

REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Agro-chemical and Food Company Limited set out on pages 22 to 57, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of comparison of budget and actual performance 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respect, the financial position of Agro-chemical and Food Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Company's Act 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Other Matter section of my report, 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

Capital Works in Progress

The statement of financial position reflects under property, plant and equipment a balance of Kshs.2,525,268,847, which includes capital work in progress of Kshs.80,983,897. These capital work in progress, however, includes projects worth Kshs.13,469,200 which have been terminated for being unviable as shown here below:

Project	Amount (Kshs)
Construction of new molasses preparation station	12,353,522
River pump project	603,448

Construction of water clarifier	512,230
Total	13,469,200

Consequently, it has not been possible to confirm the carrying value of property, plant and equipment balance of Kshs.2,525,268,847.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Agro-chemical and Food Company 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.

Emphasis of Matter

Tax Matters

I draw your attention to Note 26 to the financial statements on contingent liabilities which indicates that there is a pending demand note from Kenya Revenue Authority of Kshs.634,644,435 in respect of withholding tax assessment on interest paid to the National Treasury. The Company directors are of the opinion that this demand will be vacated and hence no liability arising.

Key Audit Matters

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

Other Matter

1. Budget Performance Analysis

A comparison of budget and actual figures revealed variances as detailed below;

	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Variance (%)
Income	2,243,600,000	1,768,367,293	475,232,707	21%

Cost of sales	1,400,461,000	1,073,152,881	327,308,119	23%
Gross Profit	843,139,000	695,214,412		
Expenses				
Administration costs	334,675,000	222,438,176	112,236,824	34%
Depreciation	140,898,000	107,979,269	32,918,731	23%
Interest on loans	283,631,000	263,367,988	20,263,012	7%
Taxes	-	26,044,982	(26,044,982)	
Total Expenditure	759,204,000	619,830,415		
Surplus	83,935,000	75,383,997		

Analysis of the corporation's budget against the actual figures revealed that the corporation underspent in all expense categories largely due to the reduced sales activity during the year. The reduction in sales has been attributed to shortage in raw materials. The company needs to seek for new sources of its core raw materials to enhance productivity.

2. Going Concern

The Company reported a net profit of Kshs.40,799,345 which was attributed to a revaluation surplus of Kshs.281,775,563. The accumulated deficit therefore increased from Kshs.6,574,549,120 as at 30 June 2016 to Kshs.6,815,525,338 as at 30 June 2017. The current liabilities of Kshs.8,907,542,958 also exceeded current assets of Kshs.1,614,005,959 by Kshs.7,293,536,999 as at 30 June 2017. This situation indicates that the company is facing financial challenges. Therefore, the financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the Government and creditors.

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 Financial Reporting Standards 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 company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the company 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 and 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 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 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 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 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 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report based on my 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 the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records, and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

29 August 2018