REPORT OF THE AUDITOR-GENERAL ON MWEA RICE MILLS LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mwea Rice Mills Limited set out on pages 1 to 21, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income , statement of cash flows and statement of comparative 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 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 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 Mwea Rice Mills Ltd 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 Companies Act, 2015

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on audit procedures performed, I confirm that nothing has come to my attention to make me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Fully depreciated

As previously reported, the property, plant and equipment balance of Kshs.39,414,737 as at 30 June 2017 includes a balance of Kshs.9,156,781 relating to buildings which were fully depreciated and have not been revalued.in accordance with International Accounting Standard No 16 which provides that revaluations shall be carried out with sufficient regulatory to ensure that the carrying asset amounts do not differ materially from those which would be determined using fair values at the end of the reporting period. Paragraph 34 of the standard further provides that where some items of property, plant and equipment experiences significant and volatile changes in fair value, annual valuations need to be carried out.

As a result of the omission, it has not been possible to confirm that the balance of Kshs.39,414,737 represents fair value of the property, plant and equipment of the Company.

1.2 Undervaluation of Land in Wanguru (Mwea)

The non-current assets of Kshs.39,414,737.00 is land which was acquired in 1992 at a cost of Kshs.280,000.00. The land has never been revalued contrary to International Accounting Standard no. 16 which requires sufficient regularity of revaluing to ensure the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Based on a survey of the price of land in Kirinyaga County revealed that a quarter of an acre costs approximately Kshs.4 million. The approximate area reported in the financial statements is 1.62 hectares which is equivalent to 4.0014 acres. From the foregoing it means therefore that the land has an approximate valuation of Kshs.32 million.

In the circumstances, it is not possible to confirm that the non-current assets balance of Kshs,39,414,737 is fairly stated.

2.0 Investment Property

2.1 Valuation of Investment Property

As reported in the previous year and disclosed under note 3 to the financial statements, the investment property of Kshs.114,784,536.00 as at 30 June 2017 are carried in the financial statements at the amount that was valued in 2009. This is contrary to the provisions of the International Accounting Standards No.16. The standard requires an entity that elects to use revaluation model as the measurement model of fixed assets to ensure that the assets are revalued regularly so as to reflect the market prices at the end of each reporting period.

Consequently, it has not been possible to confirm whether the carrying values of Kshs.114,784,536.00 as stated in the financial statements reflect the fair values of the investment property.

2.2 Plot without Ownership Document

As reported previously, note 3 to the financial statements reflects an amount of kshs.114,784,536.00 relating to investments. Audit verification revealed that the Company owns houses (Massionettes) at Kilimani area near the National Irrigation Board Headquarters along Lenana road and residential building located in Mwea. However, the ownership document provided for audit review shows that the land is in the name of TAWS LTD and the other title deed is in the name of the original owners (some of the owners have since gone ahead to subdivide the parcel and transferred ownership to other parties as new owners in Mwea) respectively.

Consequently, the validity and ownership of the investment properties of Kshs.114,784,536.00 could not be confirmed.

3.0 Trade and Other Receivables

As reported previously, trade and other receivables balance of Kshs.25,641,814.00 as at 30 June 2017 includes fixed deposits in Continental Credit Finance (in liquidation) of

Kshs.16,815,053.00. Although management has made full provision for the balance whose recoverability remains doubtful, no explanation has been provided on the action taken to recover the amount from the Receiver Manager. It was also noted that the last correspondence between the company and the Official Receiver and Provisional Liquidator was in March 2010.

It was not possible to ascertain the fair values and recoverability of trade and other receivables balance of Kshs.16,815,053.00.

4.0 Long-term Liabilities

4.1 Capital Fund for Mill Rehabilitation

Note 12 to the financial statements revealed that the company has a long outstanding liability under the Capital fund for mill rehabilitation component. Mwea Rice Mills used to levy National Irrigation Board a levy based on kilograms milled when the NIB was milling rice for sale. The levy was to cater for rehabilitation of the Mills. This levy was later stopped when the NIB stopped this core business of selling the rice. The amount of levy collected had accumulated to Kshs.52,610,534.00. The period the levy was collected is not indicated. The amount is classified as long-term liability.

Consequently, the accuracy and completeness of the capital fund mill rehabilitation of kshs.52,610,534.00 could not be confirmed.

4.2 Government Proposed Levy

As reported previously, long term liabilities balance of Kshs.74,647,904 as at 30 June 2017 includes a Government proposed levy balance of Kshs.22,037,370.00 that has remained unsettled for more than 28 years. Further, the company has no credit policy to regulate credit management. In addition, no documentary evidence has been provided to support the liability.

Consequently, the accuracy and completeness of the long term liability of Kshs.74,647,904 could not be confirmed.

5.0 Irregular Revenue Under Collection

Mwea Rice Mills Limited owns two Investment Properties in Nairobi, (Massionate houses along Lenana road and Leaders House within Nairobi CBD). The Massionette houses are occupied by MFI staff while Leaders House is occupied by various tenants.

5.1 Rental Income

As reported in the previous period, Mwea Rice Mills Limited owns twenty-three (23) houses along Lenana Road in Nairobi. This constitutes ten(10) four-bedroom houses, with five of them partitioned into two bedroomed units and hence occupied by two tenants each; nine (9) three bedroom and four (4) one-bedroom houses. Further, enquiries revealed that the tenants repaired the gymnasium during financial year 2015/2016 and deducted the costs of the repairs from rent payable each month yet no rent is collected from the gymnasium.

As reported in the previous year, in comparison with the market rates which range between Kshs.150,000 and Kshs.200,000 for such houses, the rent is grossly understated as the company currently collects Kshs.490, 050 on monthly basis from all the units.

Further, the audit revealed that there is no current and up to date lease agreement between the Company and MFI. This therefore has left the management of the property in the hands of the tenant.

5.2 Investment Income

Leader house which is within Nairobi CBD houses various tenants carrying out different business activities. The building which earned the company investment income of Kshs.1,858,196 during the period under review is grossly understated considering the market rate of the properties around the area. Further, the company has not instituted mechanisms of dealing with the property with regard to maintenance and management as there is no lease agreement between the company and the various tenants. As such the tenants either do not pay rent on time or do not pay at all.

In view of the foregoing, the completeness of the corporation's revenue collection for the year could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am independent of Mwea Rice Mills Ltd 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, in my professional judgment, are considered of significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

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 (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 company's ability to 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 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 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 of Kenya. 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 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 judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 our 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 General Manager.

- Conclude on the appropriateness of the General Manager 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 consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information 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 General Manager 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 the General Manager with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him 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

29 May 2018