

# **REPORT OF THE AUDITOR-GENERAL ON LAKE BASIN DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Lake Basin Development Authority set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2017, 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.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of Lake Basin Development Authority as at 30 June 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Reporting Standards (Accrual Basis).

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

### **Basis for Qualified Opinion**

#### **1. Going Concern**

The Authority financial performance recorded a deficit of Kshs.112,138,766 (2015/2016- surplus Kshs.16,685,219) and which brought its accumulated surplus to Kshs.66,204,140 (2015/2016 - Kshs.178,342,906), the current liabilities of Kshs.2,635,935,771 exceeded the current assets of Kshs.156,770,164 leading to a negative working capital of Kshs.2,479,165,607. Evidently, the Authority is technically insolvent and its continued operation as going concern is dependent upon continued support from the Government, trade payables and its bankers.

#### **2. Property, Plant and Equipment**

##### **2.1 Capital Work in Progress - Lake Basin Mall**

The property, plant and equipment figure of Kshs.5,001,675,695 as at 30 June 2017 include work in progress of Kshs.4,563,157,486 in respect of Lake Basin Mall. However, the following were noted:

- i. Examination of documents relating to the project which included the certificate of practical completion and the project final accounts indicated that the project was completed on 19 April 2016 and project final accounts prepared by a consultant issued on 10 May 2016.
- ii. The final accounts of the project was valued by the Quantech consultancy at Kshs.4,138,895,105 as on 20 June 2016. Although this was a clear indication that the project was complete, the project has not been transferred from work in progress to completed project and capitalized accordingly as required by International Public Sector Accounting Standards (IPSAS) 17.
- iii. It was also noted that the Lake Basin Mall project has not been launched officially for revenue generation one and a half year after completion.
- iv. Further, for one year, no depreciation has been charged on the asset thereby inflating the fair value and the loss has been understated by the depreciation that was not charged.

There is loss of revenue resulting from non-operationalization and opening of the project for intended use.

Under, the circumstances, the accuracy of the property, plant and equipment figure of Kshs.5,001,675,696 could not be confirmed.

## **2.2 Ownership Documents**

- i. The property, plant and equipment figure of Kshs.5,001,675,695 in the non-current assets includes one bulldozer and two hydraulic excavators valued at Kshs.50,000,000 whose log books have not been availed for audit review.
- ii. In addition, the management did not avail ownership documents for the five parcels of land and therefore exposing the same to acts of encroachment or misuse

Consequently, it has not been possible to confirm the ownership of property, plant and equipment figure of Kshs.5,001,675,695.

## **3. Receivables from Exchange Transaction**

Included in trade receivables under note 19 is gross figure of Kshs.198,678,967 as at 30 June 2017 which comprises of ex-board members, ex-staff, current staff and trade debtors of Kshs,569,689, Kshs.10,335,504, Kshs.290,831 and Kshs.187,482,943 respectively resulting to a net figure of Kshs.50,854,576 net of provision for bad debts.. However, the following anomalies were observed:

- i. The amount of debt from ex board members and ex staff members total to Kshs.10,529,496. The ages of the debts cast doubt on their possible recoveries if the ex-officers have been paid their terminal dues and ex board members could be reached with some dating back to over twenty (20) years.
- ii. Various officers have held un-surrendered imprest totaling Kshs.1,250,750 for over twenty-two (22) years and no recovery has been effected contrary to the regulations on imprest management. The management is in breach of the regulations.
- iii. Included in trade debtors is a debt of Kshs.122,269,659 owed to the Authority in respect of overpayment relating to construction of a rice mill.
- iv. The provision for bad debts figure of Kshs.147,824,390 has no clear basis for it

Consequently, the accuracy and validity of Kshs.50,854,576 could not be confirmed.

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

### **Key Audit Matter**

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

### **Other Matter**

#### **Employee Cost**

The compensation to employees figure increased by Kshs.16,943,678 from Kshs.162,037,614 in 2015/2016 to Kshs.178,981,292 in 2016/2017. However, the wage bill compared to the total income and expenditure of Kshs.251,237,605 and Kshs.369,141,631 constitutes 71% and 48% which is not sustainable in the long run.

## **Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the 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.

Those charged with governance are responsible for overseeing the Authority financial reporting process.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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

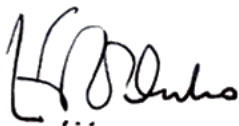
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the

purpose of giving an assurance on the effectiveness of the Authority internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority ability to continue as a going concern. 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.
- 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**

**25 October 2018**