

REPORT OF THE AUDITOR-GENERAL ON LANDS LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Lands Limited set out on pages 1 to 9, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Lands Limited as at June 30, 2017, 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 Kenyan Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, 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. Trade and Other Payables

The statement of financial position as at 30 June, 2017 reflects a balance of Kshs.2,440,000 under trade and other payables. This amount relates to audit fee payable that has been outstanding since 1995 and no satisfactory reason has been given for failure by the Company to pay the audit fee.

2. Receivables from Exchange Transactions

As previously reported, the Company's debtors balance of Kshs.21,398,000 as at 30 June 2017 (2016 – Kshs.21,957,000) similarly includes an amount of Kshs.14,542,464 owed by twelve large debt holders, which has been outstanding for a period of over 12 years. The balance also includes an amount of Kshs.6,870,422. relating to more recent debts that were more than three months old as of 30 June 2017. Further the non-trade debtors balance of Kshs.522,000 disclosed under Note 8 to the financial statements includes an amount of Kshs.315,117 described as loss of cash and stores that has been

outstanding for a considerable period of time. In addition, the specific provision for bad debts of Kshs.537,000 (2016 – Kshs.537,000) was not supported with documentary evidence. Consequently, the recoverability of the receivables balance of Kshs.21,398,000 reflected in the financial statements appears doubtful.

3. Grants

As previously reported in 2015/2016, the statement of financial position as at 30 June, 2017 still reflects a balance of Kshs.55,694,000 under grants. Although no records were provided to indicate the nature of grants, the general ledger describes the amount as long-term finance, whose source was, however, not indicated or explained. The amount has been in the ledgers since 1994 and it is not clear the purpose for which the grants were intended. Further, the grants have not been amortized since they were recorded in 1994. Under the circumstance, the validity and accuracy of the balance of Kshs.55,694,000 in respect of the grants cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Lands Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Failure to Prepare Budget

During the financial year ended 30 June 2017, the Company operated without an approved budget contrary to Public Finance Management Act, 2012 Section 68 (2) (h) and (j) which requires the Accounting Officer to prepare estimates of expenditure and revenues of the entity in conformity with the strategic plan and submit the estimates of the entity to the Cabinet Secretary responsible for the state corporation who, after approving it, shall forward it to the Cabinet Secretary/National Treasury.

Other Information

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this

report, and the annual report which is expected to be made available to me after that date.

My opinion on the financial statements does not cover other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report if, I conclude that there is material misstatement of this other information, I am required to report that fact, I have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and the requirements of the Kenyan Companies Act, 2015 and for such internal control as Directors 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, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are 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 Company's 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' 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 Company's 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 Company 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 Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Directors 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 Directors 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- iii. The Company's statement of financial position and statement of financial performance are in agreement with books of account; and
- iv. In my opinion the information given in the report of the directors on pages vii to viii, is not consistent with the financial statements;



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

Nairobi

25 June 2018