accuracy and validity of revenue from exchange transactions of Kshs.3,748,252 could not be confirmed.

6. Material Uncertainty Related to Going Concern

The Authority reported a deficit of Kshs.188,320,161 in the year ended 30 June 2018. The accumulated deficit as at 30 June 2018 was Kshs.359,709,172 from a surplus of Kshs.66,204,140 as at 30 June 2017. The current liabilities of Kshs.2,760,347,178 also exceeds current assets of Kshs.261,758,504 by Kshs.2,498,588,674 as at 30 June 2018. This situation indicates that the Authority is facing financial challenges. Therefore, the financial statements have been prepared on a going concern basis on the assumption that the Authority will continue to receive financial support from the Government and creditors.

7. Lake Basin Development Company Limited

Lake Basin Development Company Limited (LBDC) was incorporated on 13 October 1989 as a limited liability company and operates under Lake Basin Development Authority. Lake Basin Development Company Limited runs the rice mill that was set up as a profit making arm of the Authority. Information from the Registrar of Companies indicates that the Company's latest returns were in 2010. Further, no financial statements have been prepared and submitted for audit by the Auditor General. Consequently, the management is in breach of the provisions of the Companies Act, 2015.

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

Emphasis of Matter

1. Budget Performance

The comparison of budget against actual amounts is shown below:

Items	Budget	Actual	Variance	Variance
Revenue	Kshs	Kshs	Kshs	%
Transfers from other Government	396,221,717	337,721,717	58,500,000	15%
Sale of Rice	15,000,000	8,253,586	6,746,414	45%
Sale of Agricultural Produce	18,500,000	12,301,897	6,198,103	34%
Rental Revenue from facilities and equipment	10,000,000	20,340,097	(10,340,097)	-103%
Other Incomes	1,000,000	2,151,453	(1,151,453)	-115%
Finance Income-external investments	2,000,000	3,748,252	(1,748,252)	-87%
LBDA Mall	1,000,000,000	500,000,000	500,000,000	50%
Total Income	1,442,721,717	884,517,002	558,204,715	
Expenses				
Compensation of employees	203,779,762	269,828,380	(66,048,618)	-32%
General expenses (Civil Works)	136,904,988	133,156,892	3,748,096	3%
Finance Costs	68,000	384,036	(316,036)	-465%
Board expenses	17,980,996	7,486,181	10,494,815	58%
Repairs and Maintenance	1,017,620,928	9,476,680	1,008,144,248	99%
Contracted Services	66,367,043	30,301,024	36,066,019	54%
Total expenditure	1,442,721,717	450,633,193	992,088,524	
Surplus/Deficit	-	433,883,809		

Management explained that the variances noted above were on the basis of a supplementary budget made during the year. However, there is no evidence that the changes were approved by the board and the parent ministry.

2. Formalization of Takeover of Principle Loan Amount for the Mall Construction

The contractor/co-developer of the lake basin mall complex obtained a loan of Kshs.2.5 Billion at 16.5% interest from Co-operative Bank against a legal charge made on the Authority's land title No. LR: No. 15239. A letter from bank to the contractor dated 26th March 2018 disclosed the total amount owing to the bank as Kshs.3,285,294,347(principal loan as Kshs.2,500,000,000 and accrued interest of Kshs.785,294,347). The Authority vide letter ref. LBDA/ADM/CR/12/1/Vol VI dated 29th March 2018 addressed to the Principal Secretary State Department of Planning and Statistics, The National Treasury and Ministry of Planning, made a request for approval to formally take over the principal loan amount of Kshs.2.5 Billion. It was not possible to establish whether the approval was given and if the contractor will make a claim for the interest and penalties not being taken over. The following issues were also noted:

- i) Why the Authority's land was used to secure a loan to a third party yet the Form of Agreement between the Authority and the co-developer clause 12, states that in the event of default by the Authority in payments on the dates specified, the Co-developer shall be at liberty to select a financial institution to lend to the Employer the Bid Price or such amount thereof that is due and payable to the Co-developer by the Employer on the security of a charge over the property. The loan was supposed to be to the employer and not the co-developer.
- ii) Treasury approval to obtain the said loan by the co-developer was not made available for audit review. It therefore could not be confirmed if it met the requirements of PFM Act, 2012 part 51(1) and (2).
- iii) Management has not confirmed that there are no further claims made by the co-developer after the year end.

3. Amounts Due to Kenya Revenue Authority

Note 25 to the financial statements indicates that payables from exchange transactions were Kshs.2,760,347,178. Included in this amount are inter – ministerial dues of Kshs.38,879,042 that also include Kshs.34,409,533 payable to Kenya Revenue Authority relating to previous years unremitted taxes and penalties. It is not clear how the Authority will settle these amounts and if further interest and penalties have been levied.

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 matters described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit 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.

REPORT ON COMPLIANCE, LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources/Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Over Commitment of Salary

Analysis of salary bank remittance data for the month of June 2018 revealed that there were 97 employees who had overcommitted their salary beyond the third of their basic salary in contravention of the Employment Act Section CAP. 226 [Rev. 2012] section 19 – 20.

2. Contravention of Procurement Law

2.1 Motor Vehicle Running Expense

The Authority procured goods and services for motor vehicle running expenses totaling Kshs.2,443,729 from various service providers and enterprises as shown in the table below. However, procurement documents were not made available for audit review to indicate how they were selected. In addition, no contract agreements between the Authority and the suppliers were made available for audit review.

Details	Amount (Kshs.)
Fuel Replenishment	723,010
Repair of Vehicle KBL 686G	508,169
Motor Vehicle spare parts	212,100
Repair of Komatsu D53A -17	1,000,000
	2,443,279

2.2 Legal Services

The Authority obtained the services of a lawyer to handle a tax penalty case who was paid Kshs.1,354,500 for the service. However, procurement documents to show how the service provider was selected were not made available for audit.

2.3 Extension of Contracts for Suppliers

Included in contracted services of Kshs.30,301,024 at note 13 are cleaning services of Kshs.5,049,785 and security expenses of Kshs.8,224,408. The service providers for these two components were picked from the list of prequalified suppliers without

subjecting them to further competitive analysis through request for quotations. Further, the service providers were required to offer the services for extended periods for more than six months without formal agreements contrary to Section 135 of the Public Procurement and Disposal Act 2015.

2.4 Management Information System Upgrade

During the year under review, the Authority paid Kshs.975,799 to a service provider for the upgrade of the management information system. However, there were no documents to show how the service provider was selected. In addition, only the human resource module of the system is in use. All other services are done manually.

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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

Approval of Payment Vouchers

A review of payment vouchers revealed that various officers were signing payment vouchers on behalf of the accounting officer (Managing Director) as AIE holders. There is however, no evidence that the accounting officer had delegated the approval authority to the officers in line with the Public Finance Management Act regulations 2015 Section 105.

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 Lake Basin Development Authority 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 Lake Basin Development Authority or to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the 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.

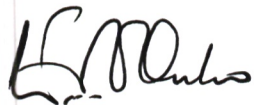
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the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

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

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

05 July 2019

LAKE BASIN DEVELOPMENT AUTHORITY
Annual Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

REVENUE

	Note	2017-2018	2016-2017
		KSHS.	KSHS.
Revenue from non-exchange transactions			
Exchequer Transfers	3	<u>337,721,717</u>	<u>208,961,717</u>
		337,721,717	208,961,717
Revenue from exchange transactions			
Sale of rice	4	8,253,586	15,359,091
Sale of Agricultural produce	5	12,301,897	13,463,261
Rental revenue from facilities and equipment	6	20,340,097	10,215,175
Finance income-external investments	7	3,748,252	2,547,918
Other income	8	<u>2,151,453</u>	<u>690,443</u>
		<u>46,795,285</u>	<u>42,275,888</u>
		<u>384,517,002</u>	<u>251,237,605</u>

EXPENDITURE

Short-term employee Benefits	9	269,828,380	176,454,085
Board Expenses	10	7,486,181	13,945,462
Depreciation and amortization expense	11	115,269,024	25,684,902
Repairs and maintenance	12	9,476,680	13,059,062
Contracted services	13	30,301,024	26,742,144
General expenses	14	133,156,892	113,416,688
Bank charges	15	<u>384,036</u>	<u>359,258</u>
Total expenses		<u>565,902,217</u>	<u>369,661,601</u>
Operating profit/(loss)		<u>(181,385,215)</u>	<u>(118,423,996)</u>
Other gains/(losses)			
Gain on sale of assets	16	224	57,000
Gain/Loss on Biological Asset	17	(6,935,170)	6,228,230
Total Other gains/Losses		<u>(6,934,946)</u>	<u>6,285,230</u>
Surplus/(deficit) for the period		<u>(188,320,161)</u>	<u>(112,138,766)</u>

The notes set out on pages 49 to 53 form an integral part of these Financial Statements

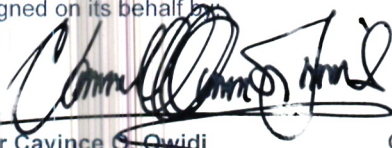
LAKE BASIN DEVELOPMENT AUTHORITY
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For the year ended June 30, 2018

VII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2017-2018	2016-2017
Assets			
Current assets			
		KSHS	KSHS
Cash and cash equivalents	18	183,640,253	92,998,823
Receivables from exchange transactions	19	72,766,099	53,509,393
Inventories	20	5,352,152	10,261,948
		261,758,504	156,770,164
Non-current assets			
Property, plant and equipment	21	5,105,927,647	5,001,675,695
Biological Assets	23	11,527,091	18,462,260
Intangible assets	24	1,622,304	998,856
		5,119,077,042	5,021,136,811
Total assets		5,380,835,546	5,177,906,975
Liabilities			
Current liabilities			
Payables from exchange transactions	25	2,760,347,178	2,635,935,771
Non-current liabilities			
Government loan		2,000,000,000	1,500,000,000
Total liabilities		4,760,347,178	4,135,935,771
Net Assets			
Capital Grants	27	583,940,769	583,940,769
Revaluation Reserves	28	396,256,771	391,826,295
Accumulated surplus	29	(359,709,172)	66,204,140
Total Net assets		620,488,368	1,041,971,204
Total net assets and liabilities		5,380,835,546	5,177,906,975

The notes on pages 42 to 61 form an integral part of these financial statements.

The financial statements on pages 54 to 58 were approved and authorized by the Board of Directors and signed on its behalf by


 Mr Cavince O. Owidi
 Chairman


 CPA Fredrick O. Chere (ICPAK No. 4745)
 Chief Manager Finance


 Dr. Raymond Omollo, PhD
 Managing Director

Date... 29/03/2019

Date... 29/03/2019

Date... 29/03/2019

VIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Capital Grants KShs	Capital Reserves KShs	Accumulated surplus KShs	Revaluation Reserves KShs	Total KShs
Balance at 30 JUNE 2016		583,940,769	-	178,342,906	372,100,138	1,134,383,813
Surplus/(deficit) for the period		-	-	(112,138,766)	-	(112,138,766)
Revaluation Gain		-	-	-	19,726,157	19,726,157
Balance at 30 JUNE 2017		583,940,769	-	66,204,140	391,826,295	1,041,971,204
Surplus/(deficit) for the period	31	-	-	(188,320,161)	-	(188,320,161)
Revaluation Gain		-	-	-	4,430,476	4,430,476
Adjustment				(237,593,151)		(237,593,151)
Balance as at 30 JUNE 2018		583,940,769	-	(359,709,172)	396,256,771	620,488,368

NOTE

- Capital Reserves relate to capital projects undertaken by the Authority which have been capitalized over a period of time
- Revaluation Reserves relate to Assets (Buildings, Motor vehicles, Tractors Motorbikes and others) which have been revalued by the Authority over the years.
- Accumulated Reserves /Surplus are the Net Surplus /Deficit brought forward over a number of years.
- The revaluation of Kshs. 4,430,476 relate to the revaluation of Tractors and Motor vehicles

LAKE BASIN DEVELOPMENT AUTHORITY
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For the year ended June 30, 2018

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2017-2018 KShs	2016-2017 KShs
Surplus for the year before tax	30	(188,320,161)	(112,138,766)
Adjusted for:			
Depreciation	11	115,269,024	25,684,902
Gains on disposal of assets	16	(224)	(57,000)
Losses on Biological Assets	17	6,935,170	(6,228,231)
			-
Adjust for changes in working capital:			
Inventory		4,909,796	(68,278)
Receivables from Exchange Transactions.		(19,256,705)	7,859,929
Staff Advances		-	219,602
Payables from Exchange Transactions.		124,411,407	(1,249,096,802)
Net cash flows from operating activities		43,948,307	(1,333,824,644)
Cash flows from investing activities			
Purchase of fixed assets		(452,634,569)	(150,474,500)
Proceeds from sale of property, plant and Equipment	16	41,200	322,000
Net cash flows used in investing activities		(452,593,369)	(150,152,500)
Cash flows from financing activities			
Government loan		500,000,000	1,500,000,000
Net cash flows used in financing activities		500,000,000	1,500,000,000
Net increase/(decrease)in cash and cash equivalents			
Cash and cash equivalents at 1 st July 2017	18	92,998,823	78,523,531
Cash and cash equivalents at 30 June 2018	18	183,640,253	92,998,823

LAKE BASIN DEVELOPMENT AUTHORITY
Annual Reports and Financial Statements
For the year ended June 30, 2018

IX. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018 KShs	2017-2018 KShs	2017-2018 KShs	2017-2018 KShs	2017-2018 KShs
Revenue					
Transfers from other Government	244,221,717	152,000,000	396,221,717	337,721,717	58,500,000
Sale of Rice	15,000,000	-	15,000,000	8,253,586	6,746,414
Sale of Agricultural Produce	18,500,000	-	18,500,000	12,301,897	6,198,103
Rental revenue from facilities and equipment	10,000,000	-	10,000,000	20,340,097	(10,340,097)
Other incomes	1,000,000	-	1,000,000	2,151,453	(1,151,453)
Finance Income-external investments	2,000,000	-	2,000,000	3,748,252	(1,748,252)
LBDA Mall	1,000,000,000		1,000,000,000	500,000,000	500,000,000
Total income	1,290,721,717	152,000,000	1,442,721,717	884,517,002	558,204,715
Expenses					
Short term employee benefits	203,779,762	-	203,779,762	269,828,380	(66,048,618)
General expenses (Civil Works)	136,904,988	-	136,904,988	133,156,892	3,748,096
Bank Charges	68,000	-	68,000	384,036	(316,036)
Board expenses	17,980,996	-	17,980,996	7,486,181	10,494,815
Repairs and Maintenance	1,017,620,928	-	1,017,620,928	9,476,680	1,008,144,248
Capital Expenditure	-	-	-	-	-
Contracted services	66,367,043	-	66,367,043	30,301,024	36,066,019
Total expenditure	1,442,721,717	-	1,442,721,717	450,633,193	992,088,524

NOTE:

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1. During the financial year, the Authority received a concessionary additional loan of Kshs 500,000,000 for payments of LBDA Mall from the government.

X. NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION –IPSAS 1

Lake Basin Development Authority financial statements have been prepared in accordance with and in compliance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings (Kshs), which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Going Concern

The directors believe that the Authority will continue in operational existence for at least 12 months from the date of these financial statements. The directors believe that it is appropriate to prepare the Authority's financial statements on a going concern basis which assumes that the Authority will continue to meet its obligations as they fall due for the foreseeable future.

b) Revenue recognition

i) Revenue from non-exchange transactions-IPSAS 23

Exchequer allocations

The Authority recognizes Revenue from exchequer allocation when the monies are received and asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and fair value of the asset can be measured reliably.

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 (cash, goods, services and property) 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 Authority and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Sale of goods (Agricultural produce & Rice)

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

NOTES TO THE FINANCIAL STATEMENTS Continued

c) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the Adoption of the accrual basis for budgeting purposes, there are no basis, timing or Authority differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

d) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation on PPE is calculated using reducing balance method and the rates used are:

	%
a) Tractors	37.5
b) Motor Vehicles/Cycles	25.0
c) Farm Implements	12.5
d) Buildings.....	2.0
e) Loose Tools & Equipment	12.5
f) Furniture, Fittings & Fixtures	12.5
g) Office Machines & Equipment	12.5
h) Computer & Other Class II Equipment	30.0
i) Property Plant & Equipment.....	12.5
j) Computer Software.....	20.0

e) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

e) Provisions - IPSAS 19

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS-Continued

f) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

g) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.

h) Changes in accounting policies and estimates – IPSAS 3

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

i) Employee benefits – IPSAS 25

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Retirement Benefits Obligations

The Authority operates a defined contribution staff retirement scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The Authority's contributions to the defined contribution scheme are charged to the statement of financial performance in the year to which they relate.

The Authority and its employees contribute to the National Social Security Fund (NSSF) a statutory defined contribution scheme registered under NSSF Act. The Authority's contribution to the defined contribution scheme are charged to the statement of statement of financial performance in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS-Continued

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) Comparative figures

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

l) Significant judgments and sources of estimation uncertainty – IPSAS 1

In preparing the financial statements in conformity with IPSAS, management makes estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities, and the related disclosures, presented in the financial statements at the end of the reporting period. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include: provision for doubtful debts, leave provision, useful lives and depreciation methods and asset impairment. Notes relating to the subject are included under the affected areas of the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available.

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Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

n) Treatment of Biological Asset (IPSAS 27)

A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably.

Agricultural produce harvested from the Authority's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12.

In order to arrive at the value of Livestock, the Authority determines the market price (fair value) of the animals and multiply it by 75%. This rate cushions against high-low fetching price for the animal.

On growing crops (Work-in-progress), estimated yield less expected total expenditure is determined and then multiplied by 85% to arrive at the value.

On Tilapia fish, after the determination of the number of fish, 80% is used on survival rate then multiplied by the market price which is then multiplied by 75% to arrive at its value. On Clarias, 60% survival rate is applied on adults and 40% on fingerlings.

On counting tree seedlings, a rate of 80% is applied on survival rate and 85% on market price.

A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises.

o) Financial Instruments

The Authority's assets which include cash and Bank balances, trade and other receivables and tax recoverable fall into the following category.

- **Loans and Receivables** Financial Assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within twelve months of reporting date. All assets with maturity greater than twelve months after the reporting date are classified as non-current assets. Such assets are carried at amortized cost using the effective interest rate method. Changes in the carrying amount are recognized in the surplus or deficit
- Purchase and sale of financial assets are recognized on the trade date i.e the date on which the Authority commits to purchase or sell the asset.

Financial Liabilities

The Authority's financial liabilities which include borrowings and trade and other payables fall into the following category.

- Financial Liabilities amortized at cost. These are initially measured at fair value and subsequently measured at amortized cost, using the effective rate method
- Borrowings are initially recognized at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction cost) and the redemption value is recognized as interest expense in the surplus or deficit under finance costs.
- Fees associated with acquisition of borrowing facilities are recognized as transaction costs of the borrowing to the extent that it is possible that some or all of the facilities will be acquired. In this case the fees are deferred until the draw down occurs. If it is not possible that some or all of the facilities will be acquired the fees are accounted for

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as prepayments under trade and other receivables and amortized over the period of the facility.

- All financial liabilities are classified as current liabilities unless the Authority has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- Financial liabilities are derecognized when and only when the Authority's obligations are discharged cancelled or expired

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Risk management objectives and policies

Financial risk management

The Authority's activities expose it to a variety of credit and liquidity risks. The overall risk management programme focuses on the unpredictability of the market and seeks to minimise potential adverse effects on its operations.

The Authority regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the direct supervision of the board of directors.

The board provides policies for overall risk management as well as policies covering specific areas such as credit risk and liquidity risk.

a) Credit Risk Management

Credit Risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Authority.

Credit Risk arises from bank balances, receivables and amounts due from related parties. Although this risk is unlikely to occur in the short term, it is mitigated as follows:

- i) Cash and short-term deposits are placed with well-established financial institutions of high quality and credit standing and also approved by the National Treasury;

- ii) Funds are invested in short-term facilities;

Credit risk with respect to accounts receivable is limited due to the nature of the Authority's business and its reliance on government grant as the main source of funding. Market risk is the risk that the value of an investment will decrease due to changes in market factors. The above stated mitigating factors apply to market risk as well.

The amounts that best describes the Authority's exposure to credit risk at the end of the financial year are made up as follows:

	Fully performing	Past due	Impaired	Total
	KShs	KShs	KShs	KShs
At 30th June 2018				
Receivables from exchange transactions	30,688,316	33,380,000	156,522,173	220,590,489
At 30th June 2017				
Receivables from exchange transactions	7,820,317	35,380,000	155,478,650	198,678,967
Bank balance	92,998,823			92,998,823

b) Liquidity Risk Management

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations when they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under

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both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the Authority's reputation.

The Authority ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of directors.

NOTES TO THE FINANCIAL STATEMENTS-Continued

b) Liquidity Risk Management-Continued

The amounts that best describes the Authority's exposure to liquidity risk at the end of the financial year are made up as follows:

	Less than 1 Year	Between 1-4 Years	Over 5 Years	Total KShs
	KShs	KShs	KShs	
At 30th June 2018				
Payables from exchange transactions	105,445,427	2,568,478,253	86,423,498	2,760,347,178
At 30th June 2017				
Payables from exchange transactions	28,577,336	2,542,604,364	64,234,101	2,635,415,801

c) Capital Risk Management

The Authority objective of managing capital is to safeguard the organizations ability to continue as a going concern in order to meet its strategic mandate as regional agency. The organizations capital risk is limited to amounts invested in the Mall.

q) Leases – IPSAS 13

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

r)Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

s) Provisions – IPSAS 19

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

u) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method. Any differences

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between proceeds (net of transaction cost) and the redemption value is recognized in the income statements over the period of the borrowings using the effective interest method. Included in the financial statements is a government loan of Kshs. 2,000,000,000 to facilitate the Authority to settle outstanding Debts in regard to LBDA MALL Complex project.

NOTES TO THE FINANCIAL STATEMENTS-Continued

Borrowings-Continued

An addendum to the loan agreement between the Government of Kenya and Lake Basin Development Authority for the stated amount. LBDA shall pay interest on the principal amount of the loan at the rate of 5% per annum on a reducing balance. The loan period covered shall be 20 years with a 3 year grace period all inclusive.

Borrowings are classified as current liabilities unless the Organization has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

v) Taxation

The Authority is exempt from taxation under the PFMA Regulation No. 34, Section 219. This regulation requires corporations exempted from income tax to remit 90 percent of surplus to National Treasury.

w) Adoption of new and revised standards

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard: IPSAS 39: Employee Benefits

Applicable: 1st January 2018

The objective to issue IPSAS 39 was to create convergence to changes in IAS. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit

Scheme by doing away with the corridor approach.

Standard: IPSAS 40: Public Sector Combinations

Applicable: 1st January 2019:

The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations

3. Exchequer Transfers.

	2017-2018 KShs	2016-2017 KShs
Unconditional grants		
Recurrent Grants	337,721,717	135,711,717
Development Grants	-	49,250,000
Rehabilitation of Bore holes	-	24,000,000
	337,721,717	208,961,717

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4.Sale of rice	2017-2018	2016-2017
	KShs	KShs
Sale of rice	8,253,586	15,359,091
Sales Returns	-	-
Total revenue from sale of rice	8,253,586	15,359,091

NOTES TO THE FINANCIAL STATEMENTS-Continued

5.Sale of Agricultural produce, Bricks & Related income	2017-2018	2016-2017
	KShs	KShs
Sale of sugar cane	1,048,595	900,306
Sale of bricks	894,150	977,680
Sale of milk	4,455,570	4,744,968
Sale of animals & steers	1,075,000	4,181,090
Sale of seedlings	2,581,283	310,680
Sale of vegetables & fruits	38,860	33,150
Sale of Honey	844,640	756,295
Sale of fingerlings & table size fish	1,312,120	1,118,712
Sale of fish/chicken feeds	25,900	284,347
Sale of bran meal, colored rice	21,780	156,032
Dipping & Bull Services	4,000	-
Total revenue from the sale of goods	12,301,897	13,463,261

6. Rental Revenue from facilities and equipment

	2017-2018	2016-2017
	KShs	KShs
Commercial Rent	19,298,582	4,634,500
Lease Rentals	948,000	5,396,000
Hire of Tractors & Excavator	93,515	184,675
Total rentals	20,340,097	10,215,175

7.Finance income

	2017-2018	2016-2017
	KShs	KShs
Cash investments and fixed deposits	3,748,252	2,547,918
Total finance income	3,748,252	2,547,918

8.Other income

	2017-2018	2016-2017
	KShs	KShs
Boarded Stores	55,445	49,651
Hire of Grounds	556,340	487,307
Milling/Airing Charges	757,831	65,435
Surcharge Services	254,597	26,000
Tour Fees	527,240	62,050

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Total other income	2,151,453	690,443
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NOTES TO THE FINANCIAL STATEMENTS-Continued

9.Short term Employee Benefits

	2017-2018	2016-2017
	KShs	KShs
Casual wages	8,033,809	12,053,329
Ex-Gratia Payments	100,000	-
Staff Medical Insurance	17,010,348	11,248,815
Contribution to Pension Scheme	15,814,806	14,261,256
Service Gratuity	-	103,230
Salaries and Allowances	219,333,038	127,328,501
Terminal Dues	158,238	11,458,954
Staff leave days provision	9,378,141	-
Total Employee costs	269,828,380	176,454,085

10.Board Expenses

	2017-2018	2016-2017
	KShs	KShs
Sitting Allowance & Accommodation	5,976,801	8,147,260
Travelling (Air tickets)	895,355	2,339,580
Entertainment	614,025	3,458,622
Total Board Expenses	7,486,181	13,945,462

11.Depreciation and amortization expense

	2017-2018	2016-2017
	KShs	KShs
Property, plant and equipment	114,863,448	25,435,188
Intangible assets	405,576	249,714
Total depreciation and amortization	115,269,024	25,684,902

12.Repairs and maintenance

	2017-2018	2016-2017
	KShs	KShs
Building Repairs-Non Residential	396,080	220,492
Building Repairs - Residential	-	25,500
Plant & Machinery Repairs	4,121,233	1,741,205
Repair of Office Equipment	480,471	628,845
Repair of Office Furniture	-	26,350
Motor Vehicle Running	4,478,896	10,416,670

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Total repairs and maintenance	9,476,680	13,059,062
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NOTES TO THE FINANCIAL STATEMENTS-Continued

13. Contracted services

	2017-2018	2016-2017
	KShs	KShs
Audit fee	916,612	870,000
Cleaning Services	5,049,785	154,704
Consulting fees	1,660,000	5,798,477
Rehabilitation of Boreholes	14,450,219	11,498,556
Security expenses	8,224,408	8,420,407-
Total contracted services	30,301,024	26,742,144

14. General expenses

	2017-2018	2016-2017
	KShs	KShs
Animal Feeds	1,853,709	1,743,185
Ask Show	3,880,804	6,604,148
Bad debts	-	166,520
Communication costs	1,098,250	4,108,288
Computer supplies & accessories	1,020,039	1,140,720
Compound Maintenance	1,154,452	1,949,531
Daily Subsistence Allowance	12,625,286	31,476,724
Dairy expenses	31,870	58,129
Donation	76,000	946,637
Drugs & Chemicals	1,370,432	1,465,673
Electricity	5,230,348	2,213,107
General Hardware	1,681,200	2,877,658
General Office Supplies	2,915,320	2,771,631
Hire of Plant & Machinery	647,630	134,200
Hire of Transport	241,610	412,282
Horticulture	-	2,600
Fuel and oil	160,270	469,375
Insurance of Assets	6,152,196	1,785,186
Legal Charges	31,199,280	6,319,759
Local Travel (Air ticket)	7,567,631	3,014,595
Purchase of Newspapers, magazines and periodicals	164,714	358,140
Maintain. Water & Sewerage & Sanitation	1,544,368	2,182,238
Official Entertainment	7,096,504	10,420,469
Packaging Material	587,529	155,233
Printing and Advertising	2,848,733	2,945,623

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Purchase of Raw Materials	1,110,241	6,014,905
Postage & Stamps	172,420	185,080
Purchase of Milled Rice	7,375,900	5,367,376
Purchase of Seeds & Seedlings	2,825,438	3,894,524
Rent & Rates-Non Residential	9,279,207	8,087,240
Sales & Marketing Expenses	27,460	109,960
Staff welfare	147,100	167,750
Training	873,400	2,359,457

NOTES TO THE FINANCIAL STATEMENTS-Continued

14.General expenses- Continued

Subscription to professional bodies	801,645	506,281
Tax Penalty/WHT	18,421,626	13,602
Uniforms & Clothing	930,640	661,407
Veterinary Expenses	43,640	327,455
Total general expenses	133,156,892	113,416,688

15.Financcecosts

	2017-2018	2016-2017
	Kshs	Kshs
Bank Charges (Commissions & Ledger Fees)	384,036	359,258
Total finance costs	384,036	359,258

16.Gain on sale of assets

	2017-2018	2016-2017
	Kshs	Kshs
Revaluation/Cost	287,790	16,649,633
Less: Accumulated Depreciation	(246,814)	(16,384,633)
Net Book Value	40,976	265,000
Cash Proceeds	41,200	322,000
Gain on sale of assets	224	57,000

17.Gain/Loss on Biological Assets

	2018	2017	Gain/(Loss) Kshs	
	Kshs	Kshs	2018	2017
Bulls	90,000	72,000	18,000	(16,500)
Lactating / Dry Cows	3,874,500	3,912,000	(37,500)	(244,050)
Heifers	2,724,000	3,665,750	(941,750)	(1,127,875)
Local Breed	24,750	82,500	(57,750)	45,000
Pigs	-	11,250	(11,250)	-
Fish / Poultry	1,358,562	5,123,936	(3,765,374)	2,705,710
Crops WIP	3,455,279	5,594,825	(2,139,546)	4,865,945
Total Gain/Loss on Biological Assets	11,527,091	18,462,261	(6,935,170)	6,228,230

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NOTES TO THE FINANCIAL STATEMENTS-Continued

18. Cash and Cash equivalents

	2017-2018	2016-2017
	KShs	KShs
Cooperative Bank Ltd	8,406,870	12,246,461
Development Bank of Kenya	558,111	484,470
Kenya Commercial Bank Ltd	1,561,182	1,287,518
National Bank of Kenya Ltd	172,363,406	77,777,373
MPESA	750,684	1,203,001
Total Cash and Cash equivalents	183,640,253	92,998,823

19. Receivables from Exchange transactions

	2017-2018	2016-2017
	KShs	KShs
Ex-board Debtors	569,689	569,689
Ex-staff Debtors	15,628,064	10,335,504
Staff Debtors	4,582,003	2,945,648
Trade Debtors	199,810,733	187,482,943
Less: Provision for bad debts	(147,824,390)	(147,824,390)
Total current receivables	72,766,099	53,509,394

20. Inventories

	2017-2018	2016-2017
	KShs	KShs
General Hardware	899,975	1,885,995
Automotive Spares	1,139,872	717,590
Drugs & Chemicals	49,109	56,810
Animal Feeds	46,550	520,450
Uniform & Clothing	-	3,500
Stationary	544,840	1,158,192
Seeds/Seedlings	661,454	3,041,646
Purchase of Firewood	-	-
Bricks	360,985	22,000
Computer Items	-	45,040
Raw Materials	157,459	753,900
Packaging Materials	1,337,342	1,576,660

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Finished Products	154,565	480,165
Total inventories	5,352,152	10,261,948

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Property Plant and Equipment for the year ended 30 June 2018

<u>COST</u>	LAND Kshs.	BUILDINGS Kshs.	PLANTS & EQUIPMENT Kshs.	ADAPTIVE RESEARCH Kshs.	RURAL ACCESS ROADS Kshs.	WORK IN PROGRESS Kshs.	FURNITURE & FIXTURES Kshs.	COMPUTER & OTHER CLASS II Kshs.	M/ VEHICLES Kshs.	TRACTORS	TOTAL Kshs.
At 1 July 2016	62,674,333	403,725,711	295,681,590	36,158,175	36,065,225	4,413,157,486	16,281,255	24,213,767	78,144,863	60,008,860	5,426,111,266
Additions			163,400			150,000,000	36,100	275,000			150,474,500
Disposals									(449,485)	(15,000,000)	(15,449,485)
Transfers/ Adjustments									14,652,994	5,073,163	19,726,157
At 30 June 2017	62,674,333	403,725,711	295,844,990	36,158,175	36,065,225	4,563,157,486	16,317,355	24,488,767	92,348,372	50,082,023	5,580,862,438
Additions		451,145,680	61,500					398,365			451,605,545
Disposals							(242,790)	(109,550)	(849,292)	(15,000)	(1,216,632)
Transfer/Adjustments		4,138,895,104				(4,376,457,342)			(69,890,856)	(44,314,479)	(350,767,573)
Revaluation									2,158,760	2,271,716	4,430,476
Balance as at 30/6/18	62,674,333	4,993,776,495	295,906,490	36,158,175	36,065,225	186,700,145	16,074,565	24,777,582	24,766,984	8,024,260	5,684,914,255
Depreciation and impairment											
As at 1.7. 2016	-	119,600,621	216,890,077	36,158,175	36,065,225	-	12,314,502	20,642,000	67,591,755	59,931,791	569,194,146
Charge for the year		5,682,502	9,870,359				500,357	1,154,030	6,300,231	1,927,710	25,435,188
Disposal									(444,305)	(14,990,328)	(15,434,633)
As at 1.7. 2017	-	125,283,123	226,760,436	36,158,175	36,065,225	-	12,814,859	21,796,030	3,796,485	2,554,693	579,194,701
Charge for the year		97,369,668	8,643,257				433,027	907,156	5,433,660	2,056,680	114,863,448
Disposal							(204,512)	(42,302)	(844,139)	(14,913)	(1,105,866)
Transfer/ Adjustments									(69,651,196)	(44,314,480)	(113,965,676)
Balance as at 30/6/18	-	222,652,791	235,403,693	36,158,175	36,065,225	0	13,043,374	22,660,884	8,406,005	4,596,460	578,986,608
NET BOOK VALUE											
Revaluation											
At 30th June 2018	62,674,333	4,771,113,704	60,502,798	-	-	186,700,145	3,031,191	2,116,698	16,360,979	3,427,800	5,105,927,647
At 30th June 2017	62,674,333	278,442,588	69,092,513	-	-	4,563,157,486	3,502,497	2,692,737	18,900,692	3,212,850	5,001,675,696

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22. Work in Progress

Work in Progress, Kshs **186,700,145** relates to amount incurred and paid towards Yala swamp weir and Enterprise Resource planning.

23. Biological Assets	2017-2018	2016-2017
	KShs	KShs
Bulls	90,000	72,000
Lactating/Dry Cows	3,874,500	3,912,000
Heifers	2,724,000	3,665,750
Local Breed	24,750	82,500
Pigs/Turkey	-	11,250
Fish/Poultry	1,358,562	5,123,935
Crops WIP	3,455,279	5,594,825
Total inventories at the lower of cost and net realizable value	11,527,091	18,462,260

24. Intangible assets-software

Cost	KShs
At 1 July 2016	3,012,960
Additions	-
At 30 June 2017	3,012,960
Additions	1,029,024
At 30 June 2018	4,041,984
Amortization and impairment	
At 1 July 2016	1,764,390
Amortization	249,714
At 30 June 2017	2,014,104
Amortization	405,576
Impairment loss	-
At 30 June 2018	2,419,680
Net book values	
At 30 June 2018	<u>1,622,304</u>
At 30 June 2017	<u>998,856</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Payables from exchange transactions

	2017-2018	2016-2017
	KShs	KShs
Contractors Claims	2,528,335,768	2,528,372,028
Gratuity & Terminal Dues	11,642,071	11,640,539
Inter-Ministerial Dues	38,879,042	11,522,342
Legal claims	3,489,195	8,468,248
Services & Utilities	1,962,067	2,027,266
Staff Claims (Workmen Compensation)	151,605	151,605
Unremitted payroll deductions	499,130	499,130
Trade Suppliers	166,010,160	73,254,612
Staff leave days provision.	9,378,141	
Total trade and other payables	<u>2,760,347,178</u>	<u>2,635,935,771</u>

Trade suppliers represent outstanding payments to suppliers for services consumed. Staff creditors comprise of unpaid staff salaries and other amounts due to staff.

	2017/2018	2016/2017
	KShs.	KShs.
26. Provisions		
Staff Leave Days Provision	9,378,141	-
Audit Fees Provision	870,000	-
	<u>10,248,141</u>	<u>-</u>

Provisions are recognised when:

- I. A reliable estimate can be made of the obligation,
- II. It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- III. The Authority has a present obligation as a result of a past event.

Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate or reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation. Employee's entitlement to annual leave is recognised when it accrues. A provision is made on the estimated liability for annual leave as a result of services rendered by employees up to the amount of the obligation.

27. Capital Grants

	2017-2018	2016-2017
	KShs	KShs
Capital Grants	583,940,769	583,940,769
Total Capital Grants	<u>583,940,769</u>	<u>583,940,769</u>

These are direct payments to suppliers by African Development Bank (ADB) for Rice Mill building, Revolving Fund, Consultancy, Rural Access Roads, Rice Mill machinery, Adaptive Research, Vehicles, Staff houses and Transit Store

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

28.Revaluation Reserves

	2017-2018 KShs	2016-2017 KShs
Revaluation Reserves	396,256,771	391,826,295
Total Revaluation Reserves	396,256,771	391,826,295

Revaluation Reserves is arrived at after revaluation of Authority's Assets (Yala Swamp houses, Plant & Machinery, Motor Vehicles and Rice Mill Buildings).

Included in the Revaluation Reserves in 2014/2015, is an amount of KShs. 121,412,536 which relates to Assets that were given to the Authority by investors/stakeholders whose cost on acquisition could not be determined.

29.Accumulated Reserves

	2017-2018 KShs	2016-2017 KShs
As Previously stated	66,204,140	178,342,906
Adjustment	(237,593,151)	-
Surplus/deficit for the year	(188,320,161)	(112,138,766)
Total Accumulated Surplus	(359,709,172)	66,204,140

30. Surplus/(deficit) for the period

	2017-2018 KShs	2016-2017 KShs
Total Revenue	384,517,002	251,237,605
Total Expenditure	(565,902,217)	(369,661,601)
Operating Profit/(loss)	(181,385,215)	(118,423,996)
Other Gains/(loses)	(6,934,946)	6,285,230
Surplus/(deficit)	(188,320,161)	(112,138,766)

31. Related Parties-IPSAS 20

The Authority regards a related party as a person or an Authority with the ability to exert control individually Or jointly or to exercise significant influence over the Authority, or vice versa.

Members of key management are regarded as related parties and comprise the Directors including the Managing Director. The following transactions were carried out with related parties:

i) Board Members of the Authority's remuneration

Authority Board Members Allowances	9,602,351	13,945,462
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ii) Key Management Compensations

Salaries and other employment benefits	1,352,333	1,832,880
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iii) Disbursements from Related Parties

-Grants from GOK	337,721,717	135,711,717
-Government Loan	500,000,000	1,500,000,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Operating Lease Commitments

Receipts under Operating Leases

At the end of the reporting period, the Authority had outstanding commitments under non-cancellable operating leases for rental of the Authority's premises, which fall due as follows:

	2017-2018	2016-2017
	KShs	KShs
Within one year	8,128,725	8,128,725
In second to fifth years inclusive	32,514,900	32,514,900
After five years	-	-
	<u>40,643,625</u>	<u>40,643,625</u>

33. Explanation of Variance between the Budget and the Actual Expenses

a) Transfer from GOK

The disbursement from Exchequer decreased from Kshs. 396,221,717 to Kshs. 337,721,717 due to lack of disbursement of development allocation during the financial year 2017/2018.

b) Sale of rice

The revenue arising from the sale of rice dropped from budgeted figure of Kshs. 15,000,000 to Kshs. 8,253,586 due to inadequate funds to purchase raw materials for milling.

c) Sale of Agriculture produce

The revenue arising from the sale of agriculture produce dropped from budgeted figure of Kshs. 18,500,000 to Kshs. 12,301,897 due to unfavourable weather conditions resulting to low milk production as well as low sale of seedlings.

d) Rental Revenue from facilities and equipment

The revenue increased from budgeted figure of Kshs. 10,000,000 to Kshs 20,340,097 mainly due to letting out spaces at the mall and LBDC go downs not in use.

e) Other Income

The revenue increased from budgeted figure of Kshs. 1,000,000 to Kshs. 2,151,453 mainly due to improved income from milling for external parties, surcharge and fees from educational tours.

f) Concessionary loan for the Mall

The budget was rationalised by the National Treasury from initial Kshs 1,000,000,000 to Kshs 500,000,000 hence the variance.

g) Interest from Call Deposits

This exceeded the budget as we invested the Kshs 130 Million set aside for payment to Co-operative Bank of Kenya towards partial settlement of the loan.

It was expected that the issues would be resolved but due some challenges it was not possible, so most of the amount was available for investment.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Explanation of Variance between the Budget and the Actual Expenses –CONTINUED

h) Short term employee Benefits

The increase from the budgeted figure of Kshs 203,779,762 to Kshs 269,828,830 is mainly attributable to the payment of house and commuter allowances arrears disbursed under supplementary budget during the financial year, enhanced medical insurance cover for staff, increase in pension contribution arising from reviewed salaries and provision for staff leave balances.

i) General Expenses

The expenditure was Kshs 133,156,892 mainly due to operationalization of the mall, tax penalties paid to KRA and penalties and interests paid to the Edermann properties in regard to construction of the mall.

j) Board expenses

The expenditure reduced from budgeted amount Kshs. 17,980,996 to Kshs 7,486,181 mainly due to fewer board sittings during the financial year.

k) Repairs and maintenance

The expenditure increased from budgeted amount mainly due repairs of aging plant and machinery.

34. Contingent liabilities

Contingent liabilities are possible obligations that arose from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the Authority; or a present obligation that arises from past events but is not recognized because:

- i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- ii) The amount of the obligation cannot be measured with sufficient reliability. The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

- During the financial year, the former Managing Director sued the Authority for wrongful dismissal. The court awarded him Kshs 11,458,954= as terminal dues. The management has since filed an appeal to contest the amount awarded.
- In respect to the Government loan of Kshs 2,000,000,000=, given to the Authority, this was a bailout to assist the organization offset/settle the outstanding debt owed to M/S Erderman Property Ltd; the appropriate records will be maintained and interest charged accordingly as there is evidence of a loan agreement between the Government and Lake Basin Development Authority (LBDA)
- Currently the Authority has no contractual agreement signed directly with Co-operative bank of Kenya. The borrower of the loan was M/S Erderman Property Ltd who is the contractor for the Mall. However we have initiated the process of taking over the Loan by writing to the Ministry and the National Treasury for approval. Co-operative Bank of Kenya has further written an offer letter requesting the Authority to take over the liability.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Explanation of Variance between the Budget and the Actual Expenses –CONTINUED

35. Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

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APPENDIX 1: 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)
1.0	Going concern	<p>The decline in the Authority's financial performance for the year under review arose due to an increase in provision of bad and doubtful debts of Kshs 85,872,129.</p> <p>The negative working capital reflected in the statement of financial position of Kshs 2.1 billion (valuation as at 30th June 2015) is owing to the cost of construction of the LBDA Mall complex by M/s Edermann Property Ltd who were contracted to put up the building.</p> <p>Latest Financial Statement of 2015/16 which is yet to be audited has a surplus of Kshs. 16,685,219. However working capital has not improved due to increase in contractor's liabilities on the unpaid certificates for the Shopping Mall. As at 30th June 2016, working capital was (Kshs. 3,727,391,054).</p> <p>The Authority is seeking Government support to offset this liability and there are positive indications that the pending bill will be settled.</p> <p>Hence, the Authority's future is optimistic; that as a going concern, we will still continue our operations and mandate as a regional development body within the Lake Basin Region.</p>	Managing Director	The Financial Performance of the Authority has improved following reported surplus of Kshs 16,855,334. The working capital is expected to improve following release of Kshs 1,500,000,000 from National Treasury arising from supplementary budget. Kshs 500,000 has also been allocated in the financial year 2017/2018. The Authority continue to engage the National Treasury with a view settle unpaid contractors liabilities for the Mall.	Expected to be fully resolved by 30 th June 2019.
	Land Ownership Documents	<p>. Land Ownership Documents</p> <p>The Authority has fast tracked the process of acquiring all land ownership documents so as to avert any possible encroachment on LBDA Parcels of land. There have been numerous efforts by the management on the parcels of land with a view to secure titles to Authority's property.</p> <p>In regard to logbooks for one bulldozer and the two hydraulic excavators, registration process stalled due to</p>	Managing Director	The management is making good progress towards acquiring land ownership documents. Several communications have been made to relevant authorities in regard to registration of the bulldozer and the two hydraulic excavators but so far, no response has been	Expected to be fully resolved by 30 th 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)
		misplaced importation documents		received	
3.0	Receivables from Exchange Transactions	It is correct that income from the sale of rice made through invoice No.1537 and supplied to Kibabii High school was incorrectly recorded in the sales analysis records as Kshs. 200,000.00 while the correct invoice amount recorded in the customer's account and subsequently paid was Kshs. 320,000.00. This resulted in an understatement of revenue of Kshs. 120,000.00 in the financial statements. This error has since been rectified. In regard to underperformance in sale of rice, the efficiency of the milling machine has been compromised due to age of the machinery.	Managing Director	Additional budgetary provision for overhaul of rice milling machinery has been factored in the budget estimates for 2018/2019. The Treasury has also earmarked development funds for the procurement of paddy from farmers to jumpstart the revenue base.	Expected to be fully resolved by 30 th June 2019.
4.0	Employee costs	The depressed revenues arising from unforeseeable budgetary cut mainly contributed to increased percentage of wage bill when compared to total income and expenditure.	Managing Director	Expansion of revenue streams to include income from the LBDA MALL when fully operationalized.	Expected to be fully resolved by 30 th June 2019.


 Managing Director


 Chairman of the Board

Date.....29/03/2019

Date.....29/03/2019