

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper based
By Hon. A. Duale MP
on Wed. 08.07.2015
(pro) MWN*

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**

CPY 201



LAKE BASIN DEVELOPMENT AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2014

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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 as the coordinating agency charged with leading economic development at the local level in the Kenyan portion of the Lake Victoria basin. Currently, it has been merged with the Ministry of Regional Development Authorities and the Ministry of Environment, Water and Natural Resources. At cabinet level, LBDA is represented by the Cabinet Secretary for Environment, Water and Natural Resources, who is responsible for the general policy and strategic direction of the Authority.

(b) Principal Activities

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

VISION

To be an authority in integrated socio-economic development in the Region.

MISSION

To foster integrated socio-economic programs through optimum utilization of resources using appropriate technology and innovations for improved livelihoods of the communities within the Lake Basin Region.

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.

(c) Key Management

The Authority's day-to-day management is under the following key organs:

- Board of Directors
- Managing Director
- Chief Managers and
- Managers

(d) Fiduciary Management

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

(e) Fiduciary Oversight Arrangements

The Authority has five (5) constituted committees out of which the key fiduciary oversight committees are:

i. Executive Board Committee

The Executive committee is made of the Chairman, vice chair, Managing Director and the chairpersons of all the committees. It acts as a link between the Board, Management and the parent Ministry. The main responsibility of this committee is to assist the Managing Director in strategic issues pertaining to the Authority's general direction.

ii. Finance and Establishment Committee

This committee oversees the accounting and financial reporting processes of the Authority. In this regard, the Committee is charged with the responsibility of receiving, approving and recommending guidelines for the administrative and financial matters of the Authority. It is also responsible for monitoring the finances, human resource and administration policies in coordination with the managing director and the respective heads of divisions in the organization.

iii. Audit Committee

The Committee reviews the financial reports to establish the condition of the Authority and receives reports on the findings of the internal and external audits. The Committee tracks the actions on audit findings; in addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Authority's systems of internal controls.

It is responsible for reviewing the scope, authority and operations of the Audit Function; reviews and approves audit plans and methodology. The Committee receives regular reports from the Manager, Internal audit on internal audits, compliance and legal risks and on the assurance framework.

iv. Planning and Development Committee

The Planning and Development Committee has cognizance of all matters relating to planning and development of the organization; regional planning and development activities and the strategic Plan of LBDA and Development. It also charge with making policies for economic development programs impacting the region. This committee guides the full Board in the formulation of its policies relating to Planning and development.

v. Management Steering Committee

The Management Steering committee is responsible for overseeing and reporting on the implementation progress of the Authority's strategic plan, quality management systems and performance contracting obligations. It ensures consistent review and enhancement of divisional and departmental work processes to ensure that they facilitate cost effective service delivery, institutional and staff capacity building.

It ensures the implementation and application of performance appraisal system, including ensuring consistency and performance standards in work planning, staff development, monitoring, mid-year and end year performance reviews. The committee is expected to champion transformation and actualization of change management action plan as well as ineptly handle managerial and leadership issues within the organization. It is responsible for quarterly Monitoring and Evaluation (M&E) and Performance contract (PC), ISO progress, departmental and individual performance reports. The committee is therefore duty bound to contribute towards improved organizational and individual performance, besides cultivating a performance culture.

vi. LBDA Headquarters

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

vii. LBDA Contacts

Telephone : (254) 020-2023414
Fax : (254) 020-2023422
Mobile : 0715-682555/0735-711933
E-mail : info@lbda.co.ke
Website : www.lbda.co.ke

viii. LBDA Bankers

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

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

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






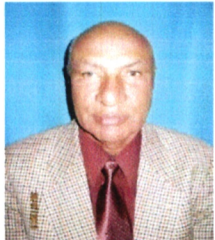
ix. Independent Auditors

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






II. THE BOARD OF DIRECTORS

| | | | |
|---|--|------------------------------|--|
| 1 | <p>MR. ONYANGO OLOO</p>  | Chairman | <ul style="list-style-type: none"> -LLM in constitutional law -Post-Graduate Diploma in Law - LLB |
| 2 | <p>MRS. MARY D. G. MICHIEKA</p>  | Vice Chair | <ul style="list-style-type: none"> -LLM Degree in International Law -Post-Graduate Diploma in Law -LLB -CPS(K) -Member ISL, TACL, ICPSK |
| 3 | <p>MR. JOHN NYERA MANGO</p>  | Member | <ul style="list-style-type: none"> -Post graduate diploma-Applied social studies. -B.A. degree in Social policy Admin |
| 4 | <p>PROF. JOHN COLLINS ONYANGO</p>  | Member | <ul style="list-style-type: none"> -Doctor of Philisophy in Plant Physiology -M.Sc. in Plant Physiology -B.Ed (Sc.) (Hons) -Member: KNAS, BGCI, CSSJ |
| 5 | <p>DR.ENG. KABOK P .AGUKO</p>  | Managing Director(Secretary) | <ul style="list-style-type: none"> -Doctor of Philosophy in Agricultural Engineering -M.Phil. Rural Engineering -BSc. (Hons) in Agricultural Engineering -Diploma in Agric. (Engineering Soil & Water). -Registered Consulting Engineer -Member : IEK; EBK |

LAKE BASIN DEVELOPMENT AUTHORITY






| | | | |
|----|---|--------|---|
| 6 | <p>ENG. GEORGE O.MAC ODAWA</p>  | Member | <p>-Bsc. Civil Engineering -Registered Highway Consulting Engineer -Registered Engineer -Member: IEK, ACEK, AAKe, KSAE -Licensed Water Engineer</p> |
| 7 | <p>MR. WILLIAM OMONDING</p>  | Member | <p>-B.A. Development studies -Advance Dip. Development studies and social work -Member: KIB</p> |
| 8 | <p>MR. KENNEDY MUSEBE</p>  | Member | <p>-MBA-Finance -BSc. (Hons) Wood science and Technology. -Chartered Financial Analyst-level 1</p> |
| 9 | <p>MR. ALEX J. MUKABWA</p>  | Member | <p>-Diploma in Leadership studies</p> |
| 10 | <p>MR. JOSIAH O. OKUMU</p>  | Member | <p>-Masters in Education -Bachelors in Education</p> |
| 11 | <p>MR. ANTHONY K. KOGO</p>  | Member | <p>-Bsc(Hons) in Information and Computing Technology -Member Institute of Computer Science</p> |





LAKE BASIN DEVELOPMENT AUTHORITY

| | | | |
|----|---|-------------------------------------|---|
| 12 | <p>MR. DENIS MULALA ACHOLA</p>  | Member | <ul style="list-style-type: none"> -K.A.C.E -E.A.C.E -C.S.C -Certificate in water technology |
| 13 | <p>MR. JIMMY NABWERA</p>  | Member | <ul style="list-style-type: none"> -BA(Hons) Economics -MSc Economics |
| 14 | <p>MR. JOASH DACHE</p>  | Member | <ul style="list-style-type: none"> -Masters of Law (LL.M) -Certificate in Legislative Drafting -Post-Graduate Diploma in Law -Bachelor of Law (LL.B) -Admitted to the Bar as Advocate of the High Court of Kenya -CPS(K) -Member: LSK, ICPSK, CALC |
| 15 | <p>MR. DAVID N. OYOSI</p>  | Representative PS MWNR | <ul style="list-style-type: none"> -MBA -Bachelors of Arts -Member APAM -ESAMI/MAASCHIST |
| 16 | <p>MR. BONIFACE SIMBA</p>  | Representative National Treasury | <ul style="list-style-type: none"> -MBA in Strategic Management |

III. MANAGEMENT TEAM

| | | | |
|---|---|---|--|
| 1 | <p>DR. ENG. KABOK P. AGUKO</p>  | <p>Managing Director</p> | <ul style="list-style-type: none"> -Doctor of Philosophy in Agricultural Engineering -M.Phil. Rural Engineering -BSc. (Hons) in Agricultural Engineering -Diploma in Agric. (Engineering Soil & Water). -Registered Consulting Engineer -Member : IEK; EBK |
| 2 | <p>MRS. MIRIAM SIWA</p>  | <p>Chief Manager, Planning Research, Bus. Dev. & Inv. Pro.</p> | <ul style="list-style-type: none"> -MSc. Entrepreneurship -PGD Planning & Mngt of Devpt Projects -PGDHRM; Member IHRM -B.Education -Diploma in Management |
| 3 | <p>CPA FREDRICK CHERE</p>  | <p>Chief Manager, Finance, HR & Admin</p> | <ul style="list-style-type: none"> -MBA Strategic Management -B. Com- Accounting -CPA(K) ,CPS (K),CFE -Membership 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 |
| 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> | <p>-BSC –Environment Science -Diploma in Cartography</p> |
| 7 | <p>CPA CHRISTINE OTIENO</p>  | <p>Manager, Finance</p> | <p>-MBA-Strategic Management -PG Diploma in Banking -B. Com-Accounting & Auditing -CPA (K) -Member ICPAK</p> |
| 9 | <p>MS. PAMELLA OMONDI</p>  | <p>Manager, Human Resource</p> | <p>-Bachelor of Business Admin-HRM -Diploma Human Resource -Member-IHRM</p> |
| 10 | <p>MR. MAURICE OBASO</p>  | <p>Manager, Marketing & Investment promotion</p> | <p>-B.A-Marketing</p> |
| 11 | <p>CPA GRACE ABUTO</p>  | <p>Manager, Internal Audit</p> | <p>-B.Com-Fina -CPA(K), C -Member I</p> |

| | | | |
|----|---|--|--|
| 12 | <p>MR. WASHINGTON O. BWIRE</p>  | <p>General Manger, LBDC</p> | <p>-Executive MBA -Bsc. Agriculture</p> |
| 13 | <p>CPA BENSON LUBANGA</p>  | <p>Manager, Management Accounts</p> | <p>-Executive MBA -CPA (K) -Diploma in Food Science & Technology -Member ICPAK</p> |
| 4 | <p>MR. SAMUEL NDIRE</p>  | <p>Manager, Quality Assurance</p> | <p>-PG Diploma in Public Relations -Bachelor of Arts</p> |
| | <p>MRS. BEATRICE OKOKO</p>  | <p>Manager, Corporate Affairs</p> | <p>-BBA- Finance Option -Advanced Diploma in Business Administration</p> |

IV. CHAIRMAN'S STATEMENT



The financial year 2013/2014 was a transitional year whereby there change of administration within the executive arm of the government and continued implementation of the new constitution. These two factors gave rise to restructuring of government operation framework to ensure the country is in course in its quest to achieve vision 2030.

The lake basin development Authority performed well despite the challenges it faced in the year. Through our vision of being an authority in integrated socio-economic development in the region we have whole heartedly provided essential services to our customers and the community at large at the headquarters and our technology transfer centers spread across the region.

Against a challenging economic backdrop, LBDA has continued to perform well demonstrating our ability to build a sustainable business in the region and the country as a whole. The Authority saw a decline in income from Kshs. 579,429,419 to Kshs 481,714,425 mainly due to reduction in grants received for both development and recurrent expenditure from the exchequer. There was also a reduction in expenditure.

This financial year also so the adoption of the International Public Sector Accounting Standards (IPSAS) from 2014 to 2016 which is also as per our strategic objective of Enhancing Institutional and Human Capacity for Improved Performance. This is a process in which the public sector entities are required to present their financial statements of general purpose in a similar format to that required by IPSAS.

On our vision 2030 flagship projects, we are well on course, we have extensively marketed them and we have received a positive feedback from potential investors. The construction of the Kshs. 2.45 billion ultra-modern LBDA mall which is part of the of the Kshs.25 billion LBDA headquarters and housing project began and is expected to be completed

This year our overall score in the performance contract registered a significant improvement implying that we are in the forefront in timely service delivery. Am also pleased to inform you that our organization has attained the internationally quality management systems.

The key challenges we faced in the year were

- Reduction of development funds from the Government which has hampered our operation
- Delay in disbursement of fund
- The new Public Private Partnership (PPP) act which has slowed the progress of our vision 2030 projects

We believe that the long term success of our organization depends on the health and prosperity of the communities in which we operate, and we will continue to focus on the specific areas where we can make the most difference.

A handwritten signature in black ink, appearing to read 'Onyango Oloo', written over a horizontal line.

Mr. Onyango Oloo
Chairman, LBDA

V. REPORT OF THE CHIEF EXECUTIVE OFFICER



The Lake Basin Development Authority (LBDA) story is one of consistent service delivery to the community and provision of demand driven quality services through integrated planning and development to stimulate sustainable social and economic development in the LBDA region. We have the right strategy, a distinctive culture, a strong brand and a capable human resource. Over the last few years, we have pursued a focused agenda and we have set ourselves ambitious performance goals which we have delivered against most of them. Our vision is superimposed on revitalized, trained and motivated human capital that the Authority intends to enhance the capacity of, as it moves towards delivery on the formulation and implementation of sustainable integrated basin-based development programmes, which will enhance the living conditions of the people in the region and its surrounding. In the implementation of the programmes, the Authority anticipates to enhance the penetration of the regional market and beyond to expand its market share of products and services. The achievement of the above approach will be founded on the bedrock of enhanced adoption of appropriate technology, networking, partnership, collaboration and community involvement.

The financial statements of LBDA for the year ended 30 June 2014 shows the Authority's financial position. The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and in the manner required by the Public Finance Management Act. It is worth noting that is the first time that we are is using IPSAS and we have embraced it successfully. The preparation of financial statements in conformity with IPSAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

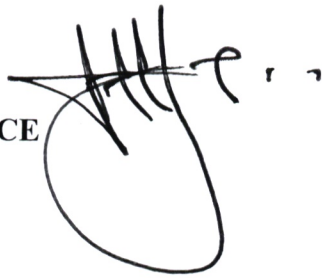
This financial year saw a reduction of Grants (development and recurrent) from the Treasury, we received Kshs. 417,971,712 as compared to Kshs. 481,142,832 in the previous year and this had a negative impact on our total income of Kshs. 481,714,425 against Kshs. 579,429,419 in the previous translating to a 17% drop. The expenditure in this period also dropped to Kshs. 441,997,434 from the previous year's expenditure of Kshs. 537,145,445 (18% drop). The sales of produce/livestock/bricks and income from other sources also reduced during this period. The deficit experienced by the Authority in the financial year was as a result of the demolition of the former stalled headquarter building to pave way for the new LBDA mall.

This financial year LBDA has vehemently strived to achieve its mandate by implementing various projects which has made her a key player in the region and the country at large. Our technology transfer centers across the region are vital for us to fulfil our mission of quality service delivery to the public and we will require more funding for them hence a reduction will be costly. Our vision 2030 Flagship projects (Magwagwa multi-purpose dam, Nandi Forest Multi-purpose dam and Webuye dam) are well on course though we have had a few hiccups occasioned by the coming into force of the new PPP act.

This is the year in which we commenced the construction of the modern Kshs. 2.45 billion Lake basin mall, a first of its kind and will be the biggest in western Kenya. The construction is through a partnership with Edermann properties. This mall will be very key for LBDA and the region as a whole in that, it will increase the revenue base, create employment and also transfer new technology in the building and construction industry hence stimulating economic growth of the region. In its quest to achieve internationally accepted standard of management, the Kenya Bureau of Standards conducted a surveillance audit to establish our adherence to the internationally set standards. Am pleased to inform you that our organization was found to be fully ISO 9001:2008 compliant. The annual Performance of the organization as rated by the Performance Contracting (PC) registered a significant improvement from the previous year's performance implying that we are indeed delivering on our mandate.

The future of LBDA and the region is very bright, though delivering quality services to the community is our number one priority and in so doing we will need to work extremely hard with the limited resources that we have. Also we need to widen our revenue base and this will be accomplished by creating new partnerships with private investor, the completion of the ongoing Lake Basin Mall will also be key and increasing the capacity of our technology transfer centers to enable them offer quality goods and services because As an Authority, we hope to realize macroeconomic stability for long term development, enhanced equity and wealth creation opportunities to all in the Region and beyond as envisioned in our strategic plan.

Dr (Eng.) Kabok P. Aguko (PhD), CE
Managing Director, LBDA



VI. CORPORATE GOVERNANCE STATEMENT

For the year ended 31st June 2014

Corporate governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. At Lake Basin Development Authority, we are committed to upholding the highest standards of corporate governance as key to the enhancement of the business performance; the Board of Directors seeks to discharge its duties and responsibilities in the best interest of the organization, its stakeholders, customers, development partners and the wider community. Our corporate values and ethics are entrenched in our strategic and development objectives and we are focused towards transforming and accelerating growth in value for the benefit of both the government and all our stakeholders.

The Board

The Board provides leadership through oversight, review and guidance whilst setting the strategic direction for the organization. It is the primary decision-making body for all matters considered as material to the Authority.

The Board has a formal schedule of matters reserved for it. The Directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance matters. Ultimately, the Board determines the organization's strategic objectives, values, key policies and procedures in accordance with best practice.

The Board has delegated the authority for day-to-day management of the organization to the Managing Director (Chief Executive Officer). However, it maintains overall responsibility for the Authority's performance, compliance functions as well as monitoring of its operations as well as ensuring competent management of the business.

Board Composition

Currently, the Board comprises of sixteen (16) members; the Chairman who is a non-executive director, one executive and fifteen non-executive directors. The Managing Director is a full time executive member and Secretary to the Board. We believe that the Board has an appropriate combination of skills, knowledge and experience to perform its role effectively.

All directors are subject to periodic re-appointment in accordance with the State Corporations Act, the Office of the President and the Parent Ministry.

Induction and on-going development

On appointment, the directors receive induction training covering the organization's programmes and operations and an appreciation of the key risk areas. The programme includes specific sessions with the management across the units for clarity and better understanding of the organizations' functions, roles and accountabilities, business model and operations.

The directors are advised of the legal, regulatory and other obligations of a director of a State Corporation. The directors also receive both internal and external training on corporate governance.

Board Meetings

The full Board normally meets at least once a quarter and at other times as they may determine to be appropriate, chaired by the Chairman who has non-executive responsibilities. The directors have a

formal schedule of matters reserved for discussion. The directors receive appropriate and timely information to enable them exercise full and effective control over strategic, financial, operational, compliance and governance issues. Specifically, the directors are provided with all available information in respect to items to be discussed at a meeting of the Board or committee prior to such meetings. The Board has open access to management through the Chairman and Managing Director. Regular presentations are made by management to the Board and Board Committee meetings and directors may seek briefing from management on specific matters as well as seek independent professional advice.

Independent non-executive directors

The Board considers all of the non-executive directors to be independent and free from any business relationships or other circumstances that could materially interfere with the exercise of objective or independent judgment. In determining their independence, the directors are required to declare any interests that may give rise to a potential or perceived conflict.

Non-executive directors are appointed for an initial term of three years which is renewable subject to the provisions of State Corporations Act and the appointing authority.

The Board is aware of the other commitments of the individual non-executive directors and is satisfied that these do not conflict with other with their duties and time commitments as directors of the Authority.

Role of the Chairman and Managing Director

The separate roles of the Chairman and the Managing Director are clearly defined in written role descriptions which have been approved the Board. The Chairman is responsible for managing the Board and providing leadership to the organization, while the Managing Director is responsible to the Board for strategically overseeing and managing the organizational units in accordance with instructions given by the Board.

The Managing Director directs the implementation of Board decisions and instructions and the general management of the organizational units with the assistance of the management teams.

Board effectiveness evaluation

In pursuit of the objective of promoting Board effectiveness, the Board undertook a self-evaluation exercise facilitated by a consultant. The recommendations from this evaluation are being considered with a review to implementing them.

Managing Directors Evaluation and Succession

The Board is responsible for viewing and approving goals and objectives relevant to the compensation of the Authority's Managing Director, evaluating the performance of the Managing Director in light of the goals and objectives and recommending to the Cabinet Secretary the compensation based on such evaluation.

The Board plans for succession to the position of Managing Director of the Authority, which involves consideration of its policies and principles regarding selection and performance or the retirement of the Managing Director. To assist the Board, the Managing Director shall provide the Board with an assessment of members of senior management and their succession potential at least annually.

Director's Remuneration

The remuneration of all non-executive directors is subject to laid out regulations as contained in the State Corporations Act. The Chairman is entitled to a monthly honorarium while the other non-executive directors are paid sitting allowances and other related allowances subject to attendance at the Board or Committee meetings.

Going Concern

The Board confirms that it is satisfied that the organization has adequate resources to continue in its activities for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Conduct of Activities and Performance Reporting

The Authority's activities are conducted in accordance with a carefully formulated strategy, annual business plans and budgets which set out very clear objectives. Roles and responsibilities have been clearly defined with approved authority being delegated. Performance against the objectives is reviewed and discussed monthly and quarterly by the management teams in the organization.

Communication with stakeholders

The Authority places a great deal of importance on the quality and detail disclosures to its stakeholders. The organization has also embraced technology to ensure this is done efficiently and regular communication with stakeholders also takes place via the organization's website.

The Board believes that it is in general, the responsibility of management to speak for the Authority in communications to outside parties. Directors only engage in such communications at the request of or after consultation with the management.

Corporate Governance Review

The Board shall review this Statement no 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 Committee, Finance and Establishment Committee, Development and Planning Committee and LBDC Board Committee. The specified members and detailed terms of reference are indicated below:

Board Executive Committee Members

- | | |
|--------------------------------|-------------------------------------|
| • Mr. Onyango Oloo | - Chairman |
| • Mrs. Mary D. G. Michieka | - Vice chair |
| • Eng. Kabok P. Aguko | - MD – Secretary |
| • Eng. George O. MacOdawa, MBS | - Chair Planning & Dev committee |
| • Mr. Alex J. Mukabwa | - Chair Finance & Est Committee |
| • Mr. Anthony Kogo | - Chair Audit & Risk Mgt. Committee |
| • Mr. Josiah O. Okumu | - Chair, LBDC Co. ltd |

Finance and Establishment Committee Members

- | | |
|-----------------------------|---|
| • Mr. Alex J. Mukabwa | - Chair Finance & Est Committee |
| • Mr. David Oyosi, MBS | - Alt. Dir, Min. Env, Water & Natural Resources |
| • Eng. Kabok P. Aguko | - MD - Secretary |
| • Mr. Josiah O. Okumu | - Member |
| • Mrs. Mary D. G. Michieka | - Member |
| • Mr. Kennedy Musebe | - Member |
| • Eng. George MacOdawa, MBS | - Member |
| • John Mango | - Member |

Planning and Development Committee Members

- Eng. George MacOdawa, MBS - Chairman
- Eng. Kabok P. Aguko - MD – Secretary
- Boniface Simba - Alt, Dir National Treasury
- Michael Obora - Alt, Dir Min. of Agriculture, Livestock & Fisheries
- Prof. John C. Onyango - Member
- Dennis M. Ochola -Member
- Jimmy Nabwera - Member
- William B. Omoding - Member
- Kennedy Musebe - Member
- Joash Dache - Member

Board Audit Committee Members

- Anthony K. Kogo - Chairman
- William B. Omoding - Member
- Dennis M. Achola - Member
- Jimmy Nabwera - Member
- Boniface Simba - Member
- Michael Obora - Member
- Grace Abuto - Manager Internal Audit- Secretary

LBDC Board Committee Members

- Josiah O. Okumu - Chairman
- Mr. David Oyosi - Alt. Dir, Min. Env, Water & Natural Resources
- Eng. Kabok P. Aguko - MD – Secretary
- Mrs. Mary D. G. Michieka - Member
- Mr. Anthony Kogo - Member
- Mr. Alex Mukabwa - Member
- Prof. J. C Onyango - Member
- Mr. Joash Dache - Member
- Mr. John Mango - Member

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Corporate Affairs Department was allocated 2,000,000.00 for Corporate Social Responsibility (CSR) activities for the Financial Year 2013/14 however due to late disbursement of funds and a transition period of being in a new Ministry most planned activities were not realized or overtaken by events. The department Managed to spend 570,000.00 in the activities below:

Bondo Fisher folk Conservation Organization

This is an annual two day event that seeks to promote conservation of wetland areas, promote tourism along Lake Victoria and also promote responsible fishing. On the 2 days, the Authority donated Rice worth Kshs.30,000. Apart from sponsorship, the Authority had a tent to exhibit other products and our services.

Output

- i) Promotion of LBDA Products; e.g Rice,
- ii) Sensitization of LBDA service charter
- iii) Enhance Community relationship within Authority's jurisdiction

Operation Smile

Each year, the Authority contributes to Operation Smile in order to help those in need of cleft operation to smile again.

Output

- i) LBDA Brand recognition
- ii) Community empowerment

World Food Day

This is also an annual event that seeks to address issues of food security globally. This year the theme was "Agricultural Cooperatives: Key to feeding the world". The Authority chose to showcase the role it plays in improving food security and its contribution to the eradication of hunger. LBDA sponsored the event by providing refreshments to the stakeholders and farmers attending the event.

Output

- i) Sensitization of Authority services & Products
- ii) Community empowerment which is part of our strategic objectives
- iii) Finding collaborators in areas of farming

International Youth Foundation Camp

In its endeavour to tap into the youth potential within its jurisdiction, the Authority partnered with IYF during the 3rd Kisumu world Camp along with GBS Media under the theme 'Nurturing Global leaders'. The Authority donated rice worth Kshs.180,000 during the five day youth forum.

Out put

- i) Branding of LBDA to younger audiences
- ii) One week free advertising during prime time of our LBDC Rice brand in GBS station

- iii) Access to new Markets of our products
- iv) Youth empowerment

MMUST Conference on Mushroom Research

LBDA sponsored the conference by donating Kshs. 50,000 to the conference's Secretariat. This enabled the Authority to achieve the following:

Output

- i) One day sponsor's day which enabled the Authority to do a presentation on its areas of interest
- ii) Access to new Research partners
- iii) Brand recognition

Kisumu Sitting Volleyball Team for the Disabled

Part of our CSR strategy is to reach out to the minorities within our region so as they can realize their potential. This team was formed with the main aim of nurturing sporting talents of PWDs so as to get them exposed and open to opportunities.

Output

- i) LBDA Brand recognition (three from the team were chosen to the National Team that represented Kenya in Rwanda 2014)

KOEE Tree Planting at Eshibira Primary School

Environment conservation and protection of catchment areas is one of the Authority's strategic objectives. LBDA donated 60,000 towards the drive to plant trees and also contribute to the Governments' target of 10% tree cover policy.

Output

- i) Sensitization on environmental issues
- ii) Contribution to the 10% forest cover

Donation of Computer & Tree Seedlings to St. Patrick Secondary School

The school has a new compound that is bare and was identified by the Authority for tree planting. The authority also learnt that the school had no computer even for administrative operations and decided to donate one computer and 500 tree seedlings

Output

- i) Sensitization on environmental issues
- ii) Contribution to the 10% forest cover
- iii) Community Empowerment

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 these occasions and it also donates 5,000 towards the luncheon.

Output

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

Below is a summary table of the activities for 2013/14 Financial Year.

| No | Organisation/ Activity | Date | Amount |
|--------------|---|---|----------------|
| 1. | Bondo Fisherfolk Conservation Organization | 20 th August 2013 | 30,000 |
| 2. | Operation Smile | 20 th September 2013 | 20,000 |
| 3. | World Food day Kisumu West District | 16 th October 2013 | 120,000 |
| 4. | International Youth Foundation Camp | 27 th November 2013-1 st Dec 2014 | 180,000 |
| 5. | MMUST Conference on Mushrooms | 12 th February 2014 | 50,000 |
| 6. | Kisumu Sitting Volleyball Team for disabled | 28 th April 2014 | 20,000 |
| 7. | KOEE Tree Planting at Eshibira Pri. Sch | 22 ND May 2014 | 60,000 |
| 8. | St. Patrick's Secondary School | 31 st May 2014 | 75,000 |
| 9. | 3 National Holidays @ 5,000 | Varied | 15,000 |
| TOTAL | | | 570,000 |

viii. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 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) Agricultural i.e. Crop & Horticultural Production, Fisheries Development, Livestock Multiplication and Poultry Production
- (b) Industrial i.e. Brick & Tiles Production., Rice Milling & Honey Production,
- (c) Environmental Conservation i.e. Agro forestry, Effluent Monitoring, Evaluation and Water Catchments Conservation
- (d) Regional Studies

Results

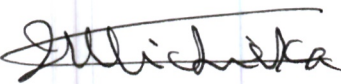
The results of the entity for the year ended June 30, 2014 are set out on page one

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Section 14 of the Public Audit Act 2003.


✓ **Mr. Onyango Oloo**
CHAIRMAN

Date:..... 30-9-2014


Dr. Eng. Kabok P. Aguko CE
MANAGING DIRECTOR

Date:..... 30-9-2014

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 50 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.

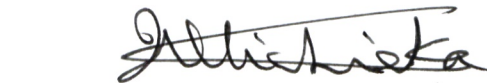
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of 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, 2014, 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 26th September 2014 and signed on its behalf by:



201
Mr. Onyango Oloo
CHAIRMAN

Date:..... 30-9-2014



Dr. Eng. Kabok P. Aguko CE
MANAGING DIRECTOR

Date:..... 30-9-2014

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON LAKE BASIN DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Lake Basin Development Authority set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows 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 14 of the Public Audit Act 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Stalled Projects

As similarly reported in the previous financial years, the Authority's property, plant and equipment figure of Kshs.1,074,323,877 as at 30 June 2014 include work in progress of Kshs.583,321,816 which comprises of work in progress at Yala Swamp weir valued at Kshs.122,206,680. The Yala Swamp Weir was taken over by Dominion Group of Companies who undertook to complete it at their own cost. The memorandum of Understanding between the Authority and the Company did not provide for refund of the initial works done worth Kshs 122,206,680. However, Management has continued to carry the amount as work in progress.

1.2 Land Ownership Documents

As similarly reported in the financial year 2012/2013 , the Authority's property, plant and equipment balance of Kshs.1,074,323,877 as at 30 June 2014 includes eighteen (18) parcels of land valued at Kshs.39,174,333, against which ownership documents were not made available for audit review. In addition a parcel of land and building valued at Kshs.1,800,000 and Kshs.4,000,000 respectively, had been transferred and registered in the name of a former employee in unexplained circumstances.

1.3 Work in Progress

Included in the work in progress figure of Kshs.583,321,816 is Kshs.322,846,959 in respect of construction and development of the shopping mall undertaken jointly between Lake Basin Development Authority and a Property developer at a contract sum of Kshs.2,451,035,644. Scrutiny of the contract agreement revealed that Lake Basin was to pay Kshs.490,207,129 under phase one within a period of six (6) months after the signing of the contract agreement on 8th April, 2013. However, the authority had only paid Kshs.322,846,959 as at 30 June 2014 leaving unpaid balance of Kshs.168,000,000 and thus in breach of contract agreement. Further, certified works paid for by the developer (where the Authority has obligation to pay in future) have not been captured in the financial statements.

In the foregoing circumstances the accuracy of work in progress balance of Kshs 583,321,816 and the ownership status of the parcels of land could not be confirmed as at 30 June 2014.

2. Receivables from Exchange Transactions

As similarly reported in the financial year 2012/2013, included in head office trade and other receivables gross figure of Kshs.188,434,588 as at 30 June 2014, are headquarters debtors of Kshs.175,393,197 which as reported in the previous year is inclusive of

Kshs.122,269,659 owed to the Authority in respect of overpayment relating to construction of a rice mill and debts totalling Kshs.1,467,163 owed by deceased staff.

The provisions for bad debts of Kshs.61,952,261 in the financial statements is therefore not adequate to cover the debts which are obviously irrecoverable and consequently the trade and other receivables of Kshs 128,433,967 as at 30 June 2014 is not fairly stated.

2.1 Expenditure incurred for Trip to China

Included in the receivables from exchange transactions figure of Kshs.128,443,967 is Kshs.4,599,121 that was incurred on a trip to China by a former Parent Ministry official (Ministry of Regional Development Authorities) in July 2012. A letter requesting for the refund was initiated vide letter, ref: LBDA/CR/42 of 6 February 2013 and to date, no positive response or refund has been received from the parent ministry.

3. Procurement of Consultancy Services

The Authority during the year under review through direct procurement as opposed to competitive bidding awarded a consultancy contract to an engineering firm at a contract price of Kshs.17,606,268 in respect of consultancy services for survey, design, preparation of tender documents and supervision of eleven (11) Water Pans and four (4) small dams. The Authority did not provide documentary evidence on how the consultant was identified and awarded the contract. In the circumstances, it could not be confirmed whether, the Authority received value for money.

4. Loss of funds

As similarly reported in the financial year 2012/2013, the Authority lost funds through stolen cheques amounting to Kshs.271,861. A review of the status during the year revealed that no recovery had been made. Although management has explained that the case is before court, the outcome is still uncertain.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Lake Basin Development Authority Act, Cap 442 of the Laws of Kenya.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

03 June 2015

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

| | Note | 2013-2014 Kshs | 2012-2013 Kshs |
|---|------|-----------------------------|---------------------------|
| Revenue from non-exchange transactions | | | |
| Public contributions and donations | 3 | - | 769,860 |
| Transfers from other governments | 4 | <u>417,971,712</u> | <u>481,142,832</u> |
| | | 417,971,712 | 481,912,692 |
| Revenue from exchange transactions | | | |
| Sale of rice | 5 | 30,055,653 | 38,282,317 |
| Sale of Agricultural produce | 6 | 17,446,289 | 21,860,510 |
| Rental revenue from facilities and equipment | 7 | 9,002,375 | 7,677,000 |
| Finance income - external investments | 8 | 466,447 | 29,514,081 |
| Other income | 9 | <u>2,772,908</u> | <u>6,535,905</u> |
| | | <u>56,970,762</u> | <u>103,869,813</u> |
| Total revenue | | <u>477,715,384</u> | <u>585,782,505</u> |
| Expenses | | | |
| Employee costs | 10 | 190,023,263 | 184,852,890 |
| Board Expenses | 11 | 10,943,072 | 11,095,662 |
| Depreciation and amortization expense | 12 | 31,517,362 | 37,959,889 |
| Repairs and maintenance | 13 | 19,404,940 | 34,900,619 |
| Contracted services | 14 | 36,257,166 | 25,950,737 |
| General expenses | 15 | 153,496,928 | 242,052,887 |
| Finance costs | 16 | <u>354,703</u> | <u>332,761</u> |
| Total expenses | | 441,997,434 | 537,145,445 |
| Other gains/(losses) | | | |
| Gain on sale of assets | 17 | 306,685 | - |
| Gain/Loss on Biological Asset | 18 | 3,692,356 | (6,353,086) |
| Impairment loss | 19 | <u>(164,908,862)</u> | <u>-</u> |
| Total Other gains/Losses | | <u>(160,909,821)</u> | <u>(6,353,086)</u> |
| Surplus/(deficit) for the period | | <u>(125,191,871)</u> | <u>42,283,974</u> |

The notes set out on pages 9 to 14 form an integral part of the Financial Statements

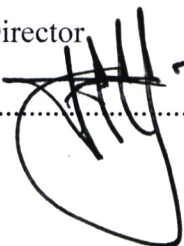
XI. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

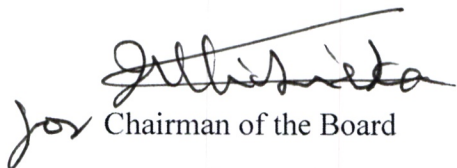
| | Note | 2013-2014 Kshs | 2012-2013 Kshs |
|---|------|----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 20 | 25,719,303 | 15,362,847 |
| Receivables from exchange transactions | 21 | 128,443,967 | 378,665,943 |
| Inventories | 22 | 46,110,687 | 83,361,284 |
| Staff Advances | 23 | 922,886 | 1,472,476 |
| | | 201,196,843 | 478,862,550 |
| Non-current assets | | | |
| Property, plant and equipment | 24 | 1,074,323,877 | 946,459,679 |
| Biological Assets | 25 | 15,630,537 | 11,938,181 |
| Intangible assets | 26 | 1,928,294 | - |
| | | 1,091,882,708 | 958,397,860 |
| Total assets | | 1,293,079,551 | 1,437,260,410 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade & other payables | 27 | 95,184,828 | 122,428,226 |
| | | 95,184,828 | 122,428,226 |
| Non-current liabilities | | | |
| Non-current employee benefit obligation | | - | - |
| Total liabilities | | 95,184,828 | 122,428,226 |
| Net Assets | | | |
| Capital Grants | 28 | 583,940,769 | 583,940,769 |
| Capital Reserves | 29 | 121,412,536 | 121,412,536 |
| Accumulated surplus | 30 | 241,853,816 | 358,791,277 |
| Revaluation Reserves | - | 250,687,602 | 250,687,602 |
| Total Net assets | | 1,197,894,723 | 1,314,832,184 |
| Total net assets and liabilities | | 1,293,079,551 | 1,437,260,410 |

The Financial Statements set out on pages 14 to 17 were signed on behalf of the Board of Directors by:

Managing Director

Date.....

 Tr 1 30-9-2014


Chairman of the Board
Date..... 30-9-2014

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

| | Capital Grants Kshs | Capital Reserves Kshs | Accumulated surplus Kshs | Revaluation Reserves Kshs | Total Kshs |
|---------------------------------------|------------------------|-----------------------------|--------------------------------|---------------------------------|----------------------|
| Balance as at 30 JUNE 2012 | 583,940,769 | 121,412,536 | 316,507,303 | 114,671,020 | 1,136,531,628 |
| Surplus/(deficit) for the period | - | - | 42,283,974 | 136,016,582 | 178,300,556 |
| Transfers to/from accumulated surplus | - | - | - | - | - |
| Balance as at 30 JUNE 2013 | 583,940,769 | 121,412,536 | 358,791,277 | 250,687,602 | 1,314,832,184 |
| Surplus for the period | - | - | (125,191,871) | - | (125,191,871) |
| Adjustment | - | - | 8,254,410 | - | 8,254,410 |
| Transfers to/from accumulated surplus | - | - | - | - | - |
| Balance as at 30 JUNE 2014 | 583,940,769 | 121,412,536 | 241,853,816 | 250,687,602 | 1,197,894,723 |

XIII. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

| | 2013-2014 Kshs | 2012-2013 Kshs |
|--|----------------------|----------------------|
| Surplus for the year before tax | (125,191,871) | 42,283,974 |
| Adjusted for: | | |
| Depreciation | 31,517,362 | 37,959,889 |
| Prior year Adjustment | 8,254,410 | - |
| Impairment Loss | 164,908,862 | - |
| Gains and losses on disposal of assets | (306,685) | - |
| Gains and losses on Biological Assets | (3,692,356) | 6,353,086 |
| Working capital adjustments: | | |
| Increase/decrease in inventory | 37,250,597 | (36,347,804) |
| Increase/decrease in receivables | 250,221,976 | (259,413,261) |
| Increase/decrease in Staff Advances | 549,590 | (357,710) |
| Increase/decrease in payables | (27,243,398) | (42,487,147) |
| Net cash flows from operating activities | 336,268,487 | (252,008,973) |
| Cash flows from investing activities | | |
| Purchase of property, plant, equipment and intangible assets | (326,232,031) | (154,531,988) |
| Proceeds from sale of property, plant and Equipment | 320,000 | - |
| Net cash flows used in investing activities | (325,912,031) | (154,531,988) |
| Cash flows from financing activities | | |
| Increase in deposits | - | - |
| Net cash flows used in financing activities | - | - |
| Net increase/(decrease) in cash and cash equivalents | 10,356,456 | (406,540,961) |
| Cash and cash equivalents at 1 July 2013 | 20 15,362,847 | 421,903,808 |
| Cash and cash equivalents at 30 June 2014 | 20 25,719,303 | 15,362,847 |

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2014

| | Original budget 2013-2014 Kshs | Adjustments 2013-2014 Kshs | Final budget 2013-2014 Kshs | Actual on comparable basis 2013-2014 Kshs | Performance difference 2013-2014 Kshs |
|---|---|----------------------------------|-----------------------------------|--|--|
| Revenue | | | | | |
| Transfers from other Government | 423,417,718 | - | 423,417,718 | 417,971,712 | 5,446,006 |
| Sale of Rice | 45,000,000 | - | 45,000,000 | 30,055,653 | 14,944,347 |
| Sale of Agricultural Produce | 30,490,500 | - | 30,490,500 | 17,446,289 | 13,044,211 |
| Rental revenue from facilities and equipment | 9,817,575 | - | 9,817,575 | 9,002,375 | 815,200 |
| Other incomes | 24,600,500 | - | 24,600,500 | 2,772,908 | 21,827,592 |
| Finance Income-external investments | 500,000 | - | 500,000 | 466,447 | 33,553 |
| Total income | 533,826,293 | | 533,826,293 | 477,715,384 | 56,110,909 |
| Expenses | | | | | |
| Compensation of employees | 189,000,000 | - | 189,000,000 | 190,023,263 | (1,023,263) |
| General expenses (Civil Works) | 155,000,000 | - | 155,000,000 | 153,496,928 | 1,503,072 |
| Finance cost | 400,000 | - | 400,000 | 354,703 | 45,297 |
| Board expenses | 11,000,000 | - | 11,000,000 | 10,943,072 | 56,928 |
| Repairs and Maintenance | 19,000,000 | - | 19,000,000 | 19,404,940 | (404,940) |
| Other payments(depreciation and amortization) | | - | | 31,517,362 | (31,517,362) |
| Contracted services | 36,200,000 | - | 36,200,000 | 36,257,166 | (57,166) |
| Total expenditure | 410,600,000 | - | 410,600,000 | 441,997,434 | (31,397,434) |

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

1. Statement of compliance and basis of preparation – IPSAS 1

Lake Basin Development Authority financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, 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) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

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.

b) 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.

c) 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 |

d) 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) 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.

f) 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.

g) 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.

h) 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.

i) 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.

j) Comparative figures

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

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

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

l) 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, 2014.

3. Public contributions and donations

| | 2014 | 2013 |
|---|-------------|----------------|
| | Shs | Shs |
| ICRAFF | - | 769,860 |
| Total transfers and sponsorships | - | 769,860 |
| | 2014 | 2013 |
| | Shs | Shs |
| Reconciliation of public contributions and donations | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| Conditions to be met - remain liabilities | - | - |

4. Transfers from other governments

| | 2014 | 2013 |
|--|--------------------|--------------------|
| | Shs | Shs |
| Unconditional grants | | |
| Recurrent Grants | 130,721,712 | 128,185,712 |
| Development Grants | 287,250,000 | 352,957,120 |
| | 417,971,712 | 481,142,832 |
| Conditional grants | | |
| Other organizational grants | Nil | Nil |
| Total government grants and subsidies | 417,971,712 | 481,142,832 |

5. Sale of rice

| | 2014 | 2013 |
|--|-------------------|-------------------|
| | Shs | Shs |
| Sale of rice | 30,055,653 | 38,282,317 |
| Total revenue from sale of rice | 30,055,653 | 38,282,317 |

6. Sale of Agricultural produce, Bricks & Related income

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | Shs | Shs |
| Sale of sugar cane | 706,392 | 1,711,997 |
| Sale of bricks | 1,027,970 | 943,200 |
| Sale of milk | 6,528,425 | 6,020,170 |
| Sale of animals & steers | 2,543,000 | 3,681,150 |
| Sale of pigs | 63,000 | - |
| Sale of seedlings | 2,156,821 | 1,436,650 |
| Sale of vegetables & fruits | 255,160 | 323,445 |
| Sale of maize | - | 223,100 |
| Sale of Honey | 136,040 | 113,630 |
| Sale of fingerlings & table size fish | 863,944 | 1,534,900 |
| Sale of fish/chicken feeds | 1,396,920 | 1,570 |
| Sale of sorghum | 178,000 | 259,200 |
| Sale of bran meal, coloured rice | 1,276,108 | 4,237,044 |
| Sale of poultry & products | 118,526 | 1,339,434 |
| Dipping & Bull services | 26,000 | 33,220 |
| Sale of paddy rice | 169,983 | 1,800 |
| Total revenue from the sale of goods | 17,446,289 | 21,860,510 |

7. Rental Revenue from facilities and equipment

| | 2014 | 2013 |
|------------------------------|------------------|------------------|
| | Shs | Shs |
| Commercial Rent | 3,440,575 | 3,587,900 |
| Lease Rentals | 5,312,000 | 3,392,000 |
| Hire of Tractors & Excavator | 249,800 | 697,100 |
| Total rentals | 9,002,375 | 7,677,000 |

8. Finance income

| | 2014 | 2013 |
|-------------------------------------|----------------|-------------------|
| | Shs | Shs |
| Cash investments and fixed deposits | 466,447 | 29,514,081 |
| Total finance income | 466,447 | 29,514,081 |

9. Other income

| | 2014 | 2013 |
|---------------------------|------------------|------------------|
| | Shs | Shs |
| Insurance recoveries | 1,140,589 | - |
| Boarded Stores | 430,468 | 316,090 |
| Hire of Grounds | 412,236 | 385,682 |
| Milling/Airing Charges | 16,200 | 4,547,310 |
| Sale of Tender Documents | 617,950 | 867,430 |
| Surcharge Services | 97,985 | 403,043 |
| Tour Fees | 57,480 | 16,350 |
| Total other income | 2,772,908 | 6,535,905 |

10. Employee costs

| | 2014 | 2013 |
|---------------------------------------|--------------------|--------------------|
| | Shs | Shs |
| Casual wages | 13,985,689 | 18,587,094 |
| Ex-Gratia Payments | 1,961,994 | 760,101 |
| Medical Expenses | 6,998,762 | 495,618 |
| NSSF Employers Contribution | 1,065,124 | 748,200 |
| Provident Fund Employers Contribution | 13,698,418 | 13,241,150 |
| Service Gratuity | 2,910,807 | 1,409,919 |
| Salaries | 145,456,695 | 143,746,716 |
| Terminal Dues | 483,857 | 200,583 |
| Training | 3,075,117 | 4,828,478 |
| Welfare | 386,800 | 835,031 |
| Employee costs | 190,023,263 | 184,852,890 |

11. Board Expenses

| | 2014 | 2013 |
|-----------------------------|-------------------|-------------------|
| | Shs | Shs |
| Board Expenses | 10,943,072 | 11,095,662 |
| Total Board Expenses | 10,943,072 | 11,095,662 |

12. Depreciation and amortization expense

| | 2014 | 2013 |
|--|-------------------|-------------------|
| | Shs | Shs |
| Property, plant and equipment | 30,432,696 | 37,959,889 |
| Intangible assets | 1,084,666 | - |
| Total depreciation and amortization | 31,517,362 | 37,959,889 |

13. Repairs and maintenance

| | 2014 | 2013 |
|--------------------------------------|-------------------|-------------------|
| | Shs | Shs |
| Building Repairs-Residential | - | 221,675 |
| Building Repairs-Non Residential | 2,614,058 | 12,677,079 |
| Plant & Machinery Repairs | 1,554,830 | 2,541,908 |
| Repair of Farm Equipment/Implements | - | 14,140 |
| Repair of Office Equipment | 250,321 | 1,163,280 |
| Repair of Office Furniture | 274,100 | 334,570 |
| Motor Vehicle Running | 14,711,631 | 17,947,967 |
| Total repairs and maintenance | 19,404,940 | 34,900,619 |

14. Contracted services

| | 2014 | 2013 |
|----------------------------------|-------------------|-------------------|
| | Shs | Shs |
| Construction of Water Pans | 36,257,166 | 25,950,737 |
| Total contracted services | 36,257,166 | 25,950,737 |

15. General expenses

| | 2014 | 2013 |
|---|-------------|-------------|
| | Shs | Shs |
| Advertising | 3,017,575 | 6,339,109 |
| Animal Feeds | 3,843,573 | 4,442,993 |
| Ask Show | 10,406,248 | 6,308,264 |
| Audit fees | 1,395,996 | 1,309,060 |
| Computer expenses | 438,177 | 12,699,587 |
| Compound Maintenance | 1,536,860 | - |
| Consulting fees | 13,303,739 | 43,998,955 |
| Dairy expenses | 72,876 | 143,670 |
| Donation & Subscriptions | 577,409 | 1,127,527 |
| Drugs & Chemicals | 1,318,973 | 2,282,010 |
| Electricity | 3,513,350 | 3,995,725 |
| Entertainment | 11,882,371 | 11,439,157 |
| General Hardware | 3,903,616 | 9,817,542 |
| Hire of Plant & Machinery | 607,200 | 145,800 |
| Hire of Transport | 240,030 | 234,350 |
| Horticulture | 200,575 | 647,407 |
| Fuel and oil | 572,264 | 92,256 |
| Insurance & Licences | 1,665,566 | 2,170,432 |
| Legal & Penalty expenses | 10,024,477 | 17,060,416 |
| Library | 328,860 | 274,120 |
| Maintain. Water & Sewerage & Sanitation | 5,359,200 | 7,272,195 |
| Ploughing services | - | 27,000 |
| Packaging Material | 1,365,703 | 3,808,132 |
| Purchase of Raw Materials | 29,614,044 | 35,746,486 |
| Postage & Stamps | 191,350 | 367,440 |
| Purchase of Crude Honey | - | 767,000 |

LAKE BASIN DEVELOPMENT AUTHORITY

| | | |
|-------------------------------|--------------------|--------------------|
| Purchase of In-calf Cows | - | 1,490,185 |
| Purchase of Poultry (Chicks) | - | 125,185 |
| Purchase of Seeds & Seedlings | 676,402 | 5,507,515 |
| Purchase of Steers | - | 60,000 |
| Rent & Rates-Non Residential | 5,333,998 | 4,945,920 |
| Sales & Marketing Expenses | 650,597 | 696,116 |
| Security Expenses | 6,342,563 | 6,422,083 |
| Stationary & Office Supplies | 5,163,563 | 8,006,820 |
| Tax Penalty/WHT | 1,461,835 | - |
| Telecommunication | 2,301,334 | 2,913,433 |
| Travelling & Accommodation | 25,905,514 | 39,009,600 |
| Uniforms & Clothing | 127,660 | 359,397 |
| Veterinary Expenses | 153,430 | - |
| Total general expenses | 153,496,928 | 242,052,887 |

16. Finance costs

| | 2014 | 2013 |
|--|----------------|----------------|
| | Shs | Shs |
| Bank Charges (Commissions & Ledger Fees) | 294,703 | 332,761 |
| Bank overdrafts | 60,000 | - |
| Total finance costs | 354,703 | 332,761 |

17. Gain on sale of assets

| | 2014 | 2013 |
|-------------------------------|----------------|-------------|
| | Shs | Shs |
| Revaluation/Cost | 620,000 | - |
| Less: Accum Depreciation | 606,685 | - |
| Net Book Value | 13,315 | - |
| Cash Proceeds | 320,000 | - |
| Gain on sale of assets | 306,685 | - |

18. Gain/Loss on Biological Assets

| | 2014 | 2013 | Gain/(Loss) Kshs | |
|---|-------------------|-------------------|-------------------------|--------------------|
| | Kshs | Kshs | 2014 | 2013 |
| Bulls | 76,500 | 350,750 | (274,250) | 85,625 |
| Lactating / Dry Cows | 4,616,250 | 4,030,500 | 585,750 | 408,750) |
| Heifers | 6,122,100 | 2,915,250 | 3,206,850 | (817,500) |
| Cross Breed | - | 281,250 | (281,250) | (1,848,750) |
| Pigs | 243,000 | 146,250 | 96,750 | 111,375 |
| Fish / Poultry | 2,992,870 | 3,368,276 | (375,406) | (1,203,059) |
| Crops WIP | 1,579,817 | 845,905 | 733,912 | (2,272,027) |
| Total Gain/Loss on Biological Assets | 15,630,537 | 11,938,181 | 3,692,356 | (6,353,086) |

19. Impairment loss

| | 2014 | 2013 |
|-------------------------------|--------------------|----------|
| | Shs | Shs |
| Property, plant and equipment | 164,908,862 | - |
| Total impairment loss | 164,908,862 | - |

20. Cash and cash equivalents

| | 2014 | 2013 |
|--|-------------------|-------------------|
| | Shs | Shs |
| Cooperative Bank Ltd | 11,035,212 | 1,029,760 |
| Development Bank of Kenya | 373,989 | 2,460,806 |
| Kenya Commercial Bank Ltd | 3,127,829 | 5,150,110 |
| National Bank of Kenya Ltd | 9,005,974 | 4,629,357 |
| Cash-on-hand and in transit | 2,176,299 | 2,092,814 |
| Total cash and cash equivalents | 25,719,303 | 15,362,847 |

21. Trade Receivables

| | 2014 | 2013 |
|----------------------------------|--------------------|--------------------|
| | Shs | Shs |
| Head office Debtors | 188,434,588 | 430,376,518 |
| Ricemill Debtors | 12,211,420 | 12,921,162 |
| Inter company Debt | (10,249,780) | (2,679,476) |
| Less: Provision for bad debts | (61,952,261) | (61,952,261) |
| Total current receivables | 128,443,967 | 378,665,943 |

22. Inventories

| | 2014 | 2013 |
|--------------------------|-------------------|-------------------|
| | Shs | Shs |
| General Hardware | 1,304,268 | 2,450,057 |
| Automotive Spares | 1,069,507 | 1,074,725 |
| Drugs & Chemicals | 78,351 | 39,854 |
| Animal Feeds | 45,830 | 235,225 |
| Bricks | - | 5,000 |
| Stationary | 1,054,774 | 857,537 |
| Seeds/Seedlings | 2,731,300 | 1,891,632 |
| Raw Materials | 36,704,158 | 72,085,659 |
| Packaging Materials | 609,926 | 1,266,985 |
| Finished Products | 2,512,573 | 3,454,610 |
| Total inventories | 46,110,687 | 83,361,284 |

23. Staff Advances

| | 2014 | 2013 |
|------------------------------|----------------|------------------|
| | Shs | Shs |
| Salary Advances | 922,886 | 1,472,476 |
| Total Salary Advances | 922,886 | 1,472,476 |

LAKE BASIN DEVELOPMENT AUTHORITY

24. Property Plant and Equipment for the year ended 30 June 2014

| | LAND | BUILDINGS | PLANTS & EQUIPMENT | ADAPTIVE RESEARCH | RURAL ACCESS ROADS | WORK IN PROGRESS | FURNITURE & FIXTURES | COMPUTER & OTHER CLASS II | M/ VEHICLES | TRACTORS | TOTAL |
|------------------------------------|----------------------|-----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|---------------------------|----------------------|----------------------|-------------------------|
| COST | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. | | Kshs. |
| At 1 July 2012 | 62,674,333.00 | 353,138,201.00 | 180,422,066.00 | 36,158,175.25 | 36,065,225.00 | 315,404,172.40 | 14,859,552.00 | 16,897,013.00 | 135,395,676.00 | | 1,151,014,413.65 |
| Additions | | 277,100.00 | 10,021,252.35 | | | 112,992,506.60 | 1,153,853.27 | 6,140,634.20 | 7,626,950.12 | | 138,212,296.54 |
| Revaluation | | 50,200,070.00 | 102,136,203.00 | | | | | | | | 152,336,273.00 |
| At 30 June 2013 | 62,674,333.00 | 403,615,371.00 | 292,579,521.35 | 36,158,175.25 | 36,065,225.00 | 428,396,679.00 | 16,013,405.27 | 23,037,647.20 | 143,022,626.12 | - | 1,441,562,983.19 |
| Additions | | 110,340.00 | 2,687,004.00 | | | 322,846,959.00 | | 297,896.00 | 289,832.00 | 63,773,860.00 | 390,005,891.00 |
| Disposals | | | | | | (164,908,861.70) | | | (620,000.00) | | (165,528,861.70) |
| Transfers/Adjustments | | | | | | (3,012,960.00) | | | (63,773,860.00) | | (66,786,820.00) |
| Balance as at 30/6/14 | 62,674,333.00 | 403,725,711.00 | 295,266,525.35 | 36,158,175.25 | 36,065,225.00 | 583,321,816.30 | 16,013,405.27 | 23,335,543.20 | 78,918,598.12 | 63,773,860.00 | 1,599,253,192.49 |
| Depreciation and impairment | | | | | | | | | | | |
| As at 1.7. 2012 | - | 94,657,869.00 | 161,624,941.00 | 36,158,175.25 | 36,065,225.00 | - | 9,862,946.00 | 11,191,000.00 | 107,583,258.00 | | 457,143,414.25 |
| Charge for the year | | 7,189,915.23 | 16,467,739.81 | | | | 791,579.63 | 3,157,391.21 | 10,353,263.60 | | 37,959,889.48 |
| As at 1.7. 2013 | - | 101,847,784.23 | 178,092,680.81 | 36,158,175.25 | 36,065,225.00 | - | 10,654,525.63 | 14,348,391.21 | 117,936,521.60 | - | 495,103,303.73 |
| Charge for the year | | 6,037,558.54 | 14,646,730.57 | | | | 669,859.96 | 2,696,145.60 | 6,257,164.30 | 125,236.63 | 30,432,695.59 |
| Disposal | | | | | | | | | (606,685.04) | | (606,685.04) |
| Transfers/Adjustments | | | | | | | | | (63,439,895.65) | 63,439,895.65 | - |
| Balance as at 30/6/14 | - | 107,885,342.77 | 192,739,411.38 | 36,158,175.25 | 36,065,225.00 | - | 11,324,385.59 | 17,044,536.81 | 60,147,105.21 | 63,565,132.28 | 524,929,314.28 |
| NET BOOK VALUE | | | | | | | | | | | |
| At 30th June 2014 | 62,674,333.00 | 295,840,368.23 | 102,527,113.97 | - | - | 583,321,816.30 | 4,689,019.69 | 6,291,006.39 | 18,771,492.91 | 208,727.72 | 1,074,323,878.21 |
| At 30th June 2013 | 62,674,333.00 | 301,767,586.77 | 114,486,840.54 | - | - | 428,396,679.00 | 5,358,879.64 | 8,689,255.99 | 25,086,104.52 | - | 946,459,679.46 |

Note: 1. In the year 2013-2014 there was a transfer of Tractors from Motor Vehicle

2. Work in progress for the year ended 30th June 2014 of Kshs. 322 Million includes Kshs. 310 Million which relates to the expenditure incurred on the LBDA mall construction

3. Included in the Motor Vehicle column is Kshs. 620,000 which was the revalued cost of the disposed motor vehicle and Kshs. 606,685 was the accumulated depreciation of that motor vehicle.

4. The Authority recognised an impairment loss of Kshs. 164,908,862 due to the demolition of the Stalled Headquarters building which was done during the year.

25. Biological Assets

| | 2014 | 2013 |
|--|-------------------|-------------------|
| | Shs | Shs |
| Bulls | 76,500 | 350,750 |
| Lactating/Dry Cows | 4,616,250 | 4,030,500 |
| Heifers | 6,122,100 | 2,915,250 |
| Cross Breed | - | 281,250 |
| Pigs/Turkey | 243,000 | 146,250 |
| Fish/Poultry | 2,992,870 | 3,368,276 |
| Crops WIP | 1,579,817 | 845,905 |
| Total inventories at the lower of cost and net realizable value | 15,630,537 | 11,938,181 |

26. Intangible assets - software

| Cost | Shs |
|------------------------------------|------------------|
| At 1 July 2012 | - |
| Additions | - |
| At 30 June 2013 | - |
| Additions – internal development | 3,012,960 |
| At 30 June 2014 | 3,012,960 |
| Amortization and impairment | |
| At 1 July 2012 | - |
| Amortization | - |
| At 30 June 2013 | - |
| Amortization | 1,084,666 |
| Impairment loss | - |
| At 30 June 2014 | 1,084,666 |
| Net book values | |
| At 30 June 2014 | 1,928,294 |
| At 30 June 2013 | - |

27. Trade and other payables

| | 2014 | 2013 |
|---------------------------------------|-------------------|--------------------|
| | Shs | Shs |
| Head Office Creditors | 83,061,125 | 102,315,552 |
| Ricemill Creditors | 24,249,178 | 22,792,150 |
| Inter company borrowing | (12,125,475) | (2,679,476) |
| Total trade and other payables | 95,184,828 | 122,428,226 |

28. Capital Grants

| | 2014 | 2013 |
|-------------------------------|--------------------|--------------------|
| | Shs | Shs |
| Capital Grants | 583,940,769 | 583,940,769 |
| Total Capital Reserves | 583,940,769 | 583,940,769 |

29. Capital Reserves

| | 2014 | 2013 |
|-------------------------------|--------------------|--------------------|
| | Shs | Shs |
| Capital Reserves | 121,412,536 | 121,412,536 |
| Revaluation Reserves | 250,687,602 | 250,687,602 |
| Total Capital Reserves | 372,100,138 | 372,100,138 |

30. Accumulated Reserves

| | 2014 | 2013 |
|----------------------------------|--------------------|--------------------|
| | Shs | Shs |
| As Previously stated | 358,791,277 | 316,507,303 |
| Less Adjustment | 8,254,410 | - |
| Surplus/deficit for the year | (125,191,871) | 42,283,974 |
| Total Accumulated surplus | 241,853,816 | 358,791,277 |

XVI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|-----------------------------------|---------------------|--|-----------------------------------|--|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Guidance Notes:

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

Managing Director

Chairman of the Board

Date.....

Date.....