

# **REPORT OF THE AUDITOR-GENERAL ON LAND SETTLEMENT FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 - MINISTRY OF LANDS AND PHYSICAL PLANNING**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Disclaimer of Opinion**

I have audited the accompanying financial statements of Land Settlement Fund set out on pages 1 to 15, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statements of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### **Basis for Disclaimer of Opinion**

#### **1. Inaccuracies in the Financial Statements**

The statement of cashflows reflects a decrease in cash and cash equivalent balance of Kshs.19,638,256 instead of the re-casted increase of Kshs.18,328,777 resulting in unexplained difference of Kshs.37,967,033. Further, the statement reflects a negative balance of Kshs.506,934,253 described as adjustment in working capital whose workings were not provided for audit review.

In the circumstances, the accuracy of these financial statements for the year ended 30 June 2018 could not be confirmed.

#### **2. Unsupported Balances**

The statement of changes in net assets as at 30 June 2018 reflects net transfers to/from accumulated surplus totalling to Kshs.7,979,050,639. However, the management did not provide details on where the balances were transferred to/from, and supporting schedules for the balances transferred were also not availed for audit verification.

In the circumstances, the accuracy and validity of net transfers to/from accumulated surplus of Kshs.7,979,050,639 in the statement of changes in net assets as at 30 June 2018 could not be confirmed.

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

Note 9 to the financial statements reflect receivables from non-exchange transaction balance of Kshs.1,324,349,149. However, this balance excludes opening balances totalling to Kshs.984,686,550 as summarized below.

| <b>Item</b>                        | <b>Kshs</b>        |
|------------------------------------|--------------------|
| Land Loans Issued                  | 278,975,885        |
| Rescue Loan Issued                 | 550,019            |
| Land Loans Principal Billed        | (610,055,404)      |
| Billed amount settlers             | 3,494,524,091      |
| Development Loans Principal Billed | (189,149,529)      |
| Rescue Loans Principal Billed      | (240,198)          |
| Cane Development Costs - Suspense  | (5,139,967)        |
| Other Recoverable expenses         | 9,820,460          |
| General Debtors                    | 32,353,374         |
| Trade Investment                   | 59,263,387         |
| Advances                           | 10,567,668         |
| Suspense Debit Items               | 64,507,005         |
| Loan Repayment Collection          | (2,161,547,241)    |
| Agency Accounts (debits)           | 257,000            |
| <b>Total</b>                       | <b>984,686,550</b> |

Further, receivables from non-exchange transactions of Kshs.1,324,349,149 as disclosed at note 9 to the financial statements include imprest balance of Kshs.41,908,095 out of which imprest totalling Kshs.36,228,295 was due but had not been surrendered as at 30 June 2018. Further, included in the balance of Kshs.36,228,295 due but not surrendered is a balance of Kshs.3,041,780 that was carried forward from previous years and had not been surrendered or recovered as at 30 June 2018. This is contrary to Section 93 (5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Section 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

In the circumstance, the Fund is in breach of the law and therefore, recoverability of the receivables from non-exchange transactions balance of Kshs.1,324,349,149 as at 30 June 2018 could not be confirmed.

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

The property, plant and equipment movement schedule at note 10 to the financial statements reflects transfer/adjustments totalling to Kshs.7,432,839,874 made up of land and buildings - Kshs.7,394,159,443 and fixed and loose assets - Kshs.38,680,431. However, and as previously reported, schedules and reconciliations supporting the assets transferred/ adjustments amounting to Kshs.7,432,839,874 were not availed for audit review.

In the circumstances, the accuracy of property, plant and equipment balance of Kshs.6,727,780 as at 30 June 2018 could not be confirmed.

## 5. Trade and Other Payables from Exchange Transactions

Note 11 to the financial statements reflect trade and other payables from non-exchange transactions balance of Kshs.4,723,898 as at 30 June 2018. However, the balance excludes unsupported opening balances totalling to Kshs.14,118,126 as detailed below;

| <b>Item</b>                        | <b>Amount<br/>(Kshs.)</b> |
|------------------------------------|---------------------------|
| Refundable Deposits from customers | 93,343,385                |
| Provisions                         | 11,676                    |
| Agency Accounts (credits)          | 125,425                   |
| Other Creditors                    | 3,150,139                 |
| Accrued Interest on Loan           | 301,500                   |
| Reserve for Bad Debts              | 6,602,797                 |
| Suspense Credit Items              | (122,806,862)             |
| Fund Drawn from Treasury           | 5,153,814                 |
| <b>Total</b>                       | <b>(14,118,126)</b>       |

It's not clear and the management have not explained the circumstances which led to a debit balance in payables an indication that the creditors were over paid.

In the circumstances, the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.4,723,898 as at 30 June 2018 could not be confirmed.

## 6. Statement of Comparison of Budget and Actual Amounts

International Public Sector Accounting Standards (IPSAS) 24 – Presentation of budget Information in financial statements-requires a comparison of budget and actual amounts arising from execution of the budget to be included in the financial statements of entities which are publicly held accountable for their budget. As previously reported, the Fund financial statements presented for audit review did not include the statement of comparison of budget and actual amounts and therefore did not comply with International Public Sector Accounting Standards (IPSAS 24). The omission not only failed to comply with the International Public Sector Accounting Standards but also denied the users of the financial statements the information on the extent to which the Fund achieved its budgetary provisions for the year.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control. In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Fund's or to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and

systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion Section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Land Settlement Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

**Nairobi**

**12 April 2019**